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THE OUTLOOK

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Calling on Congress to Act – Our Future Prosperity Depends on It

At a time when political dysfunction is virtually at an all-time high, Republicans and Democrats on federal, state and local levels all seem to agree on one thing: the urgent need to invest in physical, educational and digital infrastructures in the United States. Following the mid-term elections, President Trump and leaders from both parties said the right things about working together on such a program. However, the question remains: Will they be able to stop talking and reach an agreement?

Funding this critical need cannot be postponed. Since the 1990’s, we have woefully underinvested in our nation’s infrastructure, and neglect by our government continues to hurt the well-being of the United States. According to the American Society of Civil Engineers (ASCE), the 2017 report entitled “Failure to Act: Closing the Infrastructure Investment Gap for America’s Economic Future”, we need to invest approximately $4 trillion in our infrastructure between now and 2025, and the ASCE report projects a funding shortfall of $2 trillion of that total. By 2025, this underinvestment is projected to cost the U.S. $3.9 trillion in lost GDP (economic activity), $7 trillion in lost sales for our businesses and 2.5 million jobs at a cost to families of $3,400 annually.

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We suggest the following framework to finance a meaningful portion of the estimated $2 trillion gap with a different approach for the use of a gasoline tax. Assuming the average miles driven per vehicle is 14,000 per year with each averaging 20 miles per gallon, the average vehicle consumes 700 gallons a year. In 2017, Americans consumed an estimated 143 billion gallons of gasoline. We propose that the U.S. government issue a $600 billion special-purpose bond offering with a yield as high as 5% (or tax-free equivalent) and a 40-year maturity as a dedicated fund for the most urgent and high-impact projects as outlined in the ASCE report. The interest payments would be financed by a special gasoline tax of 25 cents per gallon (possibly indexed for inflation) and an equivalent registration tax on the growing fleet of electric vehicles. This would equate to an estimated tax of $175 annually on all vehicles. To ensure fairness between traditional vehicles and the nearly 1 million electric vehicles on the roads, the government should impose an additional vehicle registration tax for a 2-year registration. These combined taxes would generate revenues of approximately $36 billion annually and would more than offset the bond interest payments of $30 billion, while providing a significant boost to the economy.

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By issuing this special-purpose bond to reduce the projected $2 trillion funding gap, the projected benefit to GDP would be over $1 trillion due to the multiplier effect of infrastructure spending on the broader economy. The program would also have the benefit of extending the business cycle and acting as a buffer against a future recession. Furthermore, it would provide a multi-year stimulus to economic activity by increasing employment, consumer spending, business earnings, corporate spending, and tax revenues for federal, state and local governments, while reducing the costs for families.

Funding shortfall costs to each household are an estimated $3,400 annually

It is important to note that in the past when the United States was much more dependent on imported oil whose price was determined by OPEC (with the swing producer being Saudi Arabia), the use of a gasoline tax was less feasible. Today, for the first time since the 1960's, the United States is again the world's leading oil producer (with October's production exceeding 11 million barrels a day and growing). Our current oil production levels combined with the growing use of electric and hybrid vehicles has reduced the pricing power of OPEC and helped drive gasoline prices lower. Furthermore, the United States is continuing to build its facilities for exporting increasing volumes of oil thereby putting downward pressure on the international price – a situation that has not occurred in over 50 years. These factors are giving the United States greater control over future gasoline prices.

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Every member of Congress should study the ASCE reports to better grasp how their political posturing along with their lack of action negatively impacts businesses and households every single day. The ASCE 2017 report uses the traditional A - F report-card system to grade our infrastructure and it gives ours a D+. Although our railroad system is in relatively better shape, our bridges, tunnels, airports and water systems are, to varying degrees, in disrepair. Yet action by our leaders is tepid and too often incompetent, even cynical. In the U.S., there are over 600,000 bridges and 40% are 50 years or older with many approaching the end of their design lives and more becoming structurally deficient. There are also our roads and highways with traffic delays estimated to cost over $150 billion annually in wasted time and fuel. As anyone on the East Coast knows well given the power outages caused by recent hurricanes, our electric grid is also aging and vulnerable. And our digital infrastructure is at a critical juncture as well. According to one survey from late last year, it was reported that the U.S. ranked 44th in mobile download speeds, surely unacceptable to Americans who, after all, created the internet. Lack of easy availability as well as slow download speeds compromise our educational system.

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While no one enjoys paying taxes, the tangible benefits far outweigh the costs especially for something that would benefit everyone and reduce some of the inequality that is at the forefront of politics today. Our deteriorating infrastructure continues to affect business productivity in every sector and

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Our deteriorating infrastructure continues to affect business productivity in every sector and region, and the right investments would reverse this trend

region, and the right investments would reverse this trend. With the growing challenges stemming from climate change and more violent weather patterns, the cost of repairs will only escalate. While the World Economic Forum recently ranked the United States as the most globally competitive nation in the world, we cannot and should not expect this condition to continue under present circumstances. Congress needs to act quickly and boldly to preserve our prosperity.

If you have any thoughts or questions about our views or your portfolio, please feel free to call us.

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