

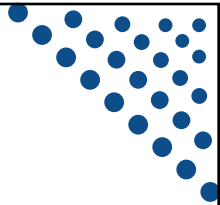
Osher Lifelong Learning Institute, Winter 2022 **Contemporary Economic Policy**

Oklahoma State University
February-March, 2022

Jon Haveman, Ph.D.
National Economic Education Delegation



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Available **NEED** Topics Include:

- **Coronavirus Economics**
- **US Economy**
- **Climate Change**
- **Economic Inequality**
- **Economic Mobility**
- **Trade and Globalization**
- **Minimum Wages**
- **Immigration Economics**
- **Housing Policy**
- **Federal Budgets**
- **Federal Debt**
- **Black-White Wealth Gap**
- **Autonomous Vehicles**
- **US Social Policy**



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Course Outline

• Contemporary Economic Policy

- Week 2 (2/15): US Economy & Coronavirus Economics
- Week 3 (2/22): Climate Change Economics (Simone Wegge, CUNY)
- Week 4 (3/1): Immigration Economics (Roger White, Whittier College)
- **Week 5 (3/8): Infrastructure Economics (Mallika Pung, Univ. of New Mexico)**
- Week 5 (3/15): Trade and Globalization (Alan Deardorff, Univ. of Michigan)
- Week 6 (3/22): The Black-White Wealth Gap (Me)



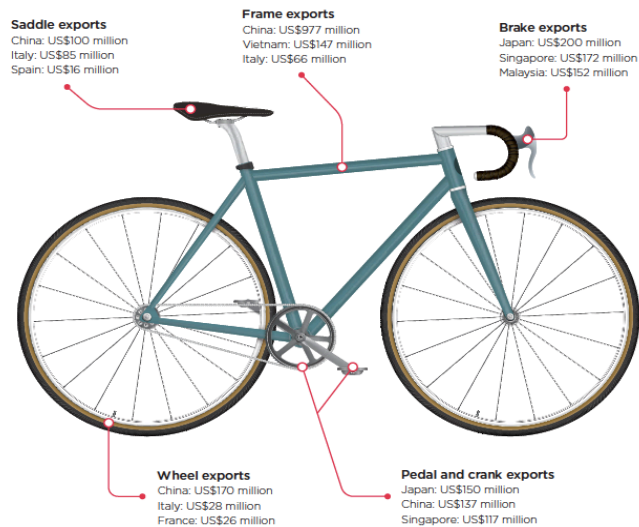
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Trade: w/Alan Deardorff

Figure 1.1 Where do bicycles come from?



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Source: World Development Report 2020

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Infrastructure Economics

Mallika Pung, Ph.D.
University of New Mexico



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Submitting Questions

- Please submit questions in the chat.
- We will do a verbal Q&A once the material has been presented.
 - And the questions in the chat have been addressed.



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Credits and Disclaimer

- **This slide deck was authored by:**
 - Mallika Pung, Rice University
 - Jon Haveman, NEED
- **Disclaimer**
 - NEED presentations are designed to be nonpartisan.
 - It is, however, inevitable that the presenter will be asked for and will provide their own views.
 - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



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Outline

- **What do we mean by infrastructure?**
- **Current state of infrastructure in the US**
- **Infrastructure in economic models**
- **Why should we invest in infrastructure?**
- **Policy options to fund infrastructure investments**



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What is a Useful Definition of Infrastructure?

- *Infra-* means "below;"
 - So, the infrastructure is the "underlying structure" of a country and its economy.
- Miriam-Webster definition of Infrastructure:
 - the system of public works of a country, state, or region
 - *also*: the resources (such as personnel, buildings, or equipment) required for an activity
 - the underlying foundation or basic framework (as of a system or organization)
 - the permanent installations required for military purposes



Different Kinds of Infrastructure

- **Provide basic services**
- **Improve the performance of the economy**
- **Make people's lives better**
 - Example: Electricity, water, broadband, roads, bridges, airports, seaports



Another Categorization

- **Tangible**
 - Traffic systems: streets, railways, other transportation
 - Utilities and disposal: energy, water, and communication networks
- **Intangible**
 - Human capital
 - Education, research facilities
 - Health systems, social services
- **Institutional**
 - Legal, economic, and social system
 - Culture, traditions



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Infrastructure – Is it:

- **Traditional:**
 - Roads, bridges, tunnels, airports, seaports, dams, water, electrical, and telephone systems?
- **Additional:**
 - Broadband
- **What about:**
 - R&D? Human capital? Institutions?
- **What definition of “infrastructure” makes it most useful today?**
 - Caregiving?



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What is Infrastructure? – A Recap

- **Economic infrastructure:**

- Basic services that represent a foundational tool for the economy.
- Can be:
 - Physical structures
 - Systems
 - Institutions
 - Services
 - Facilities

- **We will focus on physical structures, systems, and facilities.**



Categories of Physical Infrastructure

- **Transportation**

- Highways, roads, bridges
- Mass transit
- Airports, seaports

- **Water**

- Supply
- Distribution

- **Waste management**

- Trash, recycling, and wastewater

