

The next president should make infrastructure spending a priority

di Lawrence Summers

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There is now a consensus that the United States should substantially raise its level of infrastructure investment. Economists and politicians of all persuasions are increasingly concluding that higher infrastructure investment can create quality jobs and provide economic stimulus without posing the risks of easy-money monetary policies in the short run. They are also recognizing that infrastructure investment can expand the economy's capacity in the medium term and mitigate the enormous maintenance burden we would otherwise pass on to the next generation.

The case for infrastructure investment has been strong for a long time, but it gets stronger with each passing year, as government borrowing costs decline and ongoing neglect raises the return on incremental spending increases. As it becomes clearer that growth is not going to return to pre-financial-crisis levels on its own, the urgency of policy action rises. Just as the infrastructure failure at Chernobyl was a sign of malaise in the Soviet Union's last years, profound questions about America's future are raised by collapsing bridges, children losing IQ points because of lead in water, an air-traffic control system that does not use GPS technology and chipping paint in thousands of schools.

The issue now is not whether the United States should invest more in infrastructure but what the policy framework should be. Here are the important questions and my answers.

How much more do we need to invest? For the foreseeable future, there is no danger that the United States will overinvest in infrastructure. An increase in infrastructure investment of 1 percent of gross domestic product over a decade would total \$2.2 trillion and permit substantial steps both to catch up on deferred maintenance and embark on new projects. It would also still leave the United States well behind parts of Europe and Asia in terms of infrastructure.

What is the highest priority? The fastest, highest and safest returns are likely to be found where maintenance has been deferred. For example, inadequate maintenance of American roads imposes costs on American motorists that are the equivalent of a 75-cent-per-gallon gasoline tax. Maintenance outlays do not require extensive planning or regulatory approvals, so they can take place quickly. And they tend naturally to take place in areas where infrastructure is most heavily used.

How should investment be financed? There is a compelling case that infrastructure investments pay for themselves by expanding the economy and increasing the tax base. The McKinsey Global Institute has estimated a 20 percent rate of return on infrastructure projects. If the return is only 6 percent and the government collects about 25 cents on every dollar of GDP, the government will earn 1.5 percent on investments. This far exceeds the real cost of borrowing even over a horizon of 30 years. Debt financing of new infrastructure investment over the next few years would be entirely reasonable.

However, if there is a desire to generate revenue to finance infrastructure investments, the best approaches would involve user fees. Thus, increased landing fees could help finance airports, and tolls or taxes on miles driven could finance road and highway improvements. Consideration should also be given to adopting capital budget conventions for infrastructure improvements, so the costs of projects are spread out over time rather than all accrued during construction.

What about the private sector? Some infrastructure priorities, such as replacing coal-fired power plants with renewables, expanding broadband Internet networks and building pipelines, are clearly the responsibility of the private sector. Policy frameworks that streamline regulatory decision-making and reduce uncertainty could help spur investment in these sectors.

There is a case for experimenting with approaches that could mobilize private capital for use on infrastructure that has been a public-sector preserve, such as airports and roads. However, the reality that government borrowing costs are much lower than the returns demanded by private-sector infrastructure investors should lead to caution. It would be unfortunate if, in an effort to avoid deficits, large subsidies were given to private financial operators. Only when private-sector performance in building and operating infrastructure is likely to be better than what the public sector can do is there a compelling argument for privatization.

How can we be sure investment is carried out efficiently? There is legitimate skepticism about the quality of infrastructure investments, and there is no silver bullet for this problem. Transparency of the type adopted for the Obama administration's fiscal stimulus program should become the norm. Additionally, progressive advocates of greatly expanded investment should compromise with conservative skeptics and, in the context of increased spending, accept regulatory streamlining, as well as requirements that projects undergo cost-benefit analysis. Minimizing cost should be the central objective of infrastructure procurement.

Every year that we allow our infrastructure to decay raises the burden that our generation is placing on the next. We will not always be able to borrow for the long term at a near-zero interest rate. However the election turns out, a major infrastructure investment program should be adopted by the president and Congress in the spring of 2017.