America's Infrastructure: Ramping Up or Crashing Down

Infrastructure has a dramatic effect on the economic competitiveness of our nation, the health of our environment and our quality of life. And infrastructure—freight ports, airports, bridges, roads, rail and transit networks, water and sewer systems, web of channel communications—is the connective tissue of our nation. Smart policies and investments can enhance and further national prosperity and the health and vitality of metropolitan areas, where the bulk of our population lives and jobs are located.

Above: Drivers jam the Bay Bridge freeway during the morning commute in Oakland, California. Reuters/Clay Mclachlan

A long-term infrastructure plan can foster productive growth in our economy, sustainable growth that furthers energy independence and real solutions to climate change and inclusive growth so that low and moderate-income families have access to opportunity.

With these critical issues in mind, the third Bernard L. Schwartz Forum on Competitiveness explored the challenges and opportunities for new infrastructure investment. The October 10, 2007 event followed in the wake of two previous forums that focused on American education, innovation, and research and development (April 2006) and America's position in the world in science and technology (October 2006).

In his keynote address, Thomas Vilsack, the former governor of Iowa, emphasized that better investments in infrastructure would make us safer; more secure and lead to happier and safer constituents. In sum, infrastructure investments make for good policy that both Republicans and Democrats should support.

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Setting the Stage

Although America's infrastructure has not been considered a national priority for many years, there are indications that a new debate is emerging. Bruce Katz, vice president and founding director of the Metropolitan Policy Program at Brookings, explained in his opening remarks that infrastructure is a significant topic now because of the recognition of how critical it is to moving goods, ideas, and workers quickly and efficiently; to providing a safe, secure, and competitive climate for business operations and to enhancing our quality of life.

Three other concerns also highlight the importance of sound, reliable and functioning U.S. infrastructure:

First are concerns triggered by several tragic, high-profile failures of our existing infrastructure – from the levies in New Orleans, to the steam pipe explosion in Manhattan, to the bridge collapse in Minneapolis. There is considerable anxiety about the current state of the infrastructure that exists in the United States today and what impact that neglect is having on our nation's cities, suburbs and metropolitan areas.

Second is concern about what kind of infrastructure we're building today. Alaska's infamous "Bridge-to-Nowhere" became a catch phrase for a political and decision making process gone wild. Today, the word *infrastructure* is more often linked with the word *pork* than with the concept of *competitiveness*. Unfortunately, these ill-advised, unaccountable investments are also hampering the ability to invest in infrastructure that actually contributes to American prosperity.

Third is that our global competitors do make strategic investments in the infrastructure that drive robust, sustainable, and inclusive growth. From aggressive telecommunications infrastructure advances in South Korea, to strategic transnational investments in relatively slow-growing Europe, to massive hyper-investments to accommodate fast growth in China and India, regions throughout the world are exceeding America's investments. Of course, it is important to not only analyze the *amount* but also the *purpose* of those investments as not all are sensible or desirable. Yet many are, especially in newer technologies, energy sources and next-generation passenger rail.

Many Americans are concerned that, by failing to reinvest in our existing infrastructure and by also making the wrong kinds of investments in new infrastructure, we are losing our competitive edge while simultaneously building inefficient systems. Thus, this nation will continue to lose ground to those countries that are investing in their infrastructure.

According to speakers at the forum, staying competitive with these nations requires that the United States place a greater emphasis on investing in infrastructure that will help the economy grow and improve the quality of life of its citizens. Related to this is the paramount problem of funding. How we approach the issue of spending for infrastructure—whether it represents priority investments in the nation's competitiveness or simply a political logrolling exercise—is a major piece of the puzzle.

Investing In America: Governor Vilsack's Remarks

Former Iowa Governor Thomas Vilsack, contrasting the infrastructure success of several states, including Iowa, with recent struggles at the federal level, suggested that federal officials look more closely at these state programs to find ways to make infrastructure more effective. Citing his own experience, the governor also suggested that the federal government needs to take a more quantitative approach to investing in infrastructure. While governing Iowa, Vilsack used a system that tied every dollar spent on infrastructure to a measurable result so that legislators and residents could see exactly how their tax dollars were spent—and demand changes if necessary.

Vilsack noted that every state has a specific economic development plan. Iowa's plan focuses on three key issues: renewable energy, increasing financial services and insurance, and expanding advanced manufacturing. Iowa connects infrastructure spending to furthering one of these three initiatives. Vilsack claimed that a national economic development plan does not currently exist and asked, "What is it that America is trying to be the best at? If you're going to have an infrastructure program, you need to have it tied into a more integrated national economic policy."

A federal infrastructure program would need to effectively evaluate and prioritize risks, he added. Much like the private sector, it would facilitate investing resources in high-risk areas, thus providing the nation its best possible investment returns. Of course, all of this requires an adequate—and politically insulated—funding mechanism.

