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The case for an infrastructure spending splurge rests on shaky foundations

As the chancellor prepares his Budget and US President Donald Trump shapes his economic plan, commentators are urging both to engage in significant new spending on transport infrastructure.

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The conventional case was articulated well by Times columnist Oliver Kamm last week. Only the government can undertake the investment and planning necessary for complex projects such as new rail lines, we were told, and with borrowing costs low, a state splurge would boost demand in the short term and enhance long-term growth prospects too – a so-called "win-win" policy. Sounds a no brainer, huh?

Not quite. For starters, you would undertake very different projects depending on whether you wanted a short-term boost to demand or to improve the economy's long-term health. As President Obama once acknowledged, most things worth doing are not "shovel ready", not least because of state land use planning and environmental laws.

Perhaps more importantly, there is no case in either country for demand-side stimulus right now. In the US, unemployment is back to pre-crisis levels and interest rates are rising. Without idle resources, government spending will crowd out private sector activity. With monetary policy normalising, any fiscal boost will be offset by interest rate hikes.

Labour markets are similarly tight in the UK. Both countries, meanwhile, have high debts and floating exchange rates, conditions economic theory and evidence suggest mean any short-term "multiplier" to the economy will be tiny. Borrowing for rushed projects would therefore not boost GDP, but would add to the debt burden and necessitate damaging future tax increases.

In principle, long-term, well-targeted state infrastructure projects undertaken according to disciplined cost-benefit and systematic risk analysis could enhance growth where the private sector would not provide. But the assumptions here speak for themselves.

Virtually all of the UK's rail network was privately built and operated for more than 100 years before its nationalisation following World War II, and there is no reason why the private sector cannot build roads and railways now. Road owners can and do charge tolls, while railway owners can buy up the land around their tracks and thus capitalise on the appreciation in land values following the development of a rail line.

That the private sector does not invest in many schemes today is often due to heavy regulatory barriers which raise capital costs. In other cases, it's because they think the government's suggested schemes are, well, pretty bad. Taking the example of high-speed rail, there is substantial uncertainty about the wisdom of the investment given the potential for technological change, not least driverless cars. Many rightly expect the whole venture to become obsolete – risks which do not bother our politicians spending other people's money.

That borrowing is "cheap" does not make it a "good time" for the government to invest either. If interest rates are low precisely because long-term growth prospects have fallen, then that adversely affects the revenue side of any project too. Looking at the cost of borrowing alone tells us little about an investment's worthiness.

The sad truth is that infrastructure investment through the political process rarely prioritises long-term growth. Other considerations dominate, whether electoral advantage or regeneration of an area – even when market signals point to the need to expand booming regions. Then there's the wasteful pork barrel spending – see the 2005 federal funding for the Alaskan "Bridge to Nowhere" in the US or when the Conservatives announced £12m of spending on high-speed rail in the South Thanet constituency (where Ukip leader Nigel Farage was running against them in the 2015 election).

The UK 2010 Comprehensive Spending Review deferred, cancelled or placed under review strategic road schemes with average benefit-cost ratios of 6.8, 3.2 and 4.2 respectively, yet persisted with HS2 with an estimated benefit-cost ratio of 1.2. Where exactly is the evidence politicians will invest wisely?

Bent Flyvbjerg's book Megaprojects and risk: An anatomy of ambition goes into extensive detail on the accountability problems associated with political management. The conflicted role of being both the promoter of a project and being responsible for examining its failures and risks leads politicians to make over-optimistic claims about a scheme's benefits relevant to costs. In fact, they are systematically biased. Examining projects around the world, he finds that nine out of 10 projects have cost overruns, with overruns above 50 per cent common. Rail transit also tends to be characterised by overly optimistic usage projections.

It's for these reasons that the evidence on infrastructure spending boosting long-term growth is more mixed than Kamm suggests. Historic analysis can see big returns, but that does not inform us about the wisdom of new schemes, which should be judged on their own merits. One only has to look at Japan, Spain, or China to see huge waste on projects for little growth dividend.

Yes, good infrastructure can in principle improve economic health, but we'd do better to examine the failures in this area first and ask how many of them are due to existing policy.

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