

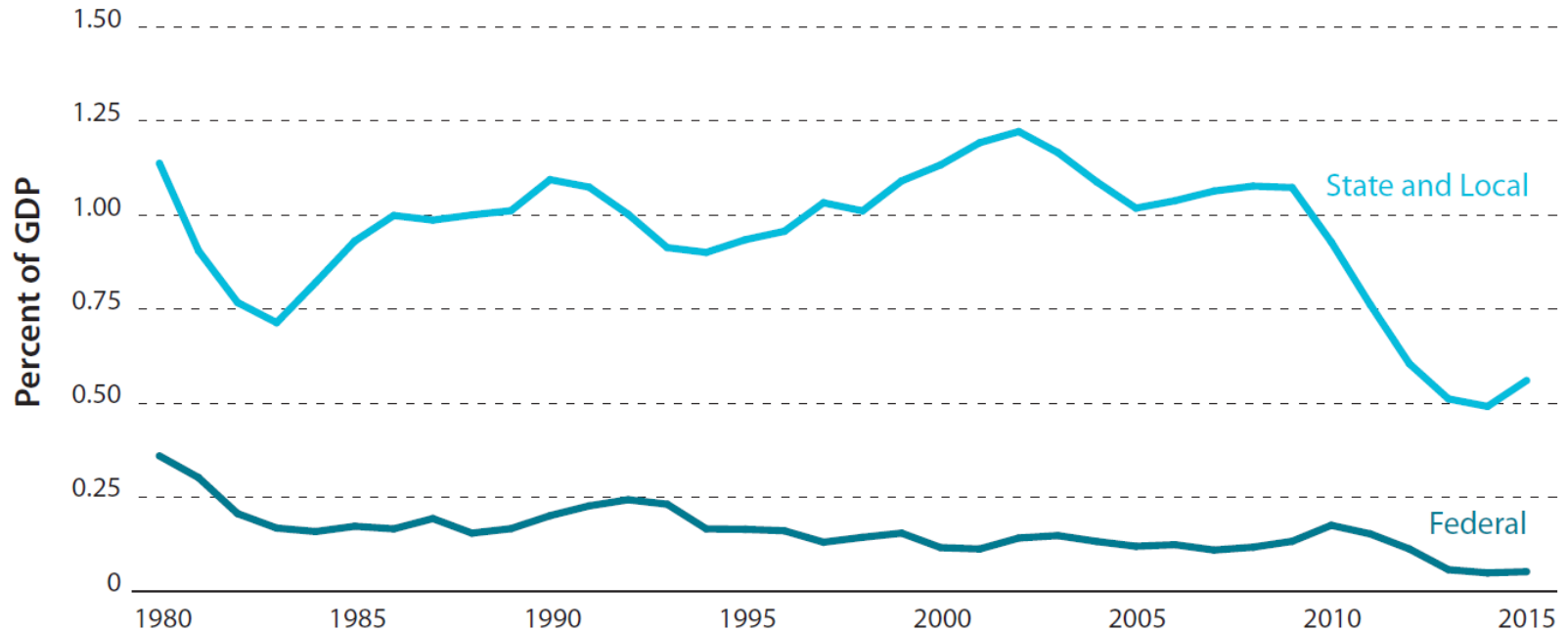


If You Build It: A Guide to the Economics of Infrastructure Investment

BROOKINGS

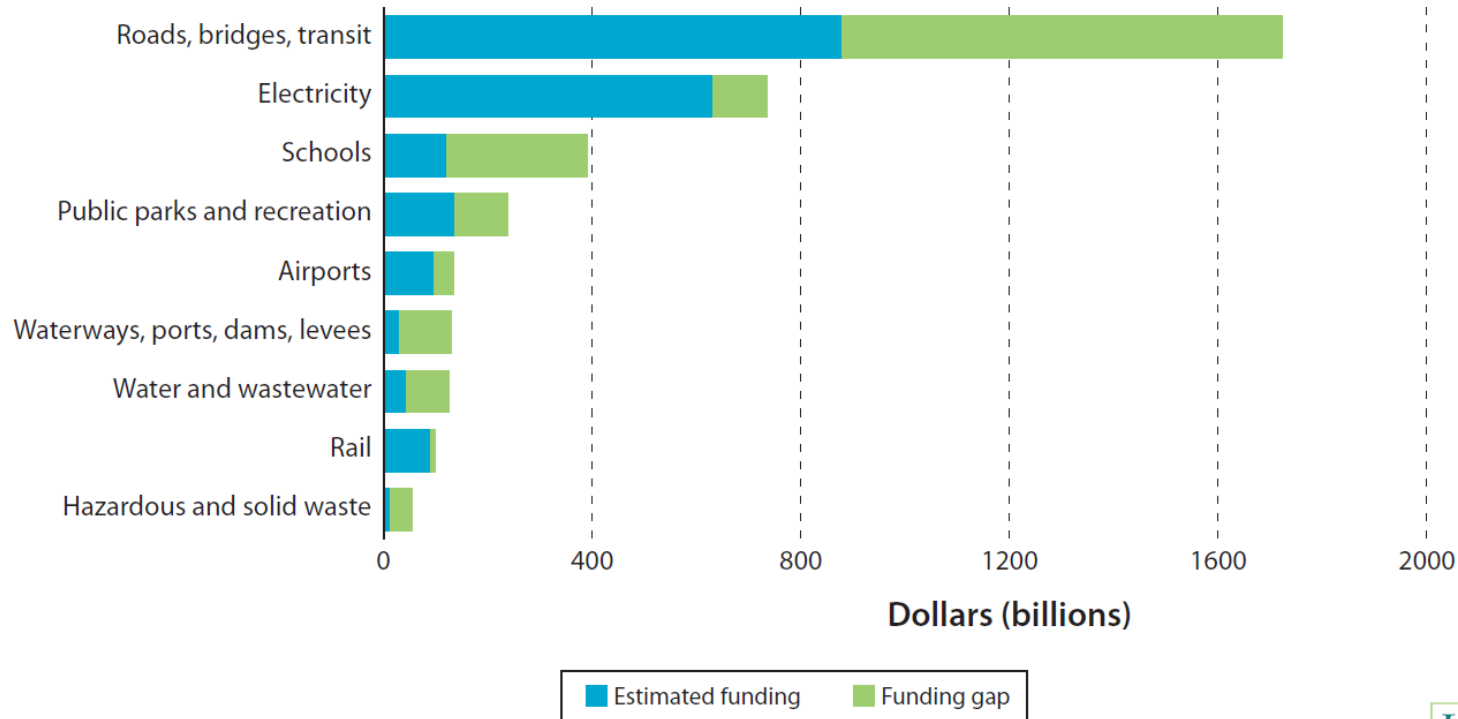
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Figure 1. Public Non-Defense Net Investment



Source: Bureau of Economic Analysis 2016.

Figure 2. Infrastructure Needs, Funded and Unfunded



Source: American Society of Civil Engineers 2013 via Center on Budget and Policy Priorities 2016.

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What Projects Should Be Selected?

- For a given project:
 - Is there a role for government?
 - Do the benefits exceed the costs?
- Fix it first
 - Infrastructure deficits are large
 - Early and regular maintenance is cost-effective
- Count non-pecuniary benefits
 - Health and other benefits can be difficult to quantify

Who Should Decide?

- Different projects make sense for different levels of government
 - Local and state governments are often well-positioned to understand local needs
 - But many infrastructure projects have benefits that cross jurisdictional boundaries
 - Very large projects can be better fit for federal government
- Important to insulate infrastructure decisions from political pressure
 - At the federal level, a national infrastructure bank is one possibility
 - Transparency and competitive bidding are valuable

How Should Infrastructure Be Paid For?

- User fees or taxes
 - User fees help with selection of worthwhile projects, can manage congestion, and avoid necessity of distortionary taxation
 - But sometimes user fees are infeasible or undesirable
- Debt finance is the conventional approach
 - Aligns future benefits of investment with debt-service payments
- Public-private partnerships offer additional options

Public Private Partnerships

- Contracting with private firms to implement public projects is common and does not necessarily constitute a public-private partnership (PPP)
- PPPs involve a firm taking on some or all of: design, construction, finance, operation, and maintenance responsibilities
- PPPs can make sense when it is important to give the contractor “skin in the game”
- But PPPs are not a free lunch

Determining Returns to Infrastructure Spending

- The magnitude of returns to successful projects
- The share of infrastructure spending that goes to less productive projects
- The rate of depreciation
- The share of spending that simply replaces state and local investments
- The federal government's interest rate
- The stimulus effects on the economy

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