CARNEGIE ENDOWMENT
FOR INTERNATIONAL PEACE

Transcript

TRANSFORMING AMERICA'S TRANSPORTATION

MONDAY, JULY 11, 2011
1:00 P.M. EDT
WASHINGTON, D.C.

MODERATOR:
David Burwell
Director of Energy and Climate Program
Carnegie Endowment for International Peace

SPEAKERS:
Bill Bradley
Former United States Senator from New Jersey

Tom Ridge
Former Governor of Pennsylvania and Former Secretary of Homeland Security

David Walker
Chairman, Independent Audit Advisory Committee
United Nations

Transcript by Federal News Service
Washington, D.C.

[00:00:07]

JESSICA MATHEWS: Good afternoon. I'm Jessica Matthews, president of the – president of the Carnegie Endowment for International Peace. It's a great pleasure to welcome you here today, and to welcome our speakers.

There are many words that you can use to describe America's federally funded transportation system, not so many in polite society perhaps. You could say that it treats a central pillar of our nation's economy as a vehicle for dispensing treats, what we call Washington pork or earmarks. You could say that in addition to bridges to nowhere, it builds roads, transit, buses and rail without any bearing on how they connect. You could say that it drastically underserves the poor, the elderly, and anybody who either can't afford to buy a car or can't drive. You could say that it represents a third of U.S. carbon emissions and, with the addition of other emissions, such as black carbon, is the largest U.S. contributor by sector to near- and mid-term climate change.

[00:01:23]

You could say all of these things and many more about a system that is now a mass of haphazard – of BAND-AIDs haphazardly applied to a creaky, 60-year-old, out-of-date system. And most of all, you could say that it is just about the only thing that anyone in this room has ever heard of that hasn't raised its price, which is the federal gasoline tax, in almost 20 years while the cost of what it pays for has risen by almost 40 percent.

If you put all that together, we are living in a country that seems satisfied to accept a system that operates without a plan, without ways to measure success or failure, a system that is entirely reliant on an uncertain import, and a system that cannot pay for its own maintenance, repair or necessary additions. If you had to pick one word for all of that, I would call it declinist.

I know that's a red-button word, and I use it advisedly because I believe there is no other national policy that has as much to do with economic health, with national security, with energy security and climate security, and is as mired in political inaction as this one. It is a system that is in need of radical reform; and like everything else in life, it has to be paid for. The answers are part diagnosis and part even more prescription. The prescription has to be economically sound; it has to be bold to match the scope of the problem; it has to be demonstrably fair and politically feasible.

[00:03:15]

We're releasing today the report of an effort that attempted to meet all of those goals over more than a year of intensive work by three national leaders supported by an expert staff: former Senator Bill Bradley, a congressional leader on tax reform, former presidential candidate and a deep thinker on a range of national problems is a Democrat, also a distinguished Carnegie trustee; former Governor and Secretary of Homeland Security Tom Ridge, who is also an expert on energy security is a Republican; joining us by video from New York, former Controller General of the United States David Walker is one of the country's foremost experts on fiscal prudence in public budgeting and – not just now when it's the issue of the day, but for many years – is a political independent.

Together these three leaders bring the highest level of expertise on the full range of issues that has to be considered in thinking about transportation reform. They represent all of the political spectrum or at least all of it that believes that the federal government has a critical role to play not just abroad but at home in making this country strong and successful. They have been leaders in both the state and federal government and from both the legislative and executive perspective. And as what we consider an asset, they come from outside the transportation industry without constituencies to serve or past positions to defend.

Framing this project and overseeing its work is David Burwell, director of Carnegie's Energy and Climate Program, founder and CEO of Rails-to-Trails Conservancy and of STPP, the Surface Transportation Policy Project, among many other leading roles in the field.

[00:05:14]

I want to thank the leadership team, all three, for their really important work and for a product that meets the very high bar goals that it set with a series of recommendations, especially on the funding side, that are profound, that are far-reaching, that are creative and that are politically sensible.

For anyone who is serious about this country's greatness, its ability to compete, its ability to inspire respect abroad, to attract investment, to return to healthy growth and to provide its citizens with a lifestyle that does not revolve around traffic congestion, the subject that we're here to talk about today has to be at the front of their concerns.

So let me turn now to David Burwell to introduce the report and thank all of you for joining us today. (Applause.)

DAVID BURWELL: Thank you, Jessica. I think we're going to have a little transition here. I just want to welcome you all. Thank you for coming, and it's nice to see so many friends in the audience. Want to say thank you also to the panel and Dave Walker who is at the U.N., where he's at the – outside auditor of the U.N., which is a big job as well.

So, thank you, Dave, for joining us.

What's going to happen, I'm going to give you an overview of this report; it's a big report, as you know. It's 124 pages. I expect we'll have an – a quiz at the end of this conversation. And that will be about 12 minutes. We will then have short remarks by each of the – our three leaders; and after that, I will ask one moderating question to each of them, and then we're going to open up for questions and answers from the audience. We should be done by about 2:15, 2:30.

That – that's OK?

So the first thing I do want to say something about this leadership team. It has been a real honor to work with these three gentlemen. They have been very engaged; they are particularly expert in aspects of this study: Dave Walker, fiscal prudence, and a person who's very concerned about getting our budget in – our national budget in shape; Bill Bradley, former senator, architect of the Tax Reform Act of 1986 – among a bunch of other things, he played a little basketball as well; and Tom Ridge – Governor Tom Ridge, Homeland Security secretary and governor of Pennsylvania, and a person who's very concerned about national security and particularly energy security. It goes to show transportation and finance is not a partisan issue, and these folks not only are smart, but they all like each other actually. (Chuckles.) So it was a great honor to work with them.

[00:08:45]

OK, "Road to Recovery" – this report has five parts, and we'll address each one of them. And starting with the size of the deficit – of the transportation deficit, how big is it? Diagnostics of how we got there, looking forward to a 21st century transportation system, the co-benefits of pricing transportation for specific outcomes, and how to do it, which is the – sure going to be an interesting discussion in this age.

The current transportation program is insolvent. This is a chart that shows how the balances in the highway trust fund to date. It is solvent; but as many of you know, it's solvent because we've transferred $35 billion from general revenues over the last three years. And, as we know, that's also insolvent, so it's really borrowing money. Under the new rules, if we are not going to transfer any more money from the general fund to transportation, you can see the balance of the trust fund goes down very dramatically, very quickly. But that's only one aspect of insolvency.

