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

#InfrastructureInvestment
What Projects Should Be Selected?

• For a given project:
  o Is there a role for government?
  o Do the benefits exceed the costs?

• Fix it first
  o Infrastructure deficits are large
  o Early and regular maintenance is cost-effective

• Count non-pecuniary benefits
  o Health and other benefits can be difficult to quantify

#InfrastructureInvestment
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

#InfrastructureInvestment
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
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