

Intergovernmental Roadblocks to Infrastructure Investment

November 3, 2014

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Infrastructure and Economic Growth

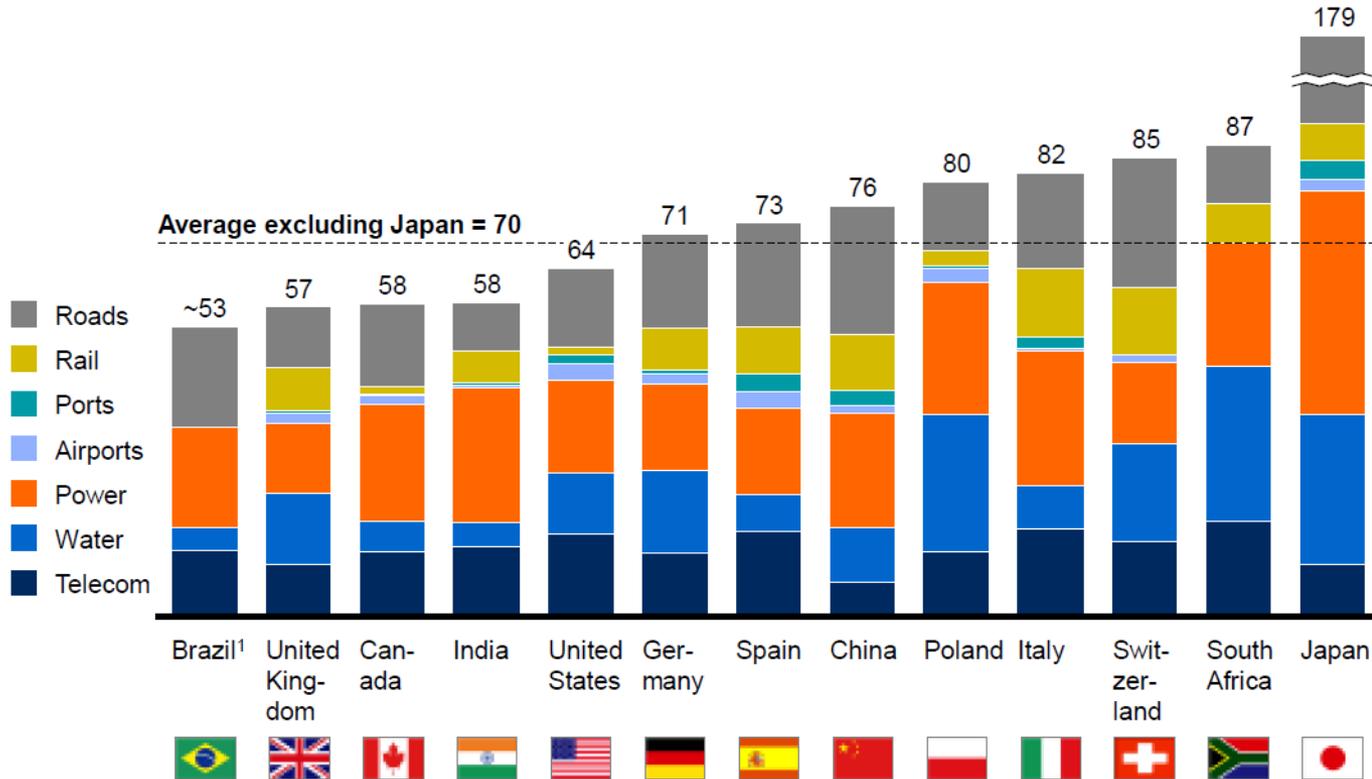
Federal Reserve Bank of Chicago



Infrastructure Looms Large All Over the World

Global infrastructure stock averages around 70 percent of GDP

Total infrastructure stock