Vilsack suggested the creation of a U.S. capital budget that is separate from the rest of the federal budget. He noted that Iowa's excess gaming revenues and other revenues are put into a statewide infrastructure fund, giving the state government a stable and predictable capital budget for investment, allowing for the maintenance of existing infrastructure and the introduction of new projects. At the federal level, such a fund would be intended to remove infrastructure projects from the protracted appropriations process, create the opportunity for multiyear financial planning and encourage national goals for local projects.

Vilsack noted the challenges in getting the public more engaged in infrastructure issues. Drawing on his personal experience with savings bonds imbued with the sense of "investing in my country," the governor proposed that the federal government create a similar process for individuals to invest in infrastructure. Such a program would raise the profile of infrastructure, thus encouraging individuals to look at this issue over the long term. It would bring attention to the importance of saving, which is a separate but vitally important national issue.

The governor emphasized cooperation between federal, state and local governments to provide "regulatory stability and clarity." While governing Iowa, Vilsack learned that no new power plants had been built in the state in the previous 20 years because the utility industry was concerned about regulatory inconsistencies. Once the state government made changes to the rules to clarify the situation, six new power plants were built in Iowa during the governor's tenure. To encourage similar private investment in other states and industries, Vilsack said the federal government should make a better effort to assist states in developing stable and clear regulatory systems so that private companies can easily invest in infrastructure. Business leaders, he said, have little concern for "what the regulation is so long as we know what it is and that it's not going to change; that we can do our planning accordingly."

Seeking to justify large-scale changes at the national level, the governor cited national security and noted that the infrastructure currently in place at ports and the borders may not be effective in preventing terrorists from bringing "dirty bombs" or other dangerous weapons inside the United States. As a result, it is essential that the country modernize its ports and borders to protect against such an event.

The low priority of investments in infrastructure is hurting our competitive position, Vilsack underscored. For example, China will construct 52,700 miles of roads and add 66 gigawatts of electricity capacity this year, which is more electricity than the entire United Kingdom uses each year. Along with India and other developing countries, China is implementing infrastructure using technology that leapfrogs current U.S. standards. To stay ahead of these nations, this country must continue to invest in infrastructure and upgrade its technological capabilities—or risk getting left behind.

In sum, despite political challenges to implementing a strong infrastructure system, the rewards would undoubtedly improve Americans' quality of life. And, the governor said, happy constituents tend to reelect incumbents. Infrastructure is not a conservative or progressive issue because everyone should recognize that infrastructure is necessary for such simple and important tasks as getting to work and building quality communities. Finally, the governor noted that conservatives—who value transparency and accountability in federal spending—are likely to support a plan that applies quantitative measures to every dollar. Such a plan will permit legislators and the public to see how effectively the federal government uses every dollar and to reallocate funds if necessary to avoid investing in inefficient projects.

Investing In Infrastructure: Can We Afford To? Can We Afford Not To?

During the first forum panel on “big picture” issues, most concurred with the governor’s claim that U.S. infrastructure needs to be improved. But some panelists said that government would need to spend more to achieve these goals.

Yet all panelists cautioned that, besides boosting spending, it matters very much what project is being considered, where the project would be located and why the investment would be made. Most agreed that it was important to avoid pitting one set of investments against another, to focus on outcomes and to align investments with economic development.

The appropriate federal response was less clear. Although most agreed that a federal vision, program and plan for infrastructure is paramount for transportation projects, such other endeavors as school construction are generally not considered to be a federal responsibility. Therefore, infrastructure type may suggest the federal role.

Panelists disagreed about the merits of a separate capital budget for infrastructure. Martin Baily, a senior fellow at Brookings, advocated moving to a separate capital budget process because, he argued, it is the only way to improve our current “broken” infrastructure system. But it would be the wrong approach if the idea of a capital budget is being discussed as a way to obviate necessary discussions about revenue-raising mechanisms—such as fuel and carbon taxes.

Former Congressional Budget Office (CBO) Director Douglas Holtz-Eakin, senior fellow at the Peterson Institute for International Economics, concurred but cautioned that a capital budget could easily be subject to abuse and mismanagement. If not structured properly, a capital budget has the potential to cause more problems than it would solve. He said many current problems are due to governance, not infrastructure.

A capital budget is likely to be part of the upcoming debate around federal transportation reform. Critical components of the process that legislators should first consider include setting priorities, reporting and evaluating decisions, and providing appropriate information. Adhering to this process would ensure the federal government targets spending and holds itself accountable for those spending decisions. Unfortunately, this is a far cry from how we currently approach making transportation-investment decisions.

Baily pointed to failures in infrastructure – bridges falling, schools deteriorating and highways needing repair – because of no reinvestment in these projects in recent years. They were built without fully considering the costs of maintenance and, to keep them working as intended, the government would need to continue spending.

Richard Baron, chairman and CEO of McCormack Baron Salazar, an organization that rebuilds urban neighborhoods, added that the biggest challenge to reconstruction efforts in New Orleans is the lack of money for infrastructure. Raising taxes to pay for increases in infrastructure spending, however, is not a politically popular position and this sentiment is exacerbated by the public perception of the infrastructure budget which, as Bruce Katz noted, is known for its pork projects.