We also looked at other aspects of ways that transportation expenditures contribute to the national debt. The top line there is actual cash transfers. There's interest on the debt, there's productivity, the effect of underinvestment – for underinvestment for economic return; and also the cost that other agencies have to deal with, some of the externalities of transportation – HHS, you know, health and welfare costs, air pollution, other costs.

So the big one is deferred maintenance. If you don't take care of what you've got, the system deteriorates pretty fast. We have not been taking care of the existing system. Three different – two different commissions, national commissions, have looked at the question of deferred maintenance. A conservative estimate is 60 billion (dollars) to $85 billion a year in additional costs to future generations for not maintaining the existing system. That comes to a total deficit of – our contribution to present and future deficits of $103 (billion) to $175 billion a year.

Diagnostics – a second chapter's about diagnostics. We thank Dave Walker for his guidance on this. We used the types of inquiry that he uses and the GAO uses when he was its director. We focused on SAFETEA-LU: analyzed the 150-plus programs that are in SAFETEA-LU, including set-asides, and then we asked four questions. These are questions – you know, what was the original purpose, context of the program? Is that context and that purpose still relevant or has it – has their goals been achieved? Is the game still worth the candle? And are the funding schemes assigned to fund these different purposes working together, or are they conflicting? That's just some of the questions we asked. We went through all of these programs.

[00:12:15]

The findings of the diagnostics – and I think this is a really important part of this report is the attention it gave to diagnosing the existing system: The current program is achieving suboptimal goals. They – the basic issue here is that the initial program intent of a lot of our transportation programs was created at 50 years ago when we were going to build a national highway system, our infrastructure system. And so, therefore, most of the performance metrics and most of the federal oversight was on process, not on outcomes. It was how – you know, design criteria and requirements for, you know, building it right, designing it right, getting it done under budget. It was not about the performance of the system once built.

And now with –we have a built system, we need to focus on performance; earmarks are not connected to the planning process, and also funding is unsustainable. We've – by focusing on capital improvements rather than lifestyle maintenance costs, we end up building a system that is very – is underfunded in terms of its maintenance and its rehabilitation costs. This impedes private investment. If private investment does not think that the debt service is going to be available to pay back their participation, then the bonds they buy – they're not going to invest.

[00:13:45]

The United States is unique within developed countries in not funding transportation from transportation sources: Sixty-six percent of the federal cost of our surface transportation program is paid through some sort of user fee. In all other OECD countries – we look at OECD countries here – transportation actually contributes to the economy. It actually pays not only the full cost of transportation, but also part of the education costs, part of health and welfare costs.

The result is the system deteriorating. This is a(n) analysis done by the World Economic Forum. The United States, in the last 10 years, has gone from sixth in the world in terms of the quality of its infrastructure to 23rd. This is really – this hurts global competitiveness.

Also, transportation costs – projects have costed – have costs that barely exceed the benefits. This is a chart by two economists from NYU – I'm going to say it – Mamuneas and L. Ishaq Nadiri (sic), who's done several of these studies. But the return on investment is now approaching the cost of capital. This is based on – by the way, on the microeconomic analysis: What are the costs in terms of saving travel times, wear and tear on the vehicles and logistical improvements? But based on that measure of return on investment, the – what's the return to the people who use this system? It's approaching the cost of capital, which means that we – we're just keeping the money in the private sector.

Also, there are externalized costs. Oil dependency is an externalized cost of transportation. Ninety-four percent of transportation fuel is petroleum-based. Seventy percent of oil consumed is in a transportation sector. That does not include well to wheel; it includes just pump to wheel; doesn't include even the oil used in asphalt. The result is we import 50 percent of the oil we consume, and that's at a cost of $323 billion a year.

[00:16:03]

The costs of oil dependence are – have a direct effect on GDP. This is a chart of – developed by David Greene from Oak Ridge National Labs. Three different kinds of costs of it – of this dependence: One, the green is simply the lost GDP from wealth transfers resulting from markets that are not liquid and that – since suppliers – we're dependent on certain suppliers, we're not getting the best possible price. The orange is from oil shocks. When we have oil shocks, people naturally don't buy things because of uncertainty. And the third is loss of – is that – (inaudible) – what do I do with that?

MR. BURWELL: Sorry about – it is simply that as the price of oil goes up, the cost of transportation as a factor of production goes up, and that also contributes to GDP. You can see those losses are rising to about $300 (billion) to $400 billion a year.

[00:17:26]

Looking forward, we want to – the main point here of this slide is that we should focus on outcomes, not – transportation should focus on outcomes, not on process. It's not a goal in itself. Economic competitive events, energy independence, and innovation to grow the economy is – are three outcomes that are worth focusing on.

The summary of our recommendations on how to invest – these are – these are, you'll find, not largely divergent from the many other studies that are going on – the national commissions, the Brookings, the AASHTOs, the very bipartisan policy centers – all the groups that are focused on investment. Basically, it's cut for efficiency: Cut programs that are no longer needed or don't serve a purpose – don't consolidate them; cut them – invest for growth and price for solvency. And that's basically, in a nutshell, the recommendations. Obviously there's much more detail in the report.

Direct benefit from doing this is the climate benefits. Carbon pricing are – will – the pricing of transportation carbon does shift travel behavior and helps reduce carbon emissions from the transportation sector, which are now 34 percent of total U.S. carbon emissions.

This is an interesting chart. This shows that the type of emissions from transportation have a particular effect on climate, called climate forcing. The fact that transportation emissions are low on sulfates, which radiate warmth and also are heavy on black carbon, mean that it actually causes more climate warming per ton of emissions than other sources and on-road emissions are now the largest source of climate change. Over time, they will be overtaken by power generation, but right now transportation is the largest contributor to global warming.

[00:19:51]

New revenue strategies in the short term, we propose to focus on pricing of petroleum, focusing on oil upstream when prices rises and, downstream, gas taxes when prices are declining, when the world price of oil is declining. We do not propose increasing the gas tax when the price of oil is going up; we propose abating it, and this way gas taxes will not be imposed unless the actual price at the pump is going down. In the long term we need to transition to other forms of user-based fees. And we all know about these – VMT-based fees, carbon-fees, tolling – there's a variety of other ways to price the system to generate the revenues needed to build it and to maintain it.