% of GDP



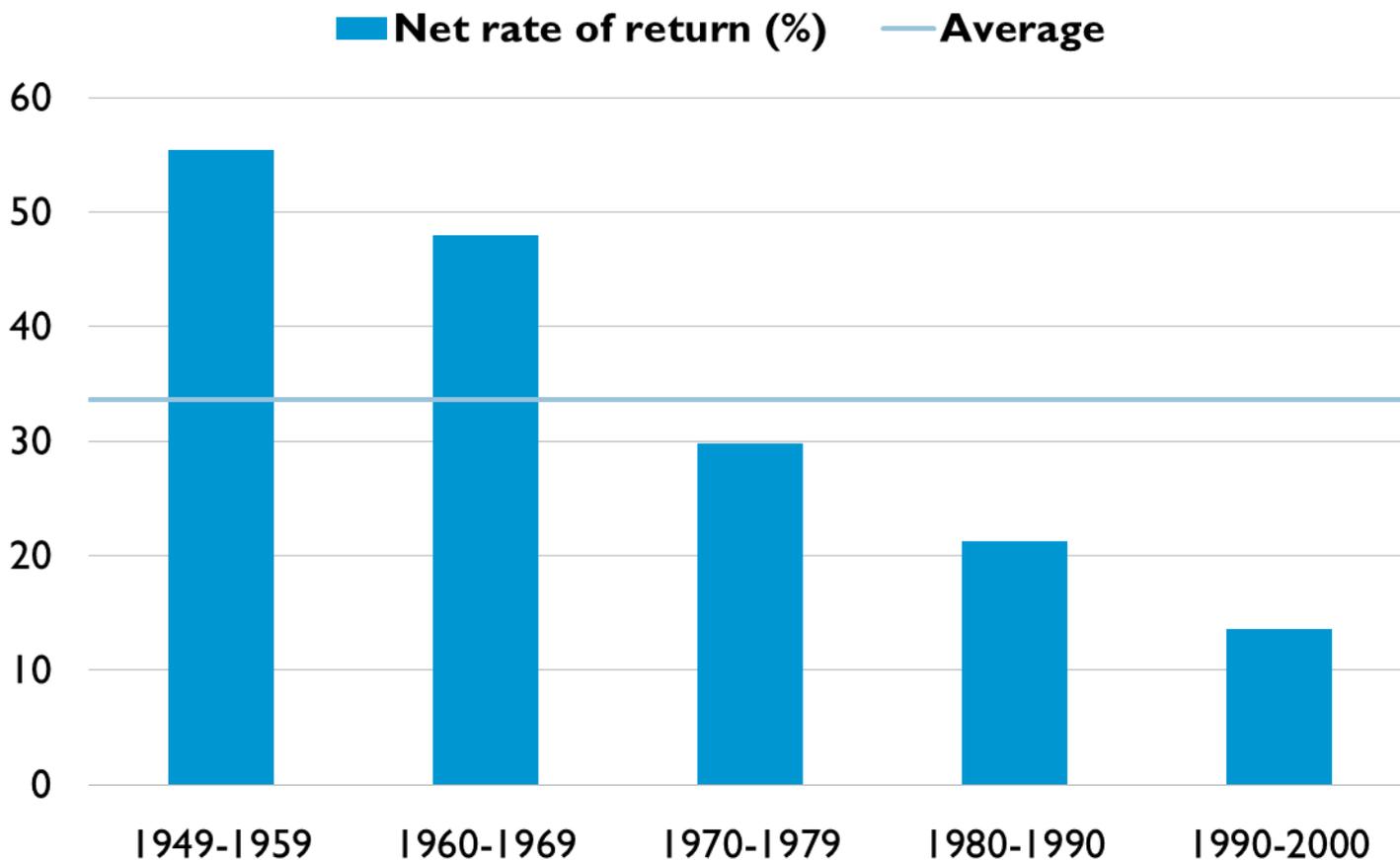
1 For Brazil, road data contains all of transport. Brazil stock revised significantly upward to 46–54% from an earlier published version based on longer time series showing 2-3x higher investment rates in the 1970s and 1980s compared to the 1990s and 2000s. The estimate shown is based on data provided courtesy of Dr. Armando Castelar.

