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Infrastructure Spending Is Not the Federal Government's Business

By: Veronique de Rugy - February 20, 2013

The Cato Institute's Chris Edwards has a good piece in the *Wall Street Journal* this morning looking at public-private partnerships in infrastructure spending. In the State of the Union address, the president called for $50 billion in infrastructure spending and hinted at increased private-sector involvement. Increasing the private sector's role in infrastructure spending is certainly a good idea — as Edwards argues, it is consistent with the global trend "to partly or fully privatize infrastructure, which not only attracts private capital but ensures that it goes toward high-return projects." He adds:

> Partial privatization through public-private partnerships has become a major source of infrastructure investment in Canada and Australia, among other countries. Such partnerships improve on traditional government contracting by shifting elements of funding, management, maintenance, operations and financial risks to private businesses.
>
> With public-private partnerships and full privatization, investment is less likely to flow to uneconomical projects that are chosen for political or ideological reasons. Private infrastructure is also more likely than government projects to be completed on-time and on-budget.

That would be a serious improvement over the current situation. Infrastructure spending tends to suffer from massive cost overruns, waste, fraud, and abuse. A comprehensive study examining 20 nations on five continents ("Underestimating Costs in Public Works Projects: Error or Lie?" by Bent Flyvbjerg, Mette K. Skamris Holm, and Søren L. Buhl) found that nine out of ten public-works projects come in over budget. Cost overruns routinely range from 50 to 100 percent of the original estimate. For rail projects, the cost is on average 44.7 percent greater than the initially estimated price. For bridges and tunnels, the equivalent figure is 33.8 percent; for roads, 20.4 percent.

The main reasons for these cost overruns, the authors note, is "strategic misrepresentation, i.e. lying," of things like actual traffic or revenue estimates. The worst part may be that the political process rewards the misrepresentation about the costs and benefits of a project. A 2009 study by Bent Flyvbjerg found that the political process is more likely to give funding to managers who underestimate the costs and overestimate the benefits. In other words, politicians approve projects that present the most optimistic assessments on paper, rather than the actual best ones. Flyvbjerg calls this "the survival of the unfittest."

While public-private partnerships would be an improvement, the main problem with federal policy would remain: Federal planners would remain in control of the appropriations, so many of the problems outlined above would subsist. Besides, it is not the role of the federal government to pay for roads and highway expansions. With very few exceptions, most roads, bridges, and even highways are projects that are local in nature (or state-level, at most), and the federal government shouldn't have anything to do with them. Edwards's piece also provides a long list of state-level projects that have been successfully privatized. He concludes:

> President Obama and other policy makers are correct that America needs top-notch infrastructure to compete in the global economy. But the solution is to devolve federal infrastructure activities to the states, then allow them to unleash entrepreneurs, innovation and market forces.

The whole thing is here, and Edwards has written about the same topic for NRO here.