Our particular plan for solvency is to look upstream and downstream on the – on the value chain of oil. And the idea is when the price of oil goes up and margin – the margins of refineries and the upstream producers increase, and it's appropriate that they participate in the – in the financing and the funding of the system. They are – the system produces or consumes 70 percent of their product line, and it's appropriate that they participate in the funding of that system. Downstream, the users at the pump should pay, and it keeps a floor on the price to make sure that efficiencies are still priced into the – into the price.

The way this works, and there is – you have – you should have picked up; I hope you did – frequently asked questions about the funding of this – of this – of this plan – a little complex. But basically, you set a trigger price for the imposition of an oil security tax. At this – in this chart, we picked a hundred dollars per barrel; today it's about $95 per barrel. At that point, impose an ad valorem 5 percent oil security tax, upstream of the refinery. This is exactly like, in character, the oil pollution tax under the Oil Pollution Liability Act. It's an eight cent per barrel tax. And we'd use the same administrative structure to collect this ad valorem fee of 5 percent oil security tax.

[00:22:25]

As the price of oil goes above the trigger price, because it's an ad valorem price, the revenues increase from that tax; therefore, we should abate the gas tax. That is the countercyclical nature of it. Keep the consumer – give him some – the consumer some relief, and still fund a transportation investment program. When it comes back to – the price of oil goes back to the trigger price, that restores the status quo; the federal gas tax remains at 18 cents. However, if it goes below the trigger price, then the gas tax will go up as the ad valorem revenues decline. Not only is that appropriate as a signal for efficient use of the system, but $1 per barrel in the price of oil translates to about 2.5 cents in the price at the pump. And that – so the consumer will still see a lowering or a reduction of the price at the pump, however gas tax revenues will increase quite quickly.

So that's basically the proposal, both cut for efficiency, invest for growth, and price for solvency. There – we need to invest in transportation in this country. There's a smart way to do it, and this is our proposal to achieve those outcomes.

So that's it. That's our story, and we're sticking to it. (Laughter.) What we'd like to do now – I mean, if there's – anybody really wants to say, you know, has a question for clarification that they just have to give, we can do that. But I'd like to go directly to our three speakers, if that's OK, and then we'll have a question and answer period later.

[00:24:18]

OK. I'd like to turn first to Dave Walker because, first, diagnostics are important to this report; and Dave was insistent that before we ask the American public for one dollar more in infrastructure, we have to make sure the program is right-sized and we're using every dollar most efficiently. So Dave, you have five minutes.

DAVID WALKER: Thank you, David. I appreciate it. I'm sorry I can't be with you in person, but I'm chairman of the Audit Committee at the United Nations and I've got meetings for the next three days. Thanks to Carnegie for putting this together; Bill and Tom, always good to see you and be with you, even if it's videoized.

Today we now see that the United States has $14.3 trillion in debt. The debt ceiling discussions are ongoing, and Washington appears to be more dysfunctional every day. That's the big picture. But here, we're going to talk about surface transportation; and quite frankly, our nation's surface transportation system is another example of how government has become dysfunctional and fiscally irresponsible.

You know, in 1956 this country was much more future focused and fiscally responsible. And it went about developing a plan to create a national security and economically based interstate highway system, and we funded it on a pay-as-you-go basis with a gas tax, and creating a trust fund that really had resources in it. Today if you look, you can see that the gas tax is unchanged since 1993. The transportation needs have soared. And yet, our infrastructure continues to deteriorate. The U.S. government spends about $80 billion a year for transportation of which, because of inadequate revenues, the general fund and therefore current and future taxpayers fund $25 billion a year. This gap is growing, while our competitive posture is declining and our infrastructure continues to deteriorate.

We must face up to our critical surface transportation needs, but we need to do it in a fiscally responsible and sustainable manner. As Ronald Reagan once said in so many words, we can either invest in critical infrastructure today, or we can pay a much higher price later. Our current policies and fiscal path are both imprudent and unsustainable. We need to change what we fund and how we fund it. This means that we need to separate between true critical needs and unlimited wants. We need to have a strategic, forward-looking plan and engage in appropriate cost-benefit analyses. And we need to have adequate revenue to meet those true needs.

[00:27:24]

We need transformational reforms, not incremental reforms. And with this is a background, the Carnegie Endowment pulled together Senator Bradley, Governor Ridge and myself to try to come up with non-partisan options that can achieve bi-partisan support. And we've tried to do that by making changes both with regard to planning and execution as well as funding. Among other things, the report recommends a permanent ban on earmarks and moving away from non-return-on-investment based formula allocation systems.

It also recommends an adequate funding source that would adopt a new oil security and a price stabilization fee that David talked about, that would help better grow the economy and reduce our oil dependence. This is an insurance policy against future oil shocks, as well as making sure that we have adequate resources to invest in critical infrastructure without – and underline – without adding to our national debt.

One final comment: I got involved on this not just because this is an important endeavor in and of itself, surface transportation; not just because it was a great opportunity to work with Senator Bradley and Governor Ridge and the Carnegie – excellent team that was put together, but because this is illustrative of the type of fundamental review and reexamination that must be undertaken with every major government program and policy. The truth is this government has grown too big, promised too much, and waited too long to restructure. The time is now to help create a better future.

Thank you very much. (Applause.)

[00:29:15]

MR. BURWELL: Thank you, Dave. And Mr. Walker will stay with us for the question and answer session a little bit later. I'll next turn to Senator Bradley, who's been very insistent on the investment side that we do investments that serve national goals, national needs and maximize our return on investment. Senator Bradley.

BILL BRADLEY: Thanks, David. I'd like to begin by thanking the Carnegie Endowment for sponsoring this study on a very crucial issue. In particular, I'd like to pay tribute to David and Shin-pei Tsay, who worked around the clock in some cases to make this all come out the right way; and Jessica Matthews of course, who has led this effort and had a long-standing interest in the environment and energy and transportation. It was a real pleasure to participate with Governor Ridge and with David Walker. We had some very interesting discussions/negotiations, but we did reach a conclusion on a very large, contentious issue important to America's future.