SOURCE: ITF; GWI; IHS Global Insight; various national statistics; McKinsey Global Institute analysis

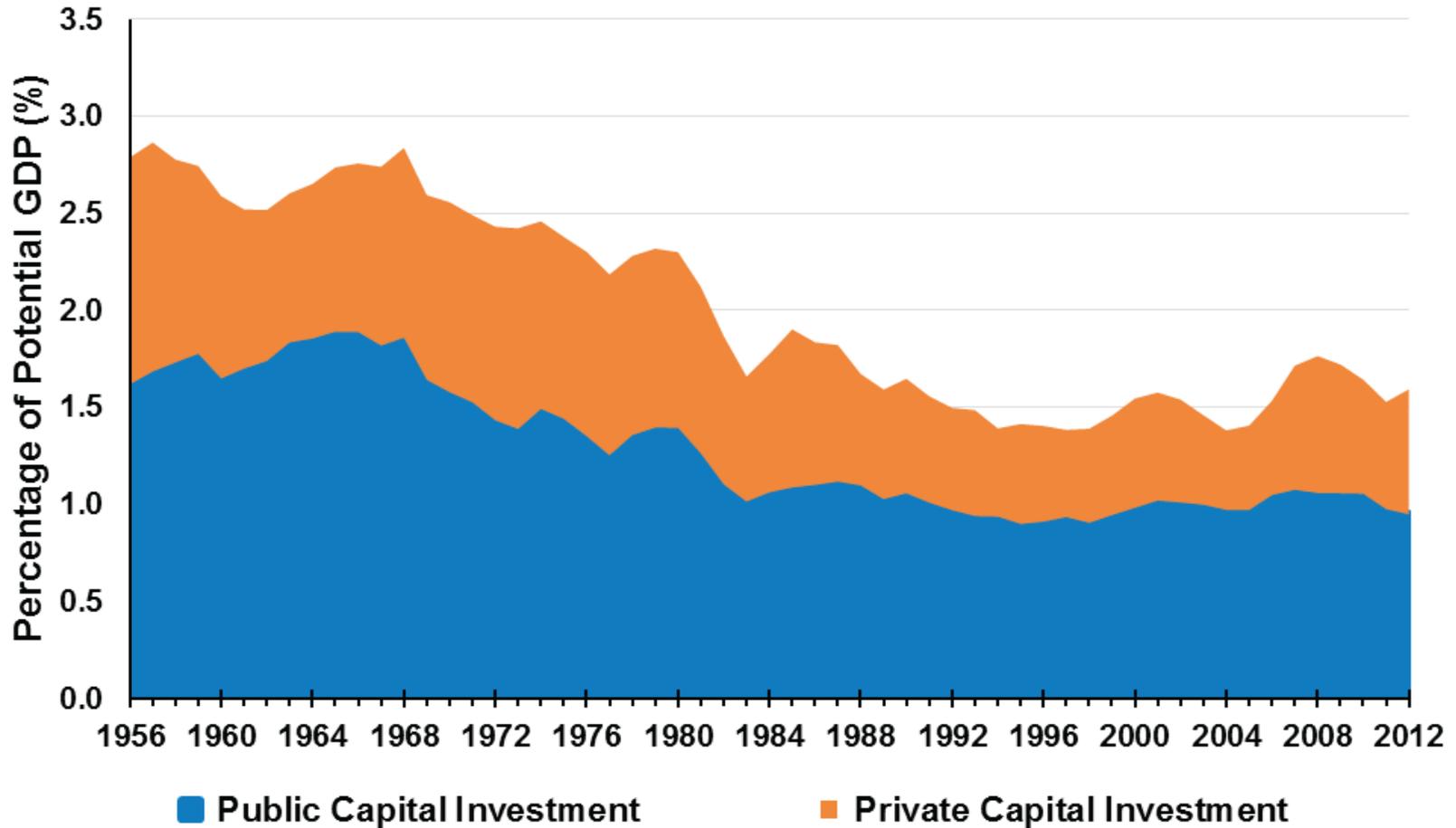
Infrastructure Investments Can Yield Large Economic Benefits



