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What Trump Finally Got Right About Infrastructure.

While I don't have Maggie Haberman's fly on the wall access to internal White House process, I will say that President Trump's decision to jettison his tax credit/private investment based infrastructure plan is sound and its stated rational is based upon a well-informed analysis. Simply stated, the plan wasn't going to work and the President said just that.

Trump's original plan, both pre- and post election, was to encourage private investment in infrastructure via a tax credit. More recently, a few more details appeared including pushing the burden of project development down to the states and providing (mandating?) tolling or other revenue generators so as to allow repayment of private investment. While this proposal filled in a few more blanks (tax credits, tolling, states), the basic idea–that a modest amount of public investment combined with modern infrastructure investment models would leverage a much larger amount of private capital to create new bridges, roads, rails and waterworks—is a myth that has been told for year before the 2016 election and by leaders of both major political parties.

In almost every State of the Union message President Obama promoted the concept of leveraging private investment to build infrastructure. Vice President Biden was a major proponent of the concept of an infrastructure bank, a tool that supports private investment in infrastructure.

The problem is not that private investment in infrastructure can't work. In fact it works quite well. Rather, the issue is not how the capital is raised but how it's repaid. So while choosing a financing mode for a bridge may be a more impactful decision that picking a paint color, it doesn't get the bridge built free of cost. The real question is the funding method, whether the money raised will be repaid with taxes or tolls, so by the general public or the using public. Once you have a viable funding plan, you can choose the most efficient financing mechanism.

And if you want to get some projects actually up and running soon, it make little sense to take on the entire government civil works and financial establishment which revolves around the issuance of state and local bonds and bid-based construction and procurement. While many quality projects have been undertaken in the United States using what is known as the "PPP" model, a term of art for a private investment based civil infrastructure procurement, these are outliers, so-called "pilot" projects. The vast majority of state and local government undertakings are done the old-fashioned way.

Indeed, the old-fashioned way enjoys a long-standing federal tax benefit in the tax-exemption of interest paid on municipal bonds, lowering the cost of funds. While Trump's tax credit for private investment may have reduced the comparative value of that benefit, it wouldn't have solved the problem of thousands of financial and procurement officers who would need to be completely retrained to be able to effectively manage an entirely different process and structure. Government is slow to change.

So while private investment and development was never a bad idea, it is an idea whose time has not yet fully arrived in the United States and, moreover, it is an idea which can provide efficiencies of project delivery and performance but will not obviate the need for major direct or indirect public investment.

So will there be a new massive infrastructure program? I doubt it. Congress will not spend the money, particularly after doing tax cuts which will certainly increase the deficit. But I am not alarmed. The most important decision about infrastructure is what to build, not how to pay for it, and while I am momentarily impressed by the White House decision making around the infra funding issue, I have no confidence that a White House that refuses to accept climate science will make the right infrastructure spending choices. Better to wait.

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