Some of you might say, well, why is the Carnegie Endowment for Peace doing this? Aren't they only interested in foreign policy and international affairs? And I would say, yes, they're interested – the Carnegie Endowment for Peace is interested in America's global place in the world, no question about that. And the state of our infrastructure actually affects our place in the world, particularly as it relates to the economy. People think about transportation as building bridges to nowhere, but I think what we determined and assert today is that there's a fiscally responsible and greener solution and better solution available to transportation policy.

Each of us talks about a different aspect of this, before we get to your questions. David just finished talking about the fiscal aspect and reform of the fiscal process. And Governor Ridge, Tom, is going to talk about energy security. And I want to talk about the economy and economic growth and competitiveness and how central transportation is to the development of the highest possible economic growth.

[00:31:42]

Whether it's productivity or growth, transportation is essential. And we begin by saying public investment in transportation is a public good. And the reason it's a public good, because an economy cannot function unless raw materials can move from where they're harvested or mined to the place that uses them. An economy cannot run unless the goods that are produced are able to get to the people who want to buy them. And an economy cannot run in a world economy unless the goods that are produced get to the export markets that want them. And I would argue that an economy can't run unless people can get to work, unless people can move from one place to another in an efficient, time-sensitive manner.

Today the government spends $70 billion on all modes of transportation – $52 billion on surface transportation. And the fact is that we're not getting enough bang for our buck. And what is wrong – everyone in the room can tell your story – I – when I lived in New Jersey, my house was 13 miles from New York. I commuted every day. If I left at 6:15 in the morning, it took me 50 minutes to get there. If I left at 7:00 it took me an hour and a half to two hours to get there. Not a great use of time. Multiply that towards millions of people who maybe like their radio in the morning in the car, but who nonetheless are not giving the kind of work needed to move the American economy forward because they're stuck in their car on the beltway or wherever.

[00:33:39]

I think of taking that train, as I'm going to do later, from D.C. to Boston. It's an embarrassment how long it takes, how rough it is. It's an embarrassment to a country as great as ours. Now, just compare that to the trip from Tokyo to Osaka, or from Paris to Nice, or from Beijing to Shanghai. We're in a competitive world economy and we have – it's a – we're in a competitive world economy for the 21st century. And we have an early 20th century transportation system in this country. We simply won't be as effective and grow as much if we don't have effective transportation systems in this country.

Now, what do I mean by that? Well, I think that developing a list of projects of national significance are important. Instead of funding, you know, the mayor's project on the corner because that'll help in your reelection, there ought to be a register of nationally significant transportation projects. And let me give you a specific example of why that would be useful. When the financial crisis occurred in 2008 and we needed a large stimulus, we weren't alone. Every country in the world needed a large stimulus. Our stimulus was, well, we need to spend money on infrastructure, it would have to be shovel-ready, which means – who – what do we do? We call the local mayor or the governor who's got a few projects that he wants. And that's what we funded.

The Chinese didn't do that. The Chinese had a list of nationally significant infrastructure projects for the next five years. And they simply moved year three and two up to year one, so that every dollar that was spent in that stimulus package went to improving the economic competitiveness of that country. That is what we need in this country. And we need that for our road systems, we need that for our rail system, and quite frankly, although it's outside the scope of this study, we need it for our air system and for our waterways.

[00:36:15]

So I look forward to your questions. And I hope that you can clearly see why this is important to our long-term economic competitiveness. (Applause.)

MR. BURWELL: Thank you, Senator. And finally, but not least, of course, Governor Ridge, Tom Ridge, former governor of Pennsylvania and promoter of some very attractive rail trails in Pennsylvania that we funded, investments – but they are very good for tourism – and homeland security secretary. He's also – serves as, if I understand it, the chair of the energy task force for the Chamber of Commerce.

TOM RIDGE: Thank you, David. Let me echo the comments of my colleagues, David Walker and Senator Bradley, and public recognition of you, David and Shin-pei; you've done absolutely marvelous job. I – couple of thoughts my colleagues shared with you – one, David Walker talked about, this model – this analytical model and, I'd like to think, the solutions that we proffer are not a bad paradigm for governors and/or our national leaders to look at individual segments of their budgets in order to bring them into the 21st century compliance with the need to balance their budgets, but also be much more strategic in their thinking as how they expend public dollars.

[00:37:47]

And to the extent that my colleague Bill Bradley talked about our negotiation and discussion, I recall the first conversation I had with Bill. I said – you talk to me about – what, we had David Walker, and you, and me – and I said, well, that's nice – he said – I said to him, you know, from time to time you pull together a coalition, sometimes the favorite color of a coalition is plaid. And Senator Bradley said no plaid. We will reach consensus some way or another. And we've done that through some great discussions, and we're very – I'm very proud to be associated with the Endowment and these individuals on this report.

How many of you, if you had a – in your mind the number – the press conferences you attended, articles you have read, TV programs you have viewed that talked about America's dependence on foreign oil and what we're going to do about it change things? I would suggest that the list is probably rather lengthy. And I suspect many of you have, if you went through that same rolodex of experiences, how many times have you been participating in a forum like this, or read an article or watched a TV program talking about the need to build transportation infrastructure – 21st century transportation infrastructure?

To meet our strategic long-term needs and a competitive marketplace that's global – they are interconnected. America's security and its economy depend on how well we relate to the rest of the world, and we're going to do stuff in the 21st century different than we've ever done it before. And at the end of the day, I think all of us realize that our national security and our economy and our prosperity are interlinked. You really can't be secure to provide for the common defense and to resist all threats foreign and domestic unless you have a strong economy. And you can't have a strong economy unless your national security operation is in place and robust and contemporary.

[00:39:43]

So at the end of the day, the three of us felt and the endowment felt that the national security interests of America are very much linked to our economic competitiveness; and as Senator Bradley has highlighted, probably nothing more important today in the 21st century to be competitive as our transportation infrastructure and to this extent we have focused in on surface transportation.

We all know that it's not self-sustaining. The figures are evident as well as they are embarrassing. I think most people, when they pull up to the pump, figure, well, I just paid X percent for gas; gas tax probably goes up every year, and I'm paying for the roads when in fact, we're only paying for about two-thirds of the rebar, the concrete and the asphalt we put down. We're borrowing the rest, and that's not a sustainable model if you're going to bring a 21st century approach where you accept you have a national security interest in balancing the budget and you have a national security interest in building a stronger transportation network.