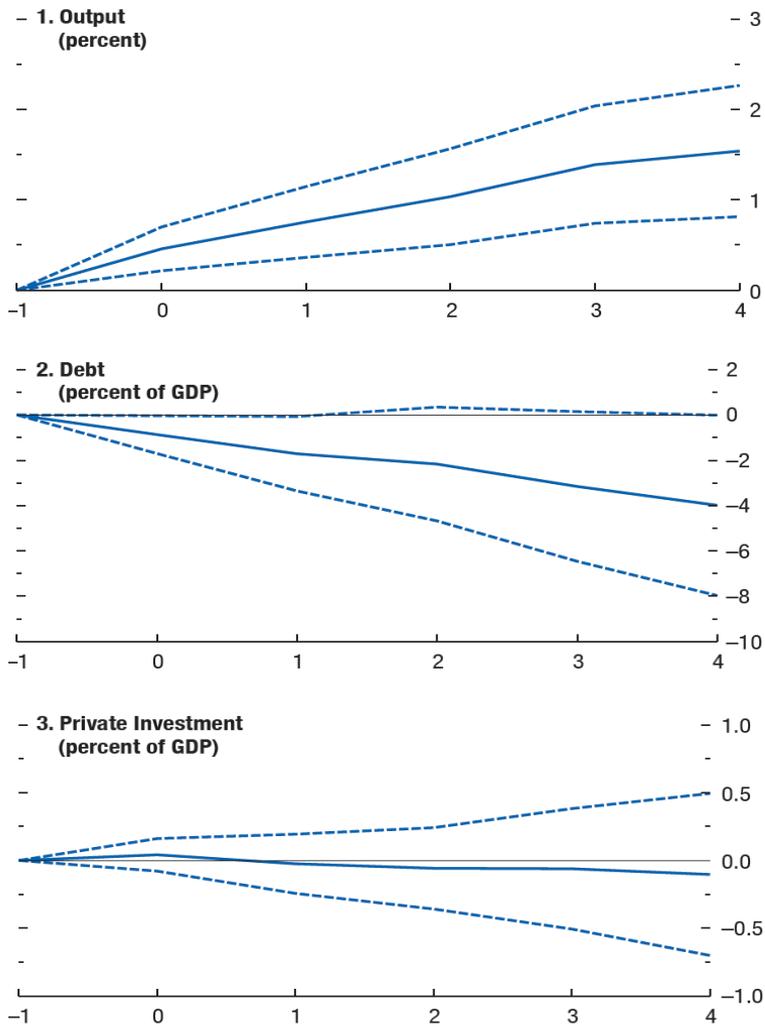
Research on highway capital spending suggests ROIs of 55%, slipping to 14% today



