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Trump Infrastructure Plan: Far Less Than the Claimed $1 Trillion in New Projects

Huge tax breaks for private investors; Neglects vital public road, bridge, school, and water projects

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President-elect Trump's infrastructure plan, which claims that it would deliver up to $1 trillion in new infrastructure investment, almost surely would deliver far less — and it would *not* deliver many of the most important needed projects for roads and bridges, public transit, schools and public housing, water facilities, and so on, nor deliver them in the struggling communities in which they're most needed. That's because Trump's plan would mainly be a tax-cut windfall to private developers to bankroll for-profit projects they likely would have undertaken anyway.

Rather than public investment — with the government allocating the money and directing it to where it's most needed — the Trump plan relies entirely on private projects through which investors (e.g., private contractors) would own the projects, get huge federal tax credits equal to a stunning 82 percent of their equity investment, and make profits from the tolls or fees they would charge to consumers.

Nothing would ensure that the tax breaks would go for truly *new* investment, as opposed to subsidizing private projects that would have been built anyway. Thus, to a significant extent, the plan would provide a huge new tax break for contractors to build the money-making projects that they had already planned to build. The notion that this plan would actually generate up to $1 trillion in *new* investment, or anywhere near that figure, is highly unrealistic.

Builders, developers, contractors, and other private interests would decide which projects to build and which to avoid. Many worthy projects to repair roads, rebuild schools, and provide clean water in cities and rural areas all over the United States likely wouldn't make the cut because they'd have little prospect of turning a profit.

Also extremely unrealistic is the claim by Trump's advisors that the plan is "revenue neutral," paying for itself through higher taxes that contractors or workers would pay due to these projects.

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That's because the plan assumes that all of the up to $1 trillion would be new investment (as opposed to projects that private contractors would have built anyway), that all of the workers and contractors on those projects would have been otherwise unemployed, that all of the private capital invested in these projects would otherwise have been idle rather than invested elsewhere, and that the workers hired for these projects would be paid wages three to four times higher than the average wage for construction work.

The Plan Would Not Directly Fund New Public Infrastructure, and Much of the Cost Would be a Windfall Tax Break to Investors

Trump's infrastructure plan is targeted toward private, for-profit projects. The scheme offers a tax credit to private investors covering 82 percent of their equity investment costs.[2] Investors would cover the remaining 18 percent but would receive all the profits, effectively privately owning and operating the projects and charging the public to use them.[3]

Trump's campaign and transition team have claimed in various statements that the plan would "invest $550 billion"[4] or finance "up to $1 trillion" of infrastructure investment over ten years. The plan published in October assumes that $1 trillion of infrastructure investment would be in *new* revenue-generating projects that would not otherwise have occurred.

But the plan does not back up this idea. As currently structured, it lacks mechanisms to ensure that the tax breaks flow to new infrastructure investments that would not have been made without the tax subsidy or that aren't already underway. Thus, a large part of the plan's cost is likely to be a windfall for wealthy investors and developers, resulting in relatively little new investment in infrastructure, little economic gain, and a substantial increase in deficits and debt.

The Plan Would Ignore the Most Pressing Public Infrastructure Needs

In subsidizing for-profit, private developments, the plan wouldn't address the need for infrastructure investments that don't produce a commercial return or where charging ongoing fees for the use of the asset is prohibited, infeasible, or undesirable, even though these constitute some of the nation's most important infrastructure needs. For instance, tolls are currently prohibited on much of the interstate highway system, and it seems implausible that investors could generate a stream of tolls or fees for filling in potholes. Similarly, the plan wouldn't help public schools that need adequate heating and cooling or other basic repairs. Such investments in the health and education of children and communities deliver long-term societal benefits, including greater long-term economic capacity, but probably couldn't be financed under the Trump plan, because the plan would essentially support only private investments in profit-producing projects. As Larry Summers recently noted:

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[2] The plan also contains a vague mention of the availability of a subsidy for implementing publicly run projects and public-private partnerships but has no description of any mechanism for making this happen.

[3] The report states that private investors would retain an "equity share" in the infrastructure project. It does not specify whether that means that the investor would have ownership of the underlying asset. At a minimum, however, the investor would have rights to the revenue streams the project produces. Either way, the private investor would effectively have a property right associated with the infrastructure project.

[4] President-Elect Donald J. Trump Transition page on Transportation and Infrastructure, https://www.greatagain.gov/policy/transportation-infrastructure.html. Accessed November 15, 2016.