You know, there's a lot of things that we could say about national security as it relates to the transportation system. Foremost, I guess, is our competitiveness. You can't possibly be competitive, and therefore you can't be secure nationally, if you are – if your infrastructure is deteriorating. Ours is deteriorating.

And Senator Bradley, sometimes it takes me almost an hour to go 7 miles into D.C. I just drove in from my home in – up in northwestern Pennsylvania. There were seven construction sites along the way. The constant maintenance, refurbishing – guess what, delays because of that construction and the delays and the cost associated with failing to maintain and repair on an ongoing basis? Huge cost to the American consumer and a huge cost to – frankly, to our economy.

What are we going to do about it? Well, we have the capacity to do something about it if we're willing to make this a priority in the United States, we're willing to relieve – to remind ourselves that the oil cartel that often impacts what we pay at the pump has an impact on our competitiveness and therefore on our national security. Can you imagine when a bunch of countries get together – remember, we get 50 percent of our oil from overseas. Fifty percent of the oil we consume comes from overseas, much of which from unstable regimes.

[00:42:18]

The question becomes, how much longer do we want to rely on those regimes? There's a lot of things we could do. Obviously, there's a lot of controversy and a continued debate – should we drill or not drill in the United States – that's for another conversation – but more fuel-efficient cars, clearly; alternative fuels, clearly.

But also, how about a sound 21st century transportation policy that recognizes that it is in our national security interest to make sure that we don't have these horrible price fluctuations at the gas pump? Remember, when those prices goes (sic) up, that's disposable income out of the pocket of consumers, less to buy, less to generate more economic activity within our economy, the economy gets weaker. There is an impact. We're seeing part of that impact now in the course of the debate here on the deficit reduction going on in this – in this city right now.

So at the end of the day, in order to make energy security a reality, I think we absolutely must make it a priority. And frankly, we would urge – I join my colleagues, David Walker and Senator Bradley, in urging public officials and industry leaders to accept the rather bold and innovative ideas provided in this report: Bring stability to prices, build infrastructure based on national need, enhancing, at the same time, our national security because we've made ourselves more competitive, our consumers don't have the whipsaw of fluctuating prices due to oil shock, and we finally figured out a way to deal with a fiscally sound, greener and far better infrastructure system. Thank you. (Applause.)

[00:44:02]

MR. BURWELL: Thank you, Governor Ridge. I'll now take the moderator's prerogative to ask an initial question to each of our speakers and then open it to the audience. Starting with David Walker, Mr. Walker, the transportation program is the biggest public-works program in the United States, but it is still only one part of a relatively small discretionary budget in the United States. Why should we focus on transportation spending in the context of the overall deficit-reduction debate?

MR. WALKER: Well, as I mentioned before, David, I think that we clearly have a number of challenges dealing with surface transportation. We have a deteriorating infrastructure. We don't have a 21st-century transportation system. We are borrowing from current and future generations and funding it through general revenues, which was never anticipated. And so as a result, in addition to the issue of trying to deal with the legitimate challenges facing surface transportation, the environment, energy, national security, et cetera, this is an example of the type of review and re-engineering that needs to take place throughout many areas of government at all levels.

You know, the truth is, is the U.S. government is largely based upon conditions that existed in the United States and in the world in the 1950s. And Senator Bradley made an excellent point to say that rather than having a more strategic, forward-looking and prioritized list of nationally significant projects, which is what most other industrialized nations and developing and emerging nations have, we are working on the fly, which is totally inadequate.

So it's important in and of itself, and it's important to demonstrate what needs to be done and other areas of discretionary spending, mandatory spending. And, quite frankly, don't forget, we lose 1.1 (trillion dollars) to 1.2 trillion dollars a year in revenues through tax deductions, exemptions and exclusions. And they're backdoor spending and they need to be on the table too and subject to the same type of analysis.

MR. BURWELL: Thank you. Senator Bradley, you were – served for a long time in the U.S. Senate and well know the popularity of the earmark program. Do you really think that a ban on earmarks is possible in terms of a long-term investment strategy? And what are some of the other ideas you might have about how to do investment better?

[00:46:49]

MR. BRADLEY: Well, I think that we cannot afford not to eliminate the earmarks. I understand the argument that's made. I understand the reform that has taken place already. But to my mind, we've reached a critical point in our democracy. There is a time in our democracy, or in a life of a democracy, where the narrow interests so dominate the process that it cannot function for the general interest. In other words, the interests of all the people cannot be served as long as the first priority is dealing with the issues of some of the people.

And I think that that's where we are today. I think that's what the earmark represents. And therefore, I think as a first step to getting ahold of this deep problem in our democracy, eliminating earmarks are important. But let me just give you one more example.

When I was in the Senate, I was visited by a company that was not an American company that had a form of pavement that would last 40 years. But because it would not require roads to be repaired every five years, it was prohibited from being used in this country. Now, in my time in the Senate, I didn't see a better example – and I was on the tax committee, so I saw a lot of examples – (laughter) – I didn't see a better example of the narrow interest being served to the detriment of the general interest.

It – Governor Ridge talked about driving down from the Poconos today, in northwest Pennsylvania. He had four construction projects. My guess is, if this other kind of pavement was there, he probably wouldn't have any. And he'd have been here quicker. And I think that this is – we've gone past the time where we can afford the continued dominance of the legislative process by the narrow interests. And earmarks are one small example of that.

[00:49:17]

MR. BURWELL: Thank you. And the easiest question for Governor Ridge is, this report proposes a countercyclical oil fee and gas tax. Is such a proposal actually possible in an anti-tax environment? (Laughter.) And secondly, what would the energy industry think of this idea?

MR. RIDGE: Well, certainly, the endowment and my distinguished colleagues think, if we are to be serious about addressing the issues relating to the deficit and competitiveness and energy security and all the associated environmental benefits, then one would think this would be warmly and immediately embraced by both sides of the aisle. However, I think we know that at the present time, it may not be. But I would like to think that maybe 218 in one body and 51 in the other would be enough.

