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Pelosi's Infrastructure Bill Takes The Wrong Road On Tax Subsidies.

House Speaker Nancy Pelosi (D-CA) has rolled up many different committee bills into a single, massive 2,300-page, $1.5 trillion infrastructure package that the Democratic-controlled House likely will pass next week. But the bill is more than the usual collection of road, bridge, and water projects. It also is a Christmas tree of tax breaks. I counted roughly two dozen new, restored, or expanded tax credits for everything from renewable energy, economic development, supportive services, investments in low-income housing and historic properties, and environmental justice.

And that doesn't include the fistful of expanded tax-exempt bond financing mechanisms for both public and private projects, including subsidies for first-time farmers and a seemingly unlimited variety of businesses, including "facilities used for the creation or production of intangible property." The bill, called the Moving Forward Act, is so big that the legislative summary is 96 pages long.

Still no way to pay for infrastructure

For all the revenue measures in this package, there is one thing it doesn't include: Some way to pay for all this spending. Financing has been the missing element in nearly all of the major infrastructure plans floating around Congress and the White House for the past three years.

There is widespread desire for a big infrastructure bill on the part of most Democrats and Republicans. President Trump has been promoting one since his 2016 election campaign. And the COVID-19 economic slowdown makes the idea of a big new federal spending bill even more attractive as a tool for stimulus and job creation. But neither party is willing to take the lead when it comes to tax increases to finance the new projects. So nothing happens.

Pelosi's measure will not pass the Senate. It is a classic message bill that gives House Democrats the opportunity to crow about their ambitious plan, and gives Democratic challengers to Senate Republicans the opportunity to blast incumbents for blocking the measure. Which they almost certainly will.

So many tax subsidies

But those tax subsidies. So many subsidies. There are two main problems with them: Many have only the remotest connection to infrastructure. And few would achieve the policy goals their sponsors intend.

How, for instance, do tax credits for residential solar hot water heaters (30 percent through 2025) fit the definition of public infrastructure?

Then there is the tax credit of up to $2,500 for buyers of used all-electric vehicles. What does it have to do with infrastructure? Well, the vehicles would travel on roads. But that seems like a stretch.

More importantly, what policy goal would it achieve? True, you might get some old gas-guzzlers off the street. But if you want to encourage production of all-electric vehicles—and thus create new green jobs and increase access to capital— you want to subsidize new cars, not used ones.

Maybe you could make an equity claim: Low-income people can't afford new all-electrics so government should help them buy used cars. But the tax credit isn't refundable, so it won't do many low-income people any good. And it phases out at income between $30,000 and $40,000, so it won't help many middle-income people either.

Besides, maybe government would be better off spending taxpayer dollars on improving public transit and getting people out of cars entirely. Or, it could impose a carbon tax, rebate the revenue to taxpayers, and let them decide what they want to do with the money.

Private activity bonds

And those private activity bonds for farmers and firms that create intangible property? For four decades these tax-exempt municipal bonds have made it possible for politicians to finance well-connected local businesses on the taxpayer's dime. This probably is why they never seem to go away.

With interest rates so low and the Federal Reserve pumping out money for commercial loans as fast as it can, do state and local governments need to use subsidized muni-bonds to help businesses. Besides, the real winners in the private activity muni-bond game are the bond lawyers and investment bankers who put the deals together in return for sweet fees.

And even worse initiative is the bill's proposal to restore the tax-exemption for so-called advance refunding bonds. This bit of financial legerdemain lets state and local governments sell new low-interest tax-free bonds and reinvest the proceeds before eventually buying back older higher-yielding paper. The game often ends up costing governments more, but the bond lawyers and bankers get a nice cut off the top.

After decades of scandal (see here too), the 2017 Tax Cuts and Jobs Act banned the use of tax-exempt bonds for advance refundings. Now, House Democrats want to bring them back.

There is no doubt that the US desperately needs to improve its public infrastructure. And with interest rates low and unemployment high, this would be a nice time to do it. But House Democrats would be better off sticking to that important goal, and ditching the pile of tax subsidies that have found their way into the bill.

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