POLICY FORUM

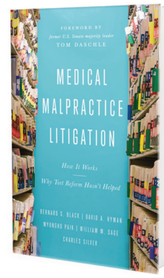
The rise of blasphemy laws

PAGE 9

QUALIFIED IMMUNITY

Reform gains momentum across America

PAGE 3



MEDICAL MALPRACTICE

Which reforms work and which ones don't

PAGE 13

Cato Policy Report

MAY/JUNE 2021. VOL. XLIII NO. 3

Biden's Plan Won't Fix Our Infrastructure

BY CHRIS EDWARDS

President Biden has introduced a $2.3 trillion infrastructure spending plan. Biden, known as "Amtrak Joe" for his use and support of the federal passenger rail system, has long favored infrastructure spending, and the American Jobs Plan that he proposed in March has an expansive vision.

The president does not only want to fund Amtrak and build highways—he wants to remake the nation's infrastructure on the basis of his beliefs about labor unions and the environment. His infrastructure plan includes large subsidies for transit, electric vehicles, broadband, manufacturing, housing, electric utilities, schools, water systems, care of the elderly, and much more.

The federal government already intervenes heavily in infrastructure through spending, regulations, and taxes, and all three levers distort investment. Biden would ratchet up the use of each lever and further reduce the role of markets in guiding infrastructure investment.

OWNERSHIP IS SMALL, BUT CONTROL IS LARGE

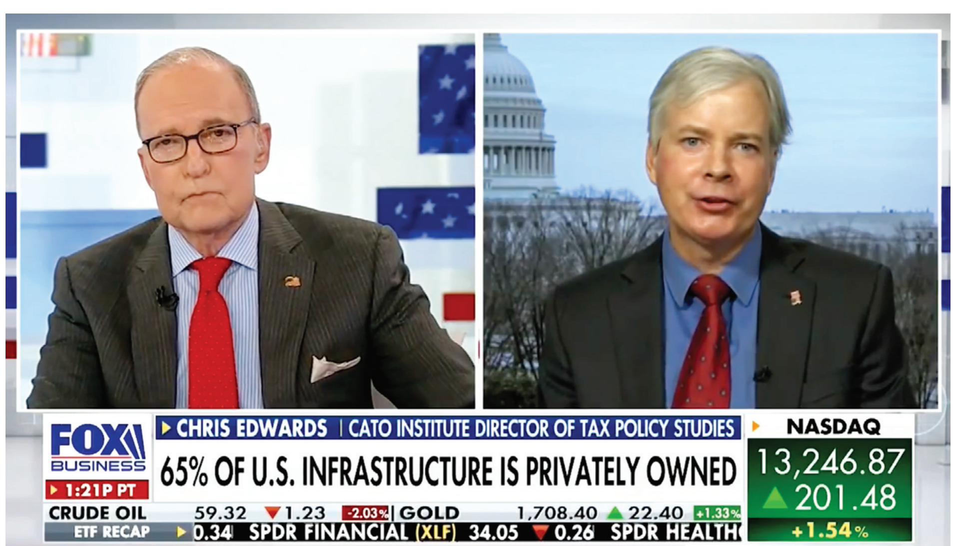
Federal politicians often champion infrastructure, but the federal government owns relatively little of it. Defined broadly as nonresidential fixed assets, the U.S. private sector in 2019 owned $26.2 trillion of infrastructure, such as power stations, freight railways, pipelines, factories, and cellphone networks. State and local governments owned $12.1 trillion of highways, schools, water systems, and other assets. The federal government owned only $1.8 trillion of nondefense infrastructure, including dams, postal facilities, Amtrak, and the air traffic control system.

Although the federal government owns less than 5 percent of U.S. infrastructure, it imposes extensive control over state, local, and private infrastructure through spending, regulations, and taxes. In 2019, the federal government spent $36 billion on its own nondefense infrastructure and $81 billion on state and local infrastructure. (It also spent $68 billion on nondefense research.) Biden wants to increase spending on government infrastructure and create new subsidies for private infrastructure, such as manufacturing, broadband, electricity, and electric vehicles.

Biden proposes to finance his infrastructure plan by raising corporate income taxes, but that would undermine private infrastructure by suppressing investment.

Continued on page 6

CHRIS EDWARDS is the director of tax policy studies at Cato and editor of DownsizingGovernment.org.



In March, **Chris Edwards** (right) appeared on Fox Business News' *Kudlow* to speak with the host, **Larry Kudlow**, about the flaws in President Biden's massive infrastructure spending plan.

Continued from page 1

Furthermore, Biden proposes to increase labor and environmental regulations, which would raise costs for state, local, and private infrastructure projects. The president's first infrastructure move in office was to kill the Keystone XL oil pipeline by revoking its permit. Biden's proposed infrastructure spending is inefficient, but the negative effects of his regulatory and tax proposals could be even larger.

> Federal aid distorts efficient state and local choices.