Now, look, the bottom line is, is that the present road is not only falling apart but is unsustainable. You can't possibly maintain – for example, in Pennsylvania, we had about 100,000 miles of roads and probably as many bridges in – as in New England. And just the maintenance itself of those roads – obviously, we had some state taxes, and there were some federal dollars involved, but it's an enormous sum of money. When they're not maintained properly, there's an economic cost associated with those truckers who are driving across and those automobile users. There's a huge cost for poorly maintained roads, borne by the consumer, borne by industry.

We also know that there are places – and we've identified some in the report, where there are programs of national significance that will unlock potential of regions, putting more people to work, enhancing the economy, improving GDP. Well, you can't build more capacity, and you can't enhance the existing capacity and improve it with less money. That is truly the new math, and it won't work. (Laughter.) So at the end of the day, responsible leadership says – I would like to think they would at least give serious consideration to the fairly balanced approach that we have suggested in the report – provides stability of pricing – price goes up, consumer pays less; price goes down, consumer pays a little bit more in taxes, but there's a stable platform, and you have an identifiable, sustainable, predictable source of income that you begin doing all of these things.

[00:52:06]

So I guess at the end of the day, the answer is, it's a tough call. But a lot of people want to go to heaven; nobody wants to die to get there. You've all heard that expression, but at the end of the day, if you're looking at an energy issue – the national security of our energy dependence, you're looking at the need in the 21st century to build more and to maintain better, you need additional dollars to do that. And unless you're willing to accept the notion you're going to need additional revenue – not borrowing to build, pay as you go. And I think that's a case that can be made by the right people and would – who are willing not to demagogue the issue, but are willing to stand up in front of the American public and – most of whom are driving and have one, two or three cars in the driveway – who would truly appreciate a 21st century approach toward enhancing and improving their national infrastructure. It'll take some leadership, it'll – more leadership and less demagoguery might get it done.

MR. WALKER: David, could I mention one thing real quickly?

MR. BURWELL: Sure, yeah.

MR. WALKER: Yeah, I live in Connecticut, and I regularly move back and forth between Washington and Connecticut, and I occasionally use another form of surface transportation, which is called Amtrak. And Amtrak has something called the Acela, which is our fastest train in this country. And let me just tell you, I have on more than one occasion been between New York City and Stamford, Connecticut, and literally, I could run faster than the train was going. (Laughter.) I'm fairly fast, but I'm not that fast, and so that's just another example of how antiquated we are.

[00:53:50]

Now, we can't afford high speed rail everywhere in this country. It doesn't make economic sense. But there are parts of this country where it is absolutely outrageous that we don't already have it right now, which – because I know we've talked about roads. I think we also have to talk about rail as well.

MR. BURWELL: Thank you, David. I think you can see why it was such a pleasure working with these folks who don't have strong opinions – (laughter) – and I'd like to – while we have – I see lots of hands. I just want to recognize Sin-pei Tsay, who was the director of this project and kept this team together, the leadership and a bunch of consultants. (Applause.)

MR. : Appreciate it.

MR. BURWELL: He's also available to answer all the tough questions.

So in the back there – man with the –

Q: Thank you, Irv Chapman. I work for Bloomberg Radio. Would you comment, please, on some of the proposals that are out there at the moment, such as the infrastructure bank, which would presumably build on a $200 million federal initial investment; the prospect of selling turnpikes and bringing in private investment in the manner that the governor of Indiana has done; and the suggestion by the chairman of the House Transportation Committee that spending be limited to the gas tax and no more federal dollars. Could Senator Bradley and Governor Ridge, from your political experience, comment on those proposals?

[00:55:20]

MR. BRADLEY: Well, I'm sure we each have our own opinion about specifics of the things you've mentioned, but what we're here today to do is to talk about this report and what it means to the country. So I want to kind of avoid specific individual questions because none of us have a vote, and the only people that are important here are people who have a vote.

I would like to just take your question, though, to take it a little bit back to the issue of the day, if you ask the American people, which is jobs. And when you think of infrastructure, you think of jobs created, people working on the side of the road, laying asphalt and building a road or a bridge. But what you have to do for the 21st century of – think about what that infrastructure unlocks in the creation of many times more jobs than those who actually worked in the infrastructure building the road. One of the issues of national significance that we mentioned in the report is in Seattle, Washington, South Park Bridge that moves into the port area. Just the rebuilding of that bridge would open up hundreds of millions of dollars of economic activity in the Seattle port. That's the kind of thinking that we have to have. We have to think of long term.

And we should know that if – that there is another country that is thinking long-term, and of course that country is China. I mean, right now it is building high speed rail lines from Beijing south to Singapore, from Beijing across central Asia to the Black Sea, and the northern route across to Berlin and to Paris. Now, why are they building those – that high speed rail in those three areas? It'll be so much easier to get raw materials. It'll be so much easier to move products to new markets. It is – it is a farsighted decision, and we cannot afford not to take those kind of decisions today.

[57:42]

MR. BURWELL: Thank you. (Inaudible.)

Q: Tanya Snider with StreetsBlog –

MR. BURWELL: Yes, please wait for the microphone.

Q: Sorry. Tanya Snider with StreetsBlog. If I understand your proposal, the gas tax would go down if the price of oil goes up. If predictions are correct, the price of oil is going to continue to go up as scarcity – along with scarcity. How does that help stabilize revenues for infrastructure?

MR. BURWELL: Do you want me to take that?

MR. : (Off mic.)

MR. BURWELL: As the price of oil goes up, the oil security fee revenues go up as well. Now, it is true that the way we've structured it, with – in this example, the price – the gas tax would be abated one cent for every three cents that the – for every $3 increase in the price of oil. That will result in a net loss of about $700 million because the oil security fee generates less.

[58:52]

However, you've started with a 5 percent ad valorem fee initially, which generates, at the trigger price, about $28 ½ billion. So you start with the 28 ½ billion (dollar) addition in revenues. Once the gas tax is abated entirely, at whatever level, the oil security – if it keeps on going up, the oil security fee will generate additional revenue, and the net revenue will keep on going. But at no case will the revenue be less, and it'll always be significantly more than the present initial return from the – just the gas tax. On the downside, you can generate a tremendous amount of revenue and still have the price of gasoline going down, so that's a different question. But it happens on both sides.

All right, you in the third row – third row?

