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Take the Public-Private Road to Efficiency

By: Chris Edwards – February 19, 2013

In his State of the Union address, President Obama laid out an array of new spending proposals, including a $50 billion plan for highways, bridges and other projects. He wants to attract "private capital" for the plan, but the problem is that federal planners would remain in control of the allocations.

America's transportation facilities need to be continually repaired and rebuilt, but decisions about where and when should not be made in Washington. Outside of the United States, the global trend is to partly or fully privatize infrastructure, which not only attracts private capital but ensures that it goes toward high-return projects. In many cases, infrastructure companies can raise private funds, construct new bridges or highway lanes, and charge drivers directly for their use. In the U.S., state governments play an important role, but taxpayers don't need the federal government trying to micromanage it.

Historically, infrastructure in America was frequently provided by the private sector. In the 19th century, more than 2,000 turnpike companies built thousands of miles of toll roads. The great majority of America's vast railroad system was built without federal subsidies, and most urban rail and bus services were originally private.

The 20th-century takeover of private infrastructure by governments (in the U.S. and abroad) pushed up costs and reduced innovation. Fortunately, some governments have started to reverse course. Hundreds of billions of dollars of railways, highways, seaports, airports and other assets have been partly or fully privatized in Europe, Latin America and elsewhere, but America lags behind.

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.

The newsletter "Public Works Financing" reports that only one of the top 38 global firms doing transportation privatization is U.S.-based (Fluor, FLR -2.10% with headquarters in

Irving, Texas). Of the guide's 726 private and public-private projects from all around the world, just 28 are in the U.S.

Nonetheless, some U.S. states have moved ahead with private infrastructure. Several projects in Virginia illustrate the possibilities:

The Capital Beltway. Private companies built and are now operating toll lanes along 14 miles of Interstate 495. They used debt and equity to finance about $1.5 billion of the project's $2 billion cost. The lanes opened on-time and on-budget in 2012.

The Midtown Tunnel. Private firms are currently building, and will operate, a three-mile tolled tunnel under the Elizabeth River between Norfolk and Portsmouth. Private debt and equity are covering most of the project's $2.1 billion cost.

The Dulles Greenway. This privately owned toll highway in Northern Virginia was completed in the 1990s with $350 million of private debt and equity, and without government aid.

The Jordan Bridge. Private firms fully financed and constructed a $142 million highway bridge over the Elizabeth River between Chesapeake and Portsmouth. The cost of this handsome and soaring structure—which opened in 2012—will be paid back (and then some) by toll revenues over time.

Nor is privatization only for highways and bridges. U.S. airports and seaports are generally owned by governments, but many foreign airports (including London's Heathrow) and seaports are partly or fully private, including those in Singapore and Hong Kong, which are rated second and third best in the world by the World Economic Forum. (The Netherlands has the top-ranked seaports.)

Then there is air-traffic control, which in America has long been poorly managed by the Federal Aviation Administration, with frequent delays and cost overruns on technology-upgrade projects. Canada privatized its air-traffic control system in 1996.

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.