NRO
nationalreview ONLINE

Infrastructure at Any Price?

October 11, 2010 12:56 P.M.

By Reihan Salam

As regular readers know, I'm an infrastructure enthusiast. And this goes beyond a considered judgment on my part of the relative merits of infrastructure spending. I happen to love trains, roads, ports, bridges, tunnels, and all the rest. When I'm lucky enough to visit an unfamiliar city, the first thing I do is check out the local public transportation system. It helps that I never learned how to drive an automobile, and that I spent a lot of time with my LEGO container ship as a kid. So there you have my priors.

But I also think that public officials haven't been doing a very good job of negotiating on behalf of taxpayers. The incentives are, for all kinds of obvious reasons, badly misaligned. A few days ago, I linked to an op-ed in the *Bergen Record* by the staff of the Regional Plan Association, the premier non-profit dedicated to land-use planning in the New York metropolitan area. Remember this?

Half a dozen Governors over ten years have spent more than the state's Transportation Trust Fund could afford, collecting about $900 million a year in gas taxes and other sources, but spending about $1.4 billion each year on capital projects. The gap was filled by borrowing – a familiar story in New Jersey these days. Unfortunately, the bill is now due. Starting in less than one year, every dollar collected in gas tax revenues for the next 30 years will go to paying off bonds that have already been spent. Unless hundreds of millions of dollars in new revenues or significant cost reductions can be identified, the state's capital spending on other transportation projects (street and bridge repairs, highway upgrades, other transit investments, etc.) will drop dramatically. [Emphasis added.]

Had New Jersey taxpayers been bearing the costs of these capital expenditures, they might have (a) decided they could do with less infrastructure or (b) demanded more efficiency from the construction firms responsible for massive cost overruns.

But New Jersey's leaders decided to kick the can down the road. And now those of us who are gently suggesting that we look under the hood and give these projects the scrutiny they deserve are being derided as senseless reactionaries hellbent on sinking the economy

I'm a devotee of Barry LePatner, an attorney who has been working on construction projects for decades. He's shed light on the inefficiencies that drive cost overruns. Boston's Big Dig was slated to cost $2.8 billion in 1985. By the time it was done, in 2006, it cost Massachusetts taxpayers $14.6 billion. The New Meadowlands Stadium for the New York Jets and the Giants was supposed to cost $800 million. Turns out it cost $1.7 billion. Chicago's Dan Ryan Expressway wound up costing twice as much as advertised.

LePatner has argued that inefficiencies in the trillion-dollar construction industry cost the country $120 billion a year, an effective $2,000 tax on a family of four. In *Broken Buildings, Busted Budgets* and his forthcoming book *Too Big to Fail*, LePatner offers a way out, which he sketched in an op-ed for the *New York Observer*:

Construction is America's least productive industry. The average project wastes up to 50 percent of its total labor cost. Taxpayers cannot squander a hundred billion on poor job performance. Yet fixed-priced contracts would save billions.

Construction contracts should (1) be based on 100 percent complete architectural and engineering drawings; (2) include fixed prices for everything designed and approved by the jurisdiction; and (3) fairly apportion anticipated construction-related risks among all parties.

In an interview with *Infrastructurist*, LePatner explains how this approach would transform the construction industry from a collection of thousands of inefficient mom-and-pops to a high-productivity, high-wage manufacturing business:

"Owners, especially governments, [need to] insist on true fixed-price contracts." Doing this involves, among other things, having the planning fully completed before putting the job out for bids. Once this practice starts to take root, he predicts far-reaching effects on the marketplace. "The resulting shakeout will be rapid," he writes in *Broken Buildings, Busted Budgets*. "Many firms will fail, but remember, many fail already. Instead of being replaced by swarms of tiny new firms, however, bigger firms will form because of frenzied merger activity." He sees within a relatively short period of time construction companies "will come to have a significant presence in the Fortune 1000."

Under a new, vertically integrated model required to meet the needs of a market that demands fair fixed prices, they "will do everything from manufacture to stockpile construction materials to maintain structures they erected years or even decades before." These new large companies will make strategic investments in technology, education and R&D and begin to achieve the standards of productivity that apply in other industries. Given that the construction industry is in a similarly woeful state in most of the rest of the world, this offers a valuable competitive opportunity to the U.S. to become the innovator and leader in this massive industry.

In *Broken Buildings, Busted Budgets*, LePatner offers more detail on how to drive this transformation. One thing I'll add is that private sector unions aren't the problem, at least in the construction industry:

"I'm always being asked one of two questions: 'How much of this is corruption and payoffs?'; or, 'How much is unions driving up the prices?' Well, the statistics show both are non-factors. Corruption drives up prices in some cities, yes. But on a $1 trillion industry, it's not anything material. On the union issue, the research I found shocks some people: It turns out union workers are slightly *more*efficient than non-union workers. The reason for this seems to be that unions use apprenticeship training programs."

The problem, in my view, is politicians who aren't sufficiently mindful of the fact that American taxpayers don't want their money wasted. Before we talk about spending hundreds of billions more on infrastructure, we need to tackle this problem.

"The American Society of Civil Engineers says we face a backlog of $2.2 trillion in infrastructure spending," he says. "Can we really afford for that number to go to $3.2 trillion or more? Because it will."

Paul Krugman's indiscriminate approach to infrastructure spending will lead us to precisely this outcome. And think about what that $1 trillion could do for early childhood education or biogerontological research or for tens of millions of American families.