

## Where's the Infrastructure for Infrastructure Renewal?

By Kerry Pechter      Thu, Apr 22, 2021

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*Infrastructure renewal is long overdue in the US. We can come up with the money. But we don't currently have the institutions or the processes that will be needed to manage such a broad, complicated, long-term undertaking.*

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Given Fed chairman Jay Powell's disinterest in raising interest rates, and the Biden administration's determination to spend trillions on mending bridges, power grids, and telecom networks, it's no wonder that investors and retirement savers are pouring money into the stock market, as Morningstar's fund flows [report](#) shows this week.

The S&P 500 Index is up about 12% since the beginning of 2021, by about 25% from its pre-pandemic peak, and by about 50% from its March 2020 pandemic low. Stock buybacks, foreign investors, and retirement savings plans are all presumably contributing to flows into dollar-denominated securities.

What could go wrong? Obviously, more pandemic-related shutdowns would hurt. Spending on public health infrastructure will hopefully prevent that. But we always have the capacity of shooting ourselves in the foot. Several things could go wrong.

**The infrastructure bill might not pass.** The bill is polling well with the American public, according to news reports. Decades ago, a Democratic president might have pulled in votes from Republican legislators by offering to spend money in their districts. But since the early 1990s, Republicans have practiced solidarity in voting, opposition to tax increases, opposition to deficit spending by Democrats, and reliance on wedge issues (e.g., abortion, guns, immigration) in lieu of active public policy initiatives.

Even if Democrats introduce the infrastructure bill through "reconciliation," the 50 Senate Republicans plus Sen. Joe Manchin (D-WV) could stop it from becoming law.

**The infrastructure might pass.** We have heard some public debate over the definition of "infrastructure." (Should it include day care? Nursing homes? Homes for the homeless?) We know that wealthy people are worried that they might pay more in taxes for national infrastructure than they will get out of it. (That's a phantom threat, in my opinion; the

wealthy are making more in the stock market, thanks to Fed largesse, than they will ever pay in taxes.)

But we haven't heard much yet about what we will decide what to spend the trillions on or how we'll disburse it. Given the country's fragmentation into 50 states and thousands of counties, townships, municipalities, fire departments, and police departments, etc., do we have the political and bureaucratic infrastructure necessary to execute the renewal of our infrastructure?

How will we prioritize, design, manage or trickle-irrigate these large and small projects? Will local governments apply for grants, or solicit applications for grants from private contractors? Who will review and approve those grants? Will the government merely guarantee bank loans for infrastructure spending? Will the government use tax incentives to encourage private projects? Who will set goals and make sure contractors meet them, on time and on budget? How will we prevent corruption?

Does the US have enough raw materials, expertise, or capital equipment to overhaul our energy, telecom, and transportation infrastructures? Would Asian and European construction companies have to help us? If we use only made-in-America resources, will the work cost more and take longer? What will the unions say? If engineers populated our legislatures, we might have a better chance. But they don't.

How will we tailor tax policy to offset the infusion of infrastructure spending? The question isn't "how will we pay for" new infrastructure. As always, Congress will instruct Treasury to write checks and the Fed will ensure that Treasury checks never bounce. But we'll still have to offset the potential inflationary effects of spending on infrastructure with taxes and bonds sales. That might mean that other sectors, still unidentified, will have to shrink so that the infrastructure sector to grow.

There are other issues, each of which is a cultural can of worms. If infrastructure renewal aims to facilitate a transition to a post-petroleum society, or a universal health care society, or an education-for-all society, legacy industries will resist. To ensure that the benefits of infrastructure renewal are socially equitable and environmentally safe, every project will require an ethnic-impact and an environmental-impact study. We could spend tens of billions of dollars just on impact statements by consulting firms. We *will* need to spend billions on up-front planning.

**The other pachyderm in the parlor is inequality.** A rising stock market doesn't lift the

half of American who don't own stocks and don't even have 401(k) plans at work. Construction projects don't need as many bodies as they did in pick-and-shovel days, let alone low-skill bodies.

We really don't have any choice but for the public sector to act on this. On its own, the private sector will cherry-pick the most profitable work and ignore the break-even but necessary work. If we don't improve our infrastructure, as a society we'll drift further toward inequality, with gated islands of wealth within plastic-strewn oceans of stagnation. That kind of economy won't feed the profit-hungry stock market or generate the tax revenues that Social Security and Medicare need. Other countries will leapfrog us. Scarcities of unity and long-term thinking will have sealed our fate, not a scarcity of money.

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