HARMS OF FEDERAL SPENDING

Many policymakers assume that federal funding of state and local infrastructure is crucial and irreplaceable, but that is not the case. The states can fund their own infrastructure through taxes and user charges. Highways, for example, are funded by gas taxes, vehicle fees, and electronic tolling, which are forms of user charges. More than half of the states have raised these charges since 2015. The federal gas tax helps to fund state highways, but it should be converted to 50 state gas taxes, and the revenues should be routed directly to state treasuries rather than through Washington.

Airports, seaports, water systems, and other state and local facilities should be self-funded by user charges when possible. Major U.S. airports are owned by the states and partly funded by federal subsidies, but many European airports have been privatized and are self-funded through user charges, retail concessions, and other commercial revenues.

Federal subsidies for state and local infrastructure are not needed. Indeed, they are harmful in at least eight ways.

First, when they receive "free" funding from Washington, states are induced to be spendthrift. Cost overruns are chronic on federally funded infrastructure projects, and Biden's gusher of new subsidies would create more waste.

Second, the aid that the federal government allocates to the states is based on political factors, not marketplace demands. A great portion of the federal investment in Amtrak goes to low-density parts of the country where passenger rail makes little sense, and the federal subsidies for airports are tilted toward smaller rural airports and away from big city airports, where the funding would produce more benefits. Biden would impose new political criteria in allocating investment, thus making spending less likely to generate growth. For example, he proposes that an arbitrary 40 percent of infrastructure spending should go to disadvantaged communities, and he promises to "create a low-carbon manufacturing sector in every state" with new subsidies for rural areas.

Third, federal aid distorts efficient state and local choices. Federal transit subsidies have induced dozens of cities to install costly light rail systems, even though bus systems are more efficient and flexible. Federal subsidies for high-speed rail during the Obama administration helped induce California to spend billions of dollars on a boondoggle rail line to nowhere in the middle of the state. During the presidential campaign, Biden promised "construction of an end-to-end high speed rail system that will connect the coasts." His March infrastructure plan includes $80 billion in new subsidies for rail; in contrast, the usual federal rail subsidies are typically less than $3 billion a year.

Fourth, state dependence on federal aid causes delays in crucial infrastructure projects, such as seaports, because state officials wait years for federal funding to come through. Then, after aid is received, federal rules and bureaucracy force states to stretch out project completion times.

Fifth, federal aid for infrastructure discourages the private provision of services. State-owned facilities receive subsidies and do not pay taxes, which makes it hard for private facilities to compete. Such displacement of private investment occurs with airports, seaports, transit, bridges, and other facilities. Biden proposes to add new subsidies for private industries, such as broadband, electric vehicles, and the electricity grid, which may partly displace private funding of this infrastructure.

Sixth, federal aid is likely to displace user-charge funding of state, local, and private infrastructure. User charges are efficient from both economic and environmental perspectives, because they impose the cost of services on consumers and limit demand. Biden's proposed spending is to be financed by higher income taxes, not user charges. He proposes, for example, to subsidize 500,000 charging facilities for electric vehicles, but it would be better if drivers paid for the facilities. If the popularity of electric vehicles increases, gas-tax funding of highways could be replaced by charges based on miles traveled and collected in a manner respecting motorist privacy.

Seventh, current federal aid funds some activities that harm the environment and undermine climate-change resilience, such as aid for flood insurance, flood control structures, farming, ethanol, and water infrastructure in the western states. Biden wants provisions in his new spending plan to help the environment, but a better step would be to repeal existing anti-green subsidies.

Eighth, federal aid undermines accountability. When responsibility for infrastructure is divided, politicians point fingers of blame at other governments when failures occur, which is what happened after levee failures in New Orleans in 2005, the I-35W bridge collapse in Minnesota in 2007, and the drinking water crisis in Flint, Michigan, in

2014. Biden's plan would further complicate the lines of responsibility and undermine sound infrastructure management.

REGULATORY STRINGS ATTACHED

Federal spending on infrastructure comes tied to labor and environmental rules that raise costs and slow projects. Federal Davis-Bacon labor rules generally require that workers on federally funded projects be paid union-level wages, which raises wage costs an average of about 20 percent. Federal environmental rules delay highway projects. The authors of a report prepared for the Obama administration found that the average review time for highway projects increased from 2.2 years in the 1970s to 6.6 years by the 2010s. Biden's plans would likely raise costs and slow projects further.

Biden is obsessed with labor unions. His campaign statement on infrastructure mentions unions 32 times, and his March infrastructure plan mentions unions 24 times. Spending on infrastructure for highways, transit, energy, manufacturing, railroads, airports, broadband, water systems, and everything else will be tied to "good union jobs." Biden wants union labor to build all his proposed projects, even though union labor accounts for just 13 percent of America's construction workers.

The president wants all federally funded infrastructure projects to have project labor agreements, which require contractors to use collective bargaining, hire workers through unions, pay union wages and benefits, and use union work rules. Project labor agreements tend to raise costs on public projects and reduce competition by excluding contractors.

