1.00% APY
A HIGH-YIELD SAVINGS ACCOUNT FROM AMERICAN EXPRESS
LEARN MORE NOW
PERSONAL SAVINGS from American Express
Accounts offered by American Express Bank, FSB. MEMBER FDIC

MarketWatch

June 17, 2011, 12:01 a.m. EDT

How to fix crumbling U.S. roads, rails and airways

Falling tax revenue is hurting U.S. shipping and prosperity

By Christopher Hinton, MarketWatch

Reuters

The collapse of the Interstate 35 bridge in Minneapolis, in 2007, raised the profile of the fragile state of the U.S. infrastructure.

NEW YORK (MarketWatch) — If America's prosperity depends on its roadways and transportation system, the future looks pretty rough.

After more than a decade of declining tax revenue in the United States, highways are crumbling, rail lines are overburdened and airline corridors are congested. Factor in the economic weakness, the public's tax-cutting mindset and geopolitical instability, and an already shaky situation looks ready to worsen for commerce, jobs and several industries that are crucial for transportation infrastructure.

Analysts are pessimistic about the U.S. transportation system making progress. There isn't enough money to maintain what the country has right now, much less to get to quality levels that are giving other nations a competitive advantage.

"Substantial under-investment won't affect the economy in the short run, but productivity will be affected in the long run," said Gus Faucher, an

FOCUS: THE FUTURE OF TRANSPORTATION

Fixing crumbling roads, rails and airways
If America's prosperity depends on its roadways, the future looks pretty rough.

Steer clear of transportation stocks
They were among the market's best performers as the economy recovered. But this year they're sending investors a cautionary signal.

The car of tomorrow will drive itself — and fly
Driverless cars and on-demand aviation are the next frontiers, and they may be closer than you think. Or maybe not.

economist with Moody's Analytics. "People will be stuck in traffic more often, stuck at airports longer, and that lost time adds up over 10, 20 years."

It will also mean higher transportation costs, whether rail, trucking or shipping, and that will make American-made goods more expensive overseas and less competitive, Faucher said.

Today U.S. infrastructure investments amount to 2.4% of the nation's GDP, versus 5% in Europe and 9% in China, according to a data from the World Economic Forum.

"Long term, that's going to hurt our economic position in terms of freight movement and maintaining the viability of our metropolitan areas," said Peter Peyser, managing principal of Blank Rome Government LLC, a lobbying firm.

Deficits in the U.S. trust funds that support the country's interstate system and civil aviation have been widening for years as tax revenue failed to keep up with inflation. To fill the gaps, Congress has been taking cash from the general till.

But tax revenue for the general budget has declined as well because of the economic recession and the Bush-era tax cuts, and now Congress is determined to eliminate the shortfall by reducing spending across the board.

In the latest House bill for highways, lawmakers envision sharp cuts in spending that could halt upgrades to federal roads and bridges, and leave barely enough resources to maintain the existing infrastructure.

Research points to economic consequences of that trend. For every $1 billion pulled from the U.S. budget for highways, an estimated 30,000 jobs are lost, according to a 2007 report from the Department of Transportation.

"Clearly, numerous major engineering and construction companies will be impacted by the shrinking U.S. federal budget," said Gregory Garrett, managing director of the government and contractor services at Navigant, a consulting firm.

Companies such as Caterpillar Inc. (NYSE:CAT) , as well as Deere Co. (NYSE:DE) , which derive a significant portion of their revenue from the U.S. and state governments that rely on federal dollars, would likely get pinched.

There's also steel manufactures such as Nucor Corp. (NYSE:NUE) , Steel Dynamics Inc. (NASDAQ:STLD) and Brazilian-owned Gerdau SA (NYSE:GGB) , which produce concrete reinforcing bars used in major roadways and bridges. And concrete makers such as Eagle Materials Inc. (NYSE:EXP) and Mexico's Cemex SAB (NYSE:CX) .

Also losing out would be thousands of small businesses that are reliant on contracts of $150,000 or less.

Though it's a similar story for civil aviation, rail service and U.S. ports, highways are exceptional because trucks move 80% of all freight in the U.S., and volumes are expected to triple by 2035, according to the American Road & Transportation Builders Association.

Last year, the U.S. Chamber of Commerce, typically hostile toward taxation, called for a 10-cent boost to the 18.4-cents to 24.4 cents federal gas tax range, which hasn't changed since it was enacted in 1993.

After adjusting for inflation, the static tax has declined more than 33%.

The Chamber says the new revenue could fill the expanding budget deficit to help pay for improvements to freight mobility while also creating jobs.

But lawmakers fear a backlash by voters.

“Our existing transportation network is deteriorating. This is happening now. It is happening today,” said Martin Wachs, an urban and regional planning researcher with the Rand Corp. think tank.

“In the short run it is construction companies, but in the longer term it is those that operate any business because their efficiency and operating costs are affected by the congestion,” Wachs said.

Scrambling for cash as taxpayers revolt

The American Society of Civil Engineers estimated that federal and state governmental spending would have to exceed $2 trillion over the next five years to bring the nation’s total infrastructure up to standard. That includes funding for dams, schools, solid waste disposal as well as for highways, rail and aviation.

By contrast, the American Recovery and Reinvestment Act, the much-vaunted economic stimulus that Congress passed in 2009 and that is now winding down, provided about $105 billion for infrastructure.

But analysts say the public doesn’t have the appetite for higher taxes or increasing government debt, and that leaves a few alternatives.

“Exxon (NYSE:XOM) might not like it, but one approach is to cut the oil exploration tax break, which could boost tax revenue by $3.4 billion to $3.7 billion,” said Donna Cooper, a senior fellow for American Progress. “There’s also been calls for an oil import fee that could raise $15 billion — any of those alternatives would put more resources toward infrastructure and could also reduce our reliance on oil.”

General Motors Co. (NYSE:GM) had the same idea last week when it called for an additional $1 a gallon gas tax, saying it would increase demand for the auto industry’s newest fuel-efficient vehicles. Read more about GM's comments .

Congress could also roll back some of the Bush-era tax cuts, which Cooper valued at 10-times the annual cost of what the country requires for infrastructure.

“Tax cuts for people making more than a million a year isn’t likely to generate more jobs,” Cooper said.

But none of the experts interviewed for this story were confident Congress would muster the votes to oppose the popularity of the Bush tax cuts or the financial influence of oil lobbyists.

Instead, a more likely solution could be the development of more public-private partnerships, these people said.

“If you’ve got the right deal worked out, the private sector can do things better than the public sector,” said Timothy James, a research professor at the W.P. Carey School of Business at Arizona State University.

The Obama administration has latched onto the idea and has been promoting the formation of a National Infrastructure Bank that would leverage private-sector lending with public financing and coordinate projects across state lines.

The strategy won’t guarantee a return for everything. Rail, for example, though it can help to relieve traffic congestion in high-population regions and reduce pollution, is rarely profitable. Even in Europe and Asia, where passenger rail is generally popular, rail is typically subsidized by local governments.

Highways, however, have benefited. In France, vast stretches of “autoroutes” are toll roads maintained by private operators that get paid based on performance.

And so far they have done much better than anyone had expected, James said. So well, in fact, that when the leasing contracts were up six years ago and the highways were to be returned to the public, the government decided to leave them in the private sector.

But there are plenty of bad examples as well. In California, South Bay Expressway LP filed for bankruptcy last year after operating a nine-mile tollway in San Diego County for just three years. The company blamed the poor economy and “lackluster” financial performance, but essentially it promised to manage the roadways too cheaply and failed, James said.

Some U.S. cities are also experimenting with public-private partnerships, such as Austin, Indianapolis and Chicago.

The worst solution is to do nothing, James said, and to assume private industry will simply step in and take over. Infrastructure is capital intensive, and sometimes it’s needed to serve marginal communities that will never provide the payments needed for a good return on investment.

“In Arizona, they think if they keep lowering their business taxes it will attract business, but its not true,” James said. “It’s that they don’t have the infrastructure here to support the global businesses they want to attract.”

Copyright © 2011 MarketWatch, Inc. All rights reserved.
By using this site, you agree to the Terms of Service and Privacy Policy.

Intraday Data provided by SIX Telekurs and subject to terms of use. Historical and current end-of-day data provided by SIX Telekurs. Intraday data delayed per exchange requirements. Dow Jones Indexes (SM) from Dow Jones & Company, Inc. All quotes are in local exchange time. Real time last sale data provided by NASDAQ. More information on NASDAQ traded symbols and their current financial status. Intraday data delayed 15 minutes for Nasdaq, and 20 minutes for other exchanges. Dow Jones IndexesSM from Dow Jones & Company, Inc. SEHK intraday data is provided by SIX Telekurs and is at least 60-minutes delayed. All quotes are in local exchange time.