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Transformative Infrastructure to Boost Exports and Manufacturing

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Good afternoon Chairman Casey, Vice Chairman Brady, and members of the Committee. I am pleased to appear before you this afternoon and very much appreciate the invitation.

Throughout most of our nation's history, there has been a broad understanding of the role of strategic and rational investments in physical infrastructure in advancing the American economy. In the past, the U.S. embodied this audacious and innovative investment spirit and conceived projects that were significant on national and metropolitan scales.

Some examples are well known. The Erie and Panama Canals, the Transcontinental Railroad, the Interstate Highway System, and rural electrification each helped build out our nation and connect it within. Within metros, the development of Baltimore's Inner Harbor and the build out of rail transit in Washington, DC and Portland, Oregon had catalytic effects by inspiring redevelopment of underutilized areas and changing the pattern of physical and economic growth in their regions.

The conversation has new meaning today because the understanding seems to be that we are too broke (both financially and in spirit) to make similar investments in our nation's economic future, and we are too beset by various political, regulatory, and institutional barriers to get anything important done.

Mr. Chairman, we must not let this be the case. Today we need targeted and smart ways to drive economic growth, create jobs, restore fiscal health, and regain our lead in manufacturing, innovation and productivity. We live in an internationally competitive world where established nations and emerging economies alike steadfastly produce transformative investments in surface transportation, sea, and air ports to move products to market—both domestically and internationally.

In the U.S., we need to develop a new way of structuring and implementing infrastructure to both create jobs in the short term and support the cornerstones of the next American economy for the long haul.

One critical economic imperative is to boost exports and manufacturing and to fully connect American firms and metro areas to the global marketplace—particularly with nations that are rapidly urbanizing and industrializing. Brazil, India and China are expected to account for about a fifth of

global GDP in 2010, surpassing the United States for the first time. By 2015, that share will grow to more than 25 percent.¹

However, exports make up only about 13 percent of U.S. GDP compared to 30 percent in China, 30 percent in Canada, and higher levels in India, Japan, and the entire EU.² We need to reorient our economy to take advantage of this new demand.

Yet ambitious initiatives to double exports and boost the manufacturing sector not only require opening up foreign markets for American goods and services. We also need to build and retool the next generation of advanced production facilities and the underlying infrastructure to move goods, services and ideas quickly and efficiently by air, land, and sea.

To do that we need systemic reform. This means reforming the institutions and partnerships that exist today and the process for choosing projects. We also need to address a range of overlapping financial, regulatory, and institutional hurdles that currently stand in the way to ensure that the investments we make today keep pace with the growth and the evolution of the global economy.

Since the recession began, financial markets have contracted and all actors are feeling the strain of insufficient funds and constrained credit supplies. On the public side federal resources are strained, especially for transportation projects which generally make up the largest share of federal domestic discretionary spending. The Congressional Budget Office estimates that the highway trust fund will be unable to meet obligations sometime next summer, if not sooner. And while money from the American Recovery and Reinvestment Act provided roughly \$335 billion to support the physical drivers of prosperity—innovation, human capital, infrastructure, and quality places—those funds are largely spent with little prospect for additional dollars anytime soon.³

State funding sources are also shrinking. Twenty-one states saw transportation program cuts in fiscal year 2010 and 14 are already proposing transportation program cuts in fiscal year 2012.⁴ Other state and local sources—such as revenue from sales taxes—that are earmarked for infrastructure projects are also in decline due to the slow recovery.

These financial barriers affect our ability to pursue a diverse set of new projects. The *I-11 Corridor for the Intermountain West* is initially proposed to extend from Phoenix to Las Vegas but will ultimately be a critical link in global trade networks linking ports from Mexico to Canada and Alaska. The *Intermodal Cargo Hub* is a project intended to “re-internationalize” the St. Louis metro by utilizing the excess freight capacity that currently exists in dormant parts of the urban core. The *U.S. Route 460 Corridor Improvement Project* in south central Virginia is designed to promote the

¹ John Hawksworth and Anmol Tiwari, “The Accelerating Shift of Global Economic Power: Challenges and Opportunities,” London: PricewaterhouseCoopers LLP, 2011.

² Emilia Istrate, Jonathan Rothwell, and Bruce Katz, “Export Nation: How U.S. Metros Lead National Export Growth and Boost Competitiveness,” Washington: Brookings, 2010.