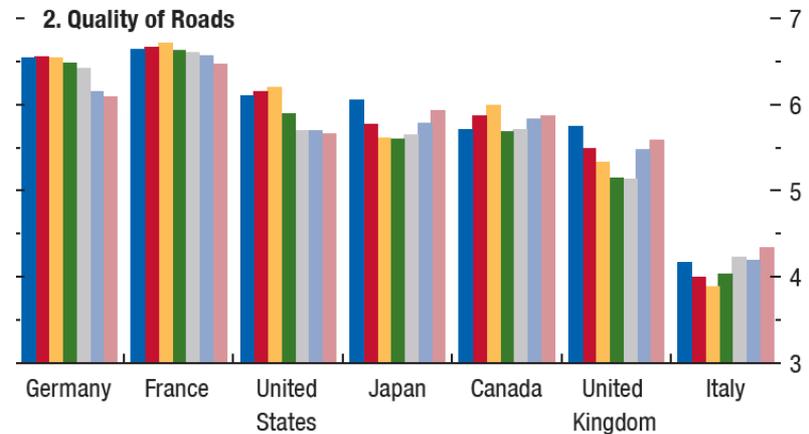
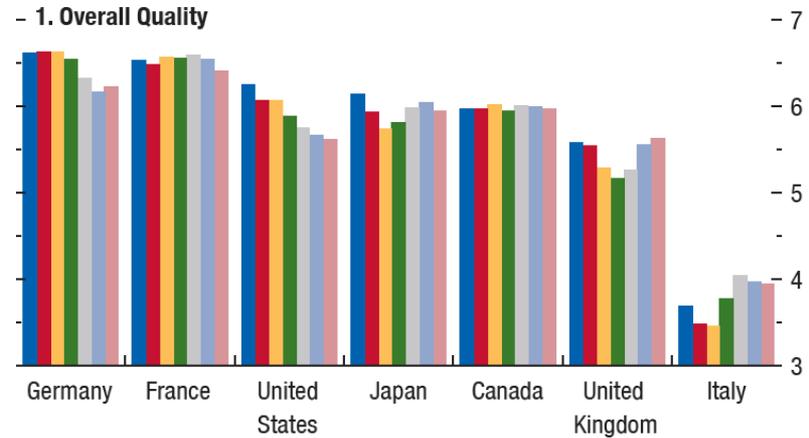
U.S. Infrastructure Investment Has Been Falling Steadily as a Share of GDP Since the 1960s



IMF: At Current Interest Rates and Economic Conditions, Infrastructure May Be a Free Lunch