Q: Thank you. Peter Whitney. I teach at the Intermodal Transportation Institute out in Denver. I've been doing that for 10 years, and I've learned a lot from my students, and I thank you for your report, and I'm sure there are – and I hear a lot of good ideas, but I wanted to ask you how much you considered the private sector in putting together the diagnostics in the rest of the report? This is what – some of the things that I've learned from my students. These are young men in women in their late 30s, early 40s, mid-level executives and FedEx and other planes, barges, trucks, transportation in these incredible logistics companies.

And for the last 30 years, I – we have the statistics – trade has grown two or three times the rate of the GDP. And yet, we've been able to handle that trade, and despite the low government funding. And these are some of the things that I've learned from them, and improvements in supply-chain management.

The large forwarders have made incredible improvements; the logistics providers, in working with governments to remove impediments to trade; investment in private infrastructure has really been significant. Many billions of dollars the railroads have put into double-tracking, inland container load centers and other equipment. And all the ports and the private terminal operators have really increased their investment and worked with the government.

[01:01:19]

I mean, I use the Savannah port for a business I have. I'm going to be there shortly. They have made incredible improvements. And it's now stimulating Charleston to compete. So my question – my basic question is, how much did you consider – I mean, how much is the private sector in your statistics or not? Because a lot has been done, and we wouldn't have been able to handle this trade without it.

And although Senator Bradley did mention this might be technically off the topic, you do talk about oil dependency a lot. I mean, the head of the Carnegie Institute and you all have mentioned it several times. Well, what are we doing about the trans-Canada 2008 application to send oil down from Alberta to Port Arthur, Texas?

We have refineries that could use it. That would be a lot of jobs, both in construction and in add-on jobs. It's nearly three years. There have been two State Department reports and all this stuff.

MR. BURWELL: OK, finish the question. (Chuckles.)

Q: That's the question. Private sector, how much have you considered?

MR. BURWELL: OK, would somebody – I mean, I have some – (inaudible) – would somebody like to respond to that?

[01:02:30]

MR. RIDGE: Well, first of all, I think, the focus of the report, I think, almost implicitly realizes what the private sector has done. I mean, obviously, we accept that as a given. It's – we're really focused on what the federal government – what government should be doing, perhaps in support of the billions of dollars of investment. I think we're all familiar with what the private sector has done.

But I think government has a role to play. And that's why the focus has been on a national strategy for programs of national significance that would supplement, and frankly take – your productivity is up because of those investments, and I believe – I'm not going to speak for David or Senator Bradley – but we think the productivity would be up even higher if the infrastructure improvements and enhancements that we believe – for which the government is responsible for directing – would be made.

There are – I think we found 50 or 60 federal highway programs. We found almost, like, 80 percent of the decisions are made not with an eye toward national impact, that broader multiplier effect – you build it and they will come – they're just done, in a lot of instances, by the state and local decision-making. We think we could take even greater advantage of the improvements bought and paid for by the private sector if we had a more robust and comprehensive and national strategy around transportation infrastructure.

[01:04:00]

MR. BURWELL: OK, right here in front.

Q: Thank you. I'm Mike Quigley from White and Case. Two very brief questions: You've eloquently framed the question, and a lot of it seems to revolve around the – America's infatuation with the automobile, particularly large, powerful automobiles. I noticed a nice-looking automobile right in front of the Carnegie Endowment here with Pennsylvania plates. I, myself, have a large car.

MR. RIDGE: Yeah, it's mine and I'm not apologizing for it. (Laughter.)

Q: No, and I don't apologize for mine. So my question is, as your report addressed, some means to convince America that driving something other than a large, powerful automobile is in the nation's interest. Second question is, Senator Bradley particularly has focused on China. And indeed, all four of the BRICs countries – Moscow and Delhi and Brazil – all have as a top-tier policy item improving their transportation infrastructure.

Regrettably, we do not. I hope your report changes that dialogue here, but I see how a distinguished Democrat and a distinguished Republican and an independent have come together to produce a worthy – a worthy piece of advice. How do we get whatever tea you all were consuming up to Capitol Hill so that the political barrier to us having transportation infrastructure as a top-tier item is surmounted? Thank you.

[01:05:35]

MR. BRADLEY: I just think the more examples of people of opposite parties getting together and solving a problem demonstrates to elected officials that the problem can be solved and gives them a roadmag (ph) – roadmap when – and I think it is an issue – when they choose to do it. And that's what we're really doing here. We're not voting or passing a law; we're demonstrating that there is a consensus position on this issue that's fiscally responsible and that has the long-term economic interest of the country at heart and also recognizes that energy security is a key aspect of our need.

So I think just by example, I even think that's the best way to lead, often, just by the power of example. And this is just one report. Two years ago, I sat in a room with Jack Danforth and Bob Packwood, two Republicans, Gary Hart and me, a Democrat. The challenge was, balance the budget by 2020. We did.

Now, this is not rocket science. People of good intention can sit in a room of different parties and get a solution to practically any problem we face in the country. And we're not there now, so all we can do is to show in this area that it can be done and there can be a policy. And it's up to you to take it from there.

MR. RIDGE: Can I jump in?

(Cross talk.)

MR. RIDGE: Let me just add a little – I think the senator is spot-on. You know, we certainly have the capacity to do these things. What you're looking for is, how do we get a political will to do them? And I think one of the great disappointments that a lot of us have, even in this present debate with regard to the deficit – and this is very much a part of that debate; a critical part, but not (it ?) all – is that there have been legitimate bipartisan attempts over the past two or three years to lay a foundation more broadly for this country to follow.

The president had a commission, Congress – there was an independent – there have been several commissions out there where people work long and hard, people with enormous political credibility, both sides of the aisle. And to date, at least, as part of the public discussion, all their work and all their work product has been basically ignored.

[01:08:03]

At some point in time, maybe the accountability comes at the ballot box. But you go back to that – I mean, I was privileged to serve in the early '80s, when Ronald Reagan asked Tip O'Neill to help sell Social Security. I know everybody refers back to that. But you know, on these tough, controversial issues, you really end up getting the kind of resolution that I think the country needs and looks for if it is bipartisan. I mean, I think that's what we are trying to project with the threesome here.