> Many of the highest return infrastructure investments — such as improving roads, repairing 60,000 structurally deficient bridges, upgrading schools or modernizing the air traffic control system — do not generate a commercial return and so are excluded from his plan. Nor can the non-taxable pension funds, endowments, and sovereign wealth funds that are the most promising sources of capital for infrastructure take advantage of the program.[5]

The plan also has no mechanism to ensure that infrastructure projects flow to communities already underserved by infrastructure investment — to towns that have lost a major employer, rural communities lacking easy access to amenities, and low-income communities that lack basic necessities such as clean water.[6] Instead, the investments likely would flow much more heavily to higher-income, more developed communities where investors are more assured of ongoing income streams.

In addition, the plan is vague about what projects would count as "infrastructure" that qualifies for the large tax subsidy. It is unclear, for example, whether the subsidy would be available to build a private resort, as long as the public had access to a park on the resort's margins, or a private office building that would be rented to a government department. Thus, the plan could subsidize projects with dubious community benefits while failing to invest in basic public assets.

The Plan Would Not Pay for Itself

The nation should invest in infrastructure that creates broadly shared returns, whether or not it is estimated to increase economic growth by enough *within the ten-year budget window* to offset some or all of the cost in that period. Borrowing at current low interest rates is a sound way to invest in many worthwhile public projects that produce *long-term* returns.

The Trump campaign team's October document, however, makes the extraordinarily optimistic — and entirely unsupported — claim that its plan would pay for itself. According to the report, taxes collected from workers and businesses who build the new infrastructure would offset all of the cost of the plan's tax credits. This assertion is remarkable for a number of reasons.

First, the claim is based on the highly unrealistic assumptions, as described above, that the plan would finance $1 trillion of new revenue-generating infrastructure investments over ten years and that none of the projects financed by the plan would have occurred anyway. To the extent that the tax breaks would go to projects that would have been undertaken anyway, they would generate little new employment or revenue.

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[5] Lawrence Summers, "Trump can't repeal the laws of economics," Washington Post, November 14, 2016, https://www.washingtonpost.com/opinions/trump-cant-repeal-the-laws-of-economics/2016/11/14/d1a30bc0-aa81-11e6-a31b-4b6397e625d0_story.html?utm_term=.2cd05206451f.

[6] We cannot gauge whether the plan might include a new school or water treatment plant (for instance) that is "owned" by a private developer and "leased" over 30 or 50 years to a local government. If so, there might be more new infrastructure under the plan than the modest amount we expect, but with two undesirable consequences: first, the actual costs to taxpayers would be far higher than simple public borrowing at low interest rates, with the extra taxpayer costs merely enriching private developers; second, at the state or local level, taxpayer costs would be disguised as locked-in, contractual lease payments, a budget gimmick to hide the actual costs of building or repairing infrastructure outside the normal budget accounting window.

Second, the report assumes that the taxes paid by workers employed by those projects would be "new" revenue that would help pay for the plan's tax credits. This assumes that each of those workers would have been otherwise unemployed and not working and paying taxes. But with the economy now closing in on full employment, there will be little room to attract additional people into the labor force, so the additional spending would create few new jobs overall. Likewise, this assumes that all of the private capital invested in the projects would otherwise have been idle and not invested in other profit-making enterprises.

Third, the plan assumes that all new wages resulting from the plan would be taxed at a 28 percent tax rate, which in turn assumes that, on average, the workers on these projects — including construction workers and laborers — would have taxable incomes above $127,500 for single filers and $172,600 for married filers (under the tax rates the Trump tax plan would set). According to the May 2015 Occupational Employment Statistics data, the average annual *wage* for workers in construction and extraction is $47,580 and $36,550 for construction laborers, who would be taxed at much lower rates.

Finally, the tax credits would fail to encourage investment in some key areas that can yield long-term benefits such as by improving the skills of population.

In short, the Trump plan would provide lucrative tax breaks for many investments that would occur anyway, and it has no mechanism for focusing its subsidies on projects that would yield high returns for the economy at large. Some of the nation's most pressing infrastructure needs would be ineligible, even as various low-return investments (such as private real estate development) could be eligible. For these and other reasons, any resulting economic expansion would almost certainly be small relative to the hefty cost of the Trump plan's poorly designed and inefficient tax breaks.

Conclusion

Policymakers should address the nation's pressing infrastructure needs. There are a number of sound ways to invest in infrastructure, including directly financing public projects at the very low interest rates that Treasury securities currently pay. Some approaches that combine public and private financing might also generate net benefits to the nation.

The Trump infrastructure plan, by contrast, is unsound. Much of its cost would likely be wasted on private projects that would occur anyway, and it wouldn't address many of the nation's most pressing infrastructure needs. The assertion by Trump's advisors that the plan would result in up to $1 trillion in new infrastructure investment is faulty. The plan would likely generate only a small amount of new infrastructure while adding to deficits and debt as a result of its wasteful, expensive tax breaks to private developers.