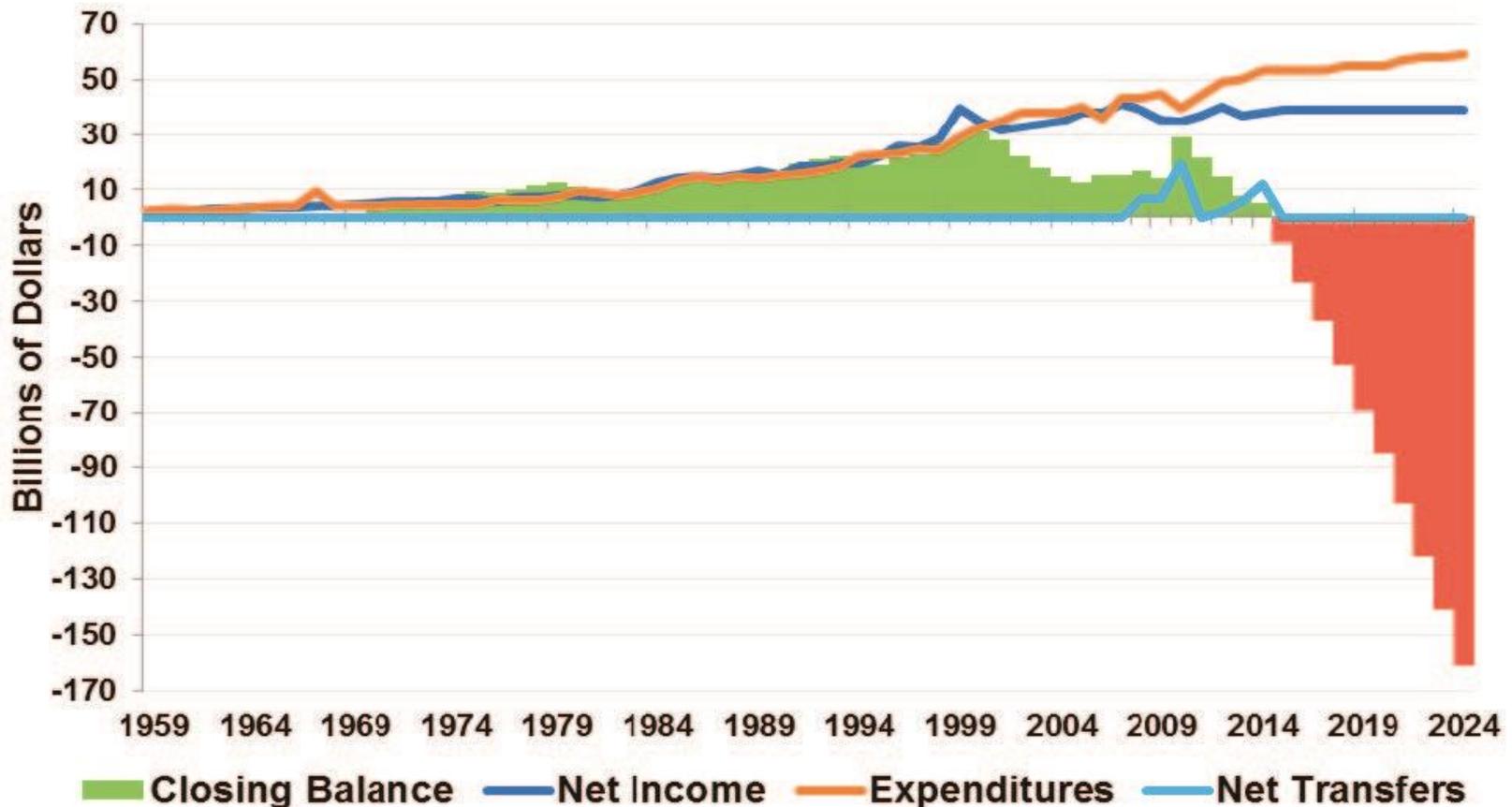


2006 2007 2008 2009 2010 2011 2012

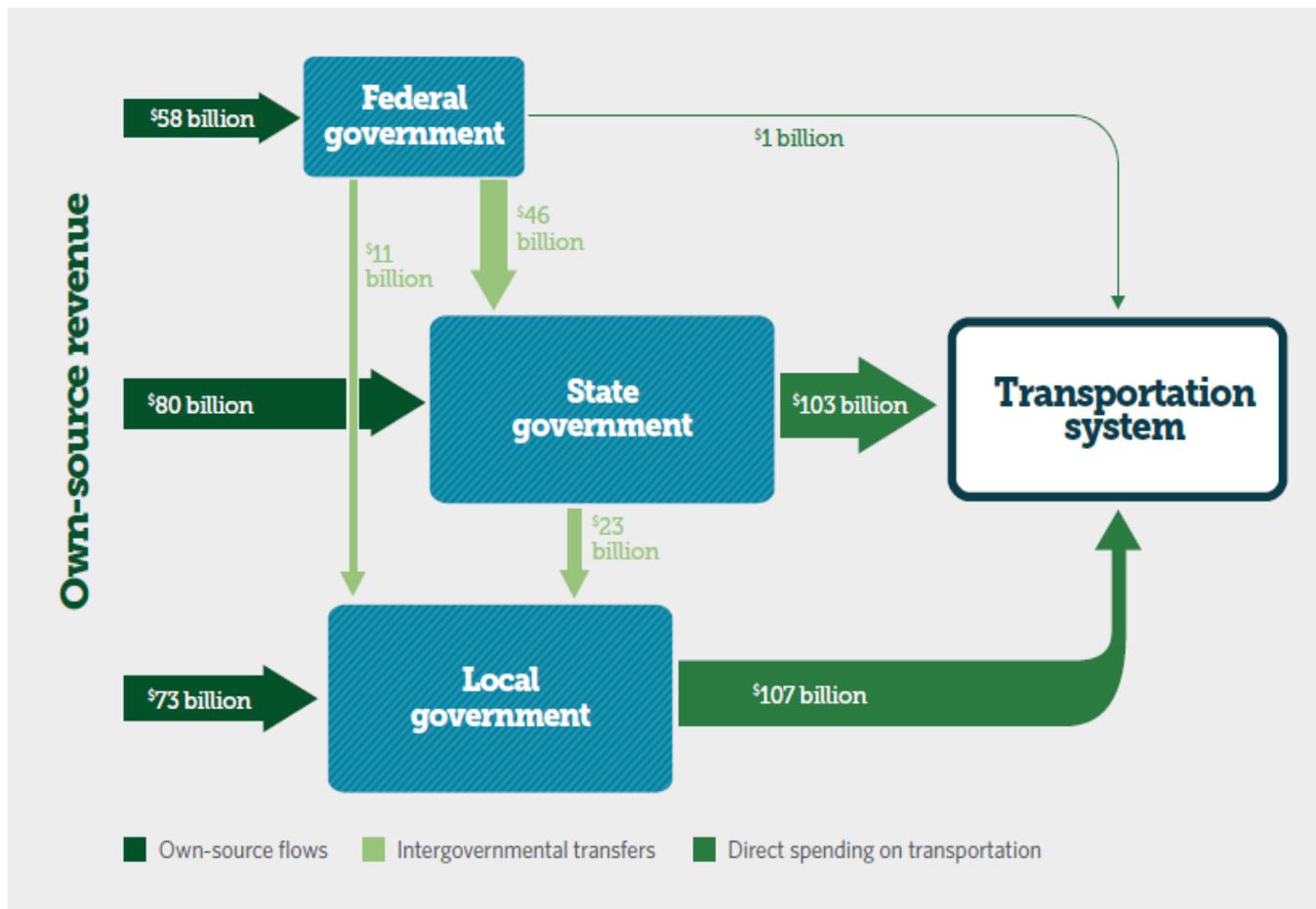


Sources: World Economic Forum, Global Competitiveness Report survey; and IMF staff calculations.

Declining U.S. Investment Compounded by Precarious Status of Federal Highway Trust Fund



But, Important to Recall That Most Infrastructure Investment Occurs At State and Local Level



Note: Numbers may not add up exactly due to rounding.

Sources: Pew's analysis of U.S. Census Bureau's Annual Survey of State and Local Governments, 2011; U.S. Office of Management and Budget, Public Budget Database

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How Much Can the Federal Government Do?

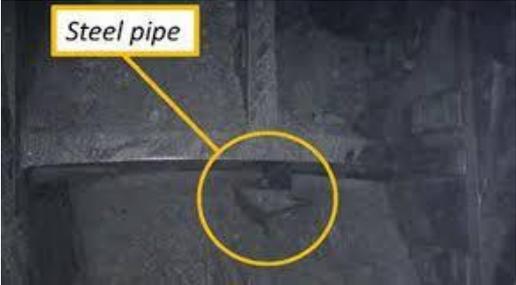


- **Direct spending:** \$1b on surface transportation in FY11
- **Intergovernmental grants:** \$57b in FY11
- **Financing**
 - Traditional tax exempt bonds (~\$6b in FY12)
 - Private Activity Bonds (\$15b cap, \$4.6b issued)
 - Direct loans and guarantees (\$1b TIFIA authority)
 - Help attract private financing through P3s
- **By comparison:** states and localities spent about \$150 b from their own funds (i.e., not federal grants) in FY2011