Biden also wants to impose labor unions broadly on the private sector. His infrastructure plan urges Congress to pass the Protecting the Right to Organize Act, which has already cleared the House. The act would essentially eliminate Right-to-Work laws across the nation and give labor unions more power. In turn, that would likely raise costs for many businesses, including those that own and invest in infrastructure.

“Biden wants union labor to build all his proposed projects.”

Biden's green regulations might have an even greater effect. He proposes that the country should move toward "net-zero emissions," and he promises that "every dollar spent toward rebuilding our roads, bridges, buildings, the electric grid, and our water infrastructure will be used to prevent, reduce, and withstand a changing climate." In one of his first executive orders, Biden said he will ensure that "every federal infrastructure investment reduces climate pollution." These goals suggest heavy regulations to squeeze out fossil fuel–powered generation and gas-powered vehicles as well as highway aid that comes loaded with new federal restrictions.

The president's infrastructure plan promises to improve the nation's productivity and long-term growth. But the outcome would likely be the opposite because the labor and environmental regulations would raise infrastructure costs, and the funds would be spent on low-value political projects—such as light rail and high-speed rail—rather than projects that consumers are demanding in the marketplace.

TAXES AND OTHER CONTRADICTIONS

The president's rhetoric on infrastructure, manufacturing, and innovation masks large contradictions. His infrastructure plan worries that corporations are "shifting jobs and profits overseas," and it promises that he will "position the United States to outcompete China." In comments on March 4, Biden argued, "it makes us a helluva lot more competitive around the world if we have the best infrastructure."

However, Biden plans to fund his plan by raising corporate taxes by $2 trillion over 15 years, which would be about a 38 percent increase in corporate taxes, according to Congressional Budget Office projections. That would create a strong incentive for businesses to move jobs and profits overseas and give countries such as China a leg up in attracting manufacturing and other mobile industries. Biden's plan would spend $52 billion on manufacturing, including "the creation of a new financing program to support debt and equity investments for manufacturing." But his tax hike would confiscate the profits of manufacturers and reduce their ability to fund their own investments.

The Tax Foundation estimated that Biden's overall proposed tax plan would reduce capital investment, including in manufacturing and infrastructure, by more than $1 trillion. Biden's labor regulations, green regulations, and trade protection policies will further discourage domestic investment by raising business costs.

Biden proposes to spend $180 billion on research and innovation, including biotechnology, computing, and semiconductors. He calls, for example, for "$20 billion in regional innovation hubs and a Community Revitalization Fund. At least ten regional innovation hubs will leverage private investment to fuel technology development." Yet during the campaign, he proposed doubling the top federal capital gains tax rate from 20 percent to 40 percent, which would reduce financing for technology development. Capital gains are the reward for risky technology investments that often take years to pay off. When the tax rate increases, investors move their funds to safer investments such as tax-free municipal bonds.

The president's infrastructure plan says, "many entrepreneurs struggled to compete in a system that is so often tilted in favor of large corporations and wealthy individuals. President Biden is calling on Congress to invest $31 billion in programs that give small businesses access to credit, venture capital, and R&D dollars. The proposal includes funding for community-based small business incubators and innovation hubs." But where do America's entrepreneurs usually get capital? Partly from wealthy individuals, who as angel investors recycle their business profits into scores of new business startups. Innovation hubs such as Silicon Valley are wealth recycling machines, and Biden's capital gains tax increase would throw a giant wrench into the gears.

Another contradiction is Biden's stance on corporate subsidies. During the campaign he said, "we are going to have to have a major, major, major bailout package that we do not reward corporations, we reward individuals." And his campaign website charged that "[President Donald] Trump's main manufacturing and innovation strategy is trickle–down economics that works for corporate executives and Wall Street investors." Yet Biden's infrastructure plan contains $300 billion for manufacturing, $100 billion for broadband, $100 billion for electric utilities, $174 billion for electric vehicles, and much more. That will mean huge subsidies for big corporations.

> "Another contradiction is Biden's stance on corporate subsidies."

WILL IT PASS?

Political analysts often say that infrastructure has bipartisan support in Congress. But Biden is pushing a package that includes large tax increases, costly labor and environmental regulations, and relatively little in highway funding. As such, it will turn off Republicans as well as the business lobby groups that usually support infrastructure spending.

Democrats will likely try to use the reconciliation process to pass an infrastructure package with 51 votes in the Senate, as they did for the March stimulus bill. However, both chambers are closely divided in party strength, and enough centrist Democrats might worry about the negative effects of raising taxes during a recovery to torpedo a deal.

Any package coming out of this administration and Congress will likely increase federal control, subsidies, regulations, and probably taxes. The real way to ensure that infrastructure policies boost growth is the opposite: decentralization, privatization, and market-based funding with user charges. ■

For further reading, see DownsizingGovernment.org/infrastructure-investment and DownsizingGovernment.org/transportation. The Biden quotes are from joebiden.com and the March 31 American Jobs Plan, which is available at whitehouse.gov.