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Improving infrastructure requires private investment

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Ryan Bourne for the Cato Institute: Goldman Sachs CEO Lloyd Blankfein tweeted recently: "Arrived in China, as always impressed by condition of airport, roads, cell service, etc. US needs to invest in infrastructure to keep up."

This raises an interesting question: How do we know how much infrastructure investment is needed in the U.S.?

From an economic perspective, the answer is certainly not "invest to the point where our airports feel as high quality as China's." But absent real markets, the amount "needed" is difficult to quantify — an example of the "knowledge problem" associated with central planning.

What level of congestion would drivers tolerate before they were willing to finance road expansion, for example? Eliminating all congestion would be prohibitively expensive. So, how far should expansion go? How often should a road be repaired? How much transportation should be by train?

Markets are good at finding the optimal mix of infrastructure spending over time and rewarding those that are better at satisfying demand. Governments, even with the best of intentions, lack the necessary knowledge to find that mix. …

To really get more responsive infrastructure investment to need, we need more markets in infrastructure provision and to remove the artificial barriers that prevent private investments. A greater use of user fees, such as tolling and congestion pricing, for example, could lead to a greater link between demand and funding.