A Word on P3s



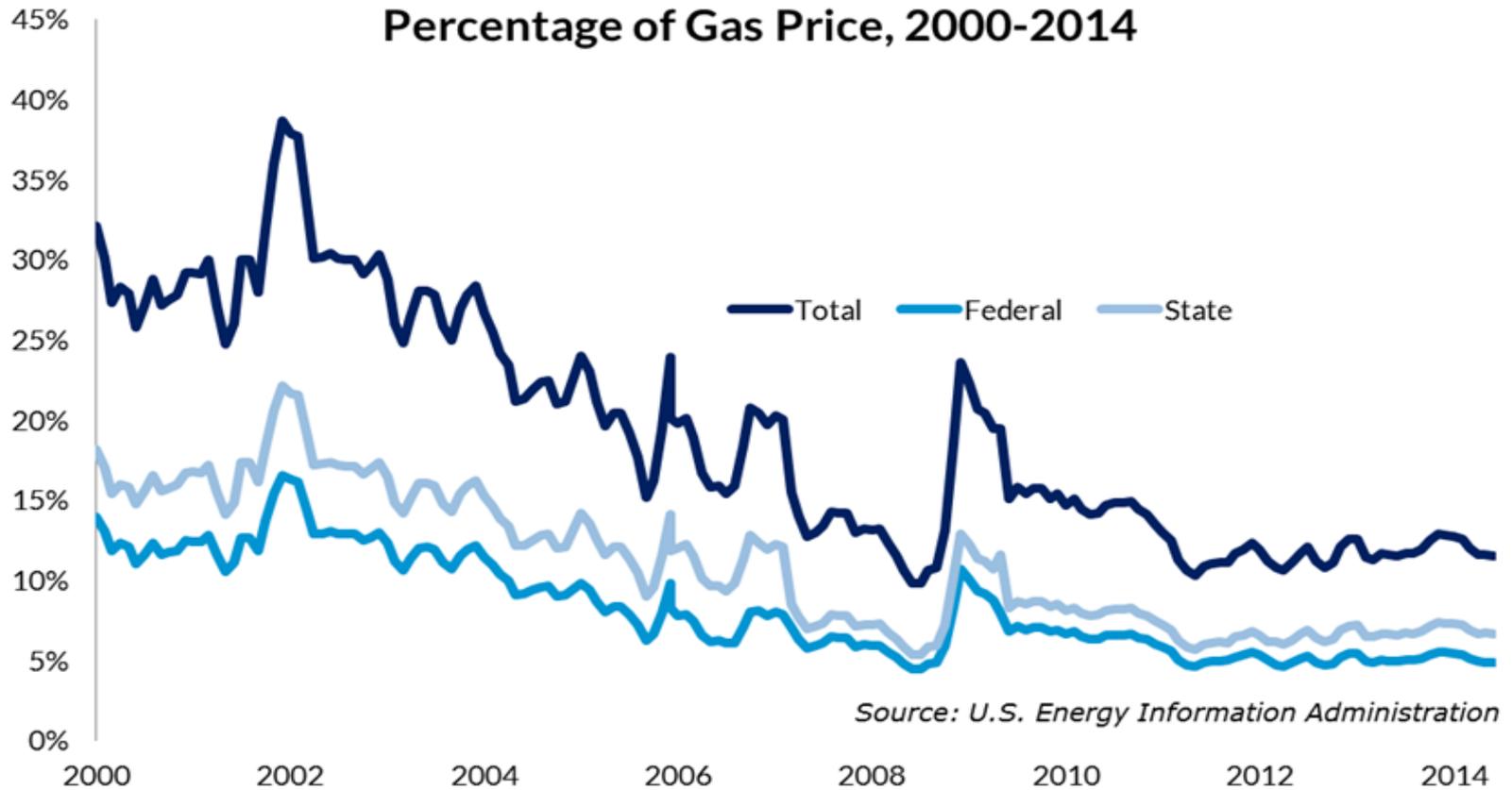
P3s = \$61 billion in highway projects from 1989 to 2013, 1.5% of total



- Build America Transportation Investment Center announced July 2014
 - One-stop shop for developers, investors, state and local governments to explore DOT credit programs, P3s, and permitting process
 - But regulatory process is highly fragmented. How much does federal expediting matter?
- Also proposals to expand PABs, BABs (AFFBs) and exempt from sequester (at 28% subsidy rate)

What Is Left? “Unintentional Devolution”?

Figure 3: Federal and State Taxes as a Percentage of Gas Price, 2000-2014



THANK YOU

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