In addition, the panel sought to address more targeted ways to implement and invest in infrastructure. Mary Sue Barrett, president of the Metropolitan Planning Council in Chicago, echoed Governor Vilsack’s claim that refocusing infrastructure on outcomes could generate political support. She cited traffic congestion as one example where improved outcomes could be measured. She further suggested that a national capital plan would help initiate a conversation on national infrastructure goals—and how “we prioritize, select, and evaluate those.”

New Ways to Plan and Implement Infrastructure Projects

While the first panel focused its efforts on broad ideas, such as national infrastructure purposes and priorities, the second panel looked more specifically at how to most effectively implement changes in policy and decision making.

U.S. Department of Transportation's Assistant Secretary for Policy Tyler Duvall discussed the importance of shifting government focus away from the process of building infrastructure for infrastructure's sake and toward the actual outcomes of those investments. Noting that the Transportation Secretary had recently testified before Congress on a similar point, Duvall said that the public has lost faith in the ability of the government to deliver quality projects that perform. He argued that public/private partnerships in infrastructure have the potential to make the transportation network more responsive and accountable. This could be achieved through contract terms that protect the public interest, disclose spending decisions, and spell out measurable goals and objectives that progress toward meeting those goals. Establishing consequences for both excellent and poor performance is also important.

Private sector innovation also offers the potential to address issues like traffic congestion. Economists argue that congestion exists – and is getting worse – because transportation is not priced appropriately. Not using price signals in infrastructure forces government to rely instead on political signals. Fortunately, the interest in using market mechanisms like tolling to mitigate the growth in traffic congestion is pervasive in the largest metropolitan areas.

Echoing that, George Bilicic, managing director of the Global Power Utility Group of Lazard, discussed the intense desire from Wall Street firms, investment banks, and others to invest in U.S. infrastructure. One hurdle now facing these groups is the formidable backlash from the general public and the resulting political hesitation to engage in such deals, he said. Examining different types of public/private partnerships, his company found that long-term leases of toll roads polled badly while arrangements like partnerships for parking garages did well. According to Bilicic, there are obvious and serious political problems if a government sells an asset to a private company at a certain price and its value is later determined to be higher. The message: the government must carefully evaluate its assets before allowing private companies to buy them.

There was general agreement that, in most cases, the public sector owning the infrastructure asset should be negotiating from a position of strength. Capacity-building and financial expertise would enable governments to leverage their ownership advantage against private-sector interest while still protecting the public's best interest.

King County Executive Ron Sims of Washington State argued that the tax code provides opportunities to alleviate strain on the future of infrastructure. For instance, removing tax incentives that promote sprawl would encourage people to live in more closely knit communities, thus reducing the country's carbon footprint. He added that the longer commutes resulting from increased sprawl and population growth are a major health issue, as the body suffers from sitting for hours in a car to and from work.

Infrastructure investments present the opportunity to radically realign metropolitan areas. Sims emphasized the need to not only connect infrastructure investments to economic development, but also to local land use policies. Such realignment is necessary to make land resources available for optimal usage. Focusing on infrastructure alone to solve issues such as traffic congestion is insufficient, he said. Sims also discussed the possibility of implementing remote work centers or allowing employees to telecommute. Such policies would improve Americans' health, increase their leisure time and decrease the strain on current transportation systems.

Leo Hindery, managing partner of InterMedia Partners, expanded the conversation from traditional public works projects to telecommunications and broadband. He tied previous comments about traffic congestion to the clear role broadband infrastructure plays in enabling more widespread use of telecommuting options. Unfortunately – like the lamentations about the lack of national infrastructure investment policy – the nation also lacks a coherent broadband strategy. Hindery accentuated that the lack of a strategy curtails job growth, limits economic activity and puts the country at a disadvantage in comparison to our international competitors.

Conclusion

The third Bernard L. Schwartz Forum on Competitiveness demonstrated a clear desire for our nation to develop and implement a consistent, coherent and meaningful approach to infrastructure investment. Four points underscore this conclusion:

First, America faces a time of very dynamic change demographically, economically, environmentally and technologically. Second, while that change brings great opportunity, there are also massive challenges, including environmental sustainability and social issues. Third is that infrastructure is a means to advance national priorities and achieve national goals, yet to date it is rarely thought about from other than a project-by-project perspective. Fourth, the system is driven by pork and politics rather than by policy. Unfortunately, the cumulative negative implications of our dysfunctional system are beginning to have a meaningful impact.

Bruce Katz concluded that the infrastructure system is "woefully broken." Despite all this, innovation is happening—in the private sector, at the metropolitan level, and even at the national level.

As Governor Vilsack articulated, the nation requires an infrastructure vision that supports national priorities—economic growth, environmental sustainability and social inclusion. The vision should be outcome-driven and evidence-based, and able to service those goals for the long term.

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