³ For innovation, ARRA provided \$50 billion for universities, labs, and research centers with an emphasis on clean energy technologies. For human capital: \$125 billion in funding and tax measures to improve schools and upgrade workforce skills largely as a backstop against inevitable state budget cuts. For infrastructure: \$126 billion in spending on transportation, energy, water, and others. For sustainable, quality place-making: \$34 billion for efforts in energy efficiency, affordable housing, neighborhood stabilization, and local economic development. See: Mark Muro and others, “Metro Potential in ARRA: A Preliminary Assessment of the American Recovery and Reinvestment Act from a Metropolitan Perspective” Washington: Brookings, 2009.

⁴ National Association of State Budget Officers, “The Fiscal Survey of States,” Washington, 2010 and 2011.

growth of an inland logistics center by enhancing intermodal connectivity to the Port of Virginia. That port is currently the third busiest on the east coast, making it critical to the nation.

Project sponsors are actively working on a range of creative and complex funding and finance packages for these and other projects.

One approach is to use public-private partnerships (PPPs.) In ten states, PPPs need prior approval by the state legislature before they can be developed. Waiting for such authorization is generally considered too burdensome and unpredictable to the private sector as costs associated with the bidding process are sunk and public relations campaigns have to be launched to garner public support for the project.⁵ The major barrier currently delaying the *New International Trade Crossing* from Detroit to Windsor, Ontario is the need for legislation authorizing the state to, among other things, create a PPP to design, build, and construct the bridge. This project is part of the largest bi-national trading corridor on the planet and is therefore central to any conversation about exports and global trade.

At the federal and state level, lack of targeted metrics to analyze projects and conduct impact assessment misses good projects that would have a measurable economic effect. Institutions are often siloed and compartmentalized, preventing learning on how to structure, implement, and finance projects across different sectors. This is especially important for multi-modal projects that do not fit a specific mold for a “traditional” infrastructure project. The *Gary-East Chicago South Shore Redevelopment & Airport Expansion Plan* is a good example of a multifaceted, multijurisdictional, and multimodal transportation and waterfront infrastructure project where stakeholder alignment is critical to its success.

Barriers to infrastructure investments like these can be far reaching and overlap across financial, regulatory and institutional types. Understanding the areas in which reform can be achieved will help create policy solutions to streamline processes and invest in transformative projects that catalyze economic growth and opportunity. There are several critical areas that demand attention:

First, in collaboration with the states and metropolitan areas, the federal government should develop a comprehensive National Freight Transportation Plan as a framework for goods movement policy and investment that spans all modes. This process should build off the proposal contained in the Moving Ahead for Progress in the 21st Century Act (MAP-21) to build a national freight network program and prioritize corridors on a cost-benefit analysis that would include all modal options.⁶ Learning from Germany, part of this effort should be to determine the appropriate finance and evaluation mechanism to help major U.S. seaports and airports remain globally competitive.⁷

Another is for states to establish a state infrastructure bank (SIB) or enhance it if one is already in place. Beginning in 1998 SIBs have become an attractive financing tool and 33 states have established SIBs to finance transportation projects. Most of this support comes in the form of below-market revolving loans and loan guarantees. States are able to capitalize their accounts with federal transportation dollars but are then subject to federal regulations over how the funds are spent. Others,

⁵ Emilia Istrate and Robert Puentes, “Public/Private Partnership Units for Infrastructure: The Missing Institutional Link in PPPs in the U.S.,” Washington: Brookings, 2011.

⁶ Moving Ahead for Progress in the 21st Century (S. 1813) 112th Congress: 2011-2012.

⁷ Germany created a national freight policy to support its major ports and airports in the summer of 2008. See German Federal Ministry of Transport, Building, and Urban Development, Freight Transport and Logistics Masterplan, 2008.

including Kansas, Ohio, Georgia, and Florida, capitalize their accounts with a variety of state funds and are not bound by the federal oversight which they feel helps accelerate project delivery. Other states—such as Virginia, Texas, and New York—are also examining ways to recapitalize their SIBs with state funds.⁸

But rather than bringing a tough, merit-based approach to funding, many SIBs are simply used to pay for projects selected from the state's wish list of transportation improvements, without filtering projects through a competitive application process. A better approach would be for states to use their infrastructure banks more strategically, focusing on those projects that advance growth through the lens of the Next American Economy.

This means also looking beyond just transportation and create true infrastructure and economic development banks to finance not just roads and rails, but also energy and water infrastructure, perhaps even school and manufacturing development. California's Infrastructure and Economic Development Bank ("I-Bank") provides a compelling model. After its initial capitalization of \$181 million in 1999, the I-Bank has funded itself on interest earnings, loan repayments, and other fees, and has supported over \$400 million in loans.⁹

On the national level, the creation of an infrastructure bank would leverage federal dollars for large projects whose impact is of national significance, like the border crossings and ports that are integral to our national trade strategy. This is especially crucial for projects that cross multiple state borders and require funding and coordination across a number of public agencies and from the private sector.¹⁰

A recent poll shows strong willingness for public entities to consider private investments rather than increasing taxes, cutting budgets, or taking on more debt.¹¹ While half of the states have enacted enabling statutes for PPPs, the wide differences between them makes it time consuming and costly for private partners wishing to engage in PPPs in multiple states to handle the different procurement and management processes.¹² States should therefore move to enact comprehensive PPP legislation that is accountable, transparent, and permanent.

They should also push the federal government to play a helpful role with its state and metropolitan partners by helping them think through potential costs and trade-offs, as well as assessing national interests.¹³ Over 25 countries have begun implementing specialized units throughout various governmental agencies to assist with the expanding opportunities for PPPs. These so-called PPP Units fulfill different functions such as quality control, policy formulation and coordination,

⁸ Virginia has proposed capitalizing its SIB with the proceeds from privatizing the state-run liquor stores. Comments of Matt Strader, Virginia Assistant Secretary for Transportation, "Obama's Infrastructure Agenda: Understanding the Pillars," Brookings Institution, Washington, D.C. September 16, 2010.

⁹ Stanton C. Hazelroth, Testimony before the House Ways and Means Committee Subcommittee on Select Revenue Measures, May 13, 2010.

¹⁰ Emilia Istrate and Robert Puentes, "Investing for Success: Examining a Federal Capital Budget and a National Infrastructure Bank," Brookings: 2009.

¹¹ Jonathan Turnbull, "Public-Private Partnerships," Presentation to National Association for Business Economics, September 21, 2010. Available: <http://www.nabe.com/rt/reg/documents/Lazard.pdf>.

¹² For example, states like Colorado, Florida, and North Carolina allow for both solicited and unsolicited proposals. Others such as Indiana and Tennessee restrict the type of project eligible as a PPP—usually highways or tollways only. Missouri and Alaska restrict authority to certain facilities like a specific bridge crossing. See: Istrate and Puentes, 2011.

¹³ U.S. Government Accountability Office, "Highway Public-Private Partnerships: More Rigorous Up-front Analysis Could Better Secure Potential Benefits and Protect the Public Interest," GAO-08-44, 2008.

technical advice, standardization and dissemination, and promotion of PPPs. In the U.S., the primary purpose of such an entity would be to provide technical, non-binding information, assistance and advice to states and metropolitan governments.

Entities like a PPP Unit or infrastructure bank would ideally help infrastructure investments by leveraging existing funding and finance sources. The federal government could also play a helpful role by amending the Transportation Infrastructure Finance and Innovation Act. This program currently provides subordinated loans and loan guarantees to infrastructure projects and has been successful in supporting a wide range of project-specific applications such as roads directly supported by toll revenues. But the federal government should also be able to provide upfront credit commitment when those projects are part of one holistic package and funded primarily by the same revenue source (such as a regional sales tax.)¹⁴

These approaches epitomize a new kind of 21st century self-help that the national government should explicitly recognize and embrace.¹⁵ Mr. Chairman, we know that our global competitors, in mature and emerging markets alike, are in the process of making these kinds of investments and by so doing supporting their national economies. These investments—at their core—are the physical means to an economy-shaping end, rather than ends in themselves. Although we are experiencing tumultuous wakes of economic distress, the time is ripe to invest in infrastructure projects that put us on the path to a more productive and sustainable economy.

The views expressed in this testimony are those of the author alone and do not necessarily represent those of the staff, officers, or trustees of The Brookings Institution.

¹⁴ This is the idea behind the America Fast Forward proposal currently incorporated in MAP-21.

¹⁵ Maricopa Association of Governments, “United States Department of Transportation and Metropolitan Planning Organizations: A New Partnership,” Phoenix, 2010.