It can be done. The capacity is there. With the energy companies, they've got a little heartburn because of this ad valorem tax. But you know, they're consumers, too. They use our roads as well. And the retail customer, who has, one, experienced the impact of these oil shocks over the past 20 or 30 years – it just hasn't been done. The past eight presidents have talked about energy security and energy independence. Nobody's done a bloody thing.

And at some point in time, somebody just has to say, well, maybe we can find a bipartisan consensus and start chipping away at the deficit. And one great place to begin that process – and I think David Walker said it beautifully: This is not a bad model. This is not a bad paradigm. And we're just hoping, for our point of view, that somebody just focuses on transportation and looks seriously at some of these recommendations.

MR. WALKER: David, if I can, let me jump in for a minute. First, I want to reinforce something Senator Bradley said. This is leading by example. You have to start someplace. We're looking for nonpartisan solutions that can achieve broad-based, bipartisan support. And let me remind you that one of the reasons that we have a Democrat, a Republican and an independent is because in more and more states, including my state of Connecticut, a plurality of voters are political independents. And so it's not just Democrats and Republicans; it's Democrats, Republicans and independents.

[01:10:00]

And then one other thing I will say, one of the most frustrating things to me, when I was comptroller general of the United States or auditor general and the head of GAO, was the fact that the United States has been in existence since 1789 as a republic, and yet we've never had and still do not have a forward-looking threat, risk, opportunity and resource-constrained strategic framework that is outcome-based to help us be able to make decisions on, how are we going to end up allocating limited resources to maximize impact? And this is just one good-faith effort to try to start that in one area that hopefully can end up growing to many others.

MR. BURWELL: We have time for maybe two more questions. I know Governor Ridge might have to leave, but is there a woman in the audience with a question? I mean, I know that's a – this is a male-dominated sector, but we'd like to, you know, be equal here. Yeah. OK, we're going to go – you, sir, then.

Q: Allan Wendt (ph). Increasing the gasoline tax is such an obvious and necessary thing to do. How do we make that happen politically? Is it possible, let's say, 5 cents a year, introduce the tax very gradually over time so that after a certain number of years, it would begin to have a real impact in terms of providing funds for improvement of the transportation sector? Is anybody giving thought to this politically, in the Congress?

MR. BURWELL: Well, I'll answer that just for this report. Obviously, we gave a lot of thought to it and felt that taxing gas on the way down is the way to get consumer support for it, not when it's going up, because adding a gas tax when the price of oil is going through the roof is not the most politically acceptable way to do it. So we've tailored this precisely to add a gas tax at a time when consumers can absorb that cost. If anybody else would like –

[01:12:11]

MR. WALKER: David, can I jump in for a sec?

MR. BURWELL: Sure.

MR. WALKER: First, I think we have to recognize the political reality that the idea that you're going to end up getting bipartisan agreement for increasing revenues before the 2012 election is highly unlikely. However, I believe that there is bipartisan recognition that after the 2012 election, that we need to start making tough choices on a range of areas.

And that includes taking a more strategic, forward-looking and outcome-based approach to this and other areas; and that, as Senator Bradley knows well, that we're going to need another round of comprehensive tax reform that will make it simpler, fairer, more competitive, more equitable and generate more revenues than historically has been the case. This is one piece of a much bigger puzzle, but I believe it's imperative that that be done. And I believe it can be done, but not before the 2012 elections.

MR. BURWELL: Last question. OK, in the middle of the room there. The middle of the room needs to be represented.

Q: Hi, good afternoon. Marshall Nannes from the CSIS Energy Program. A central part of this report has been the issue of a gas tax, a user fee for people driving on the roads. Have you looked at all at user fees for people in other service modes of transportation, rail and transit? Should these people be paying more in fares and user fees to get a better, more robust system, or should they be paying less to make these alternatives more attractive? Are they paying about the right amount? What's your view on these types of user fees for going beyond just road and car transportation?

[01:13:50]

MR. BURWELL: The – just a quick answer to that – (inaudible) – people might want to expand on it. But the – this report said – looked at a lot of different revenue proposals but said in the short term, taxing and pricing petroleum at all levels of the value chain is the best way to generate solvency in the transportation sector.

And in the long term, these other types of, you know, user fees, transit rail, parking management, variety of other issues have a great role to play, but in the short term and at the federal level, to generate revenues for a federal program, pricing fuels is the focus right now. A lot of those fees would stay the state and local level, which are needed.

MR. BRADLEY: Let me just follow on one quick point. A little bit on the gasoline-tax question, but it also has a wider implication. Whenever you deal with public policy, you say, gasoline tax: Should it go up or should it go down? And you're saying gasoline tax. But there are other areas of public policy that interact with that, that change the circumstance dramatically.

[01:15:12]

Let's say, for example, that you were able to double the mileage or more of the fleets. If you had a gasoline tax that was 10 cents a year for 10 years, which is a dollar, and you doubled the fleets, average, so that we're a little ahead of where Europe is today in 10 years, the average person would be paying no more for his fuel or her fuel because of the added miles per gallon that they got.

And you never hear that story. It's always one – this stove pipe, and that stove pipe. But public policy is a dynamic process, and it's organic, and relates, and you don't – if you can't make the connections they you're forever stuck with the binary views – you know, this or that – on a narrow issue, when it's really just one stroke in a big painting.

MR. RIDGE: If I might add to that, I think the report also looks and talks briefly about more fuel efficient cars, alternative fuel – I mean, if you had the infrastructure for natural gas, an equivalent energy might be a buck-50 or a dollar-75 a gallon. But we – I mean, we really see it since '94 almost 95 percent of the fuel used in transportation generally is oil. That's the reason we're focusing on this.

But hopefully if there's vision and this policy evolves – 10 years, however long it takes – you'll have a mixture of some of the other added enhancements to the transportation infrastructure that will lead to a cheaper, more efficient and, frankly, environmentally friendly outcome.

MR. BURWELL: Thank you. And just in closing, several of the questions addressed the question of how to invest more efficiently and I do want to point out that this report does strongly support the creation of an independent infrastructure bank to not only invest more wisely and achieve the growth that we need in order to finance the system. So the infrastructure bank is a – is a central recommendation of this report.

So with that, thank you very much for coming. And I know Governor Ridge might have to leave, but – maybe everybody does. But thank you for coming, and be glad to work with you in the future. (Applause.)

(END)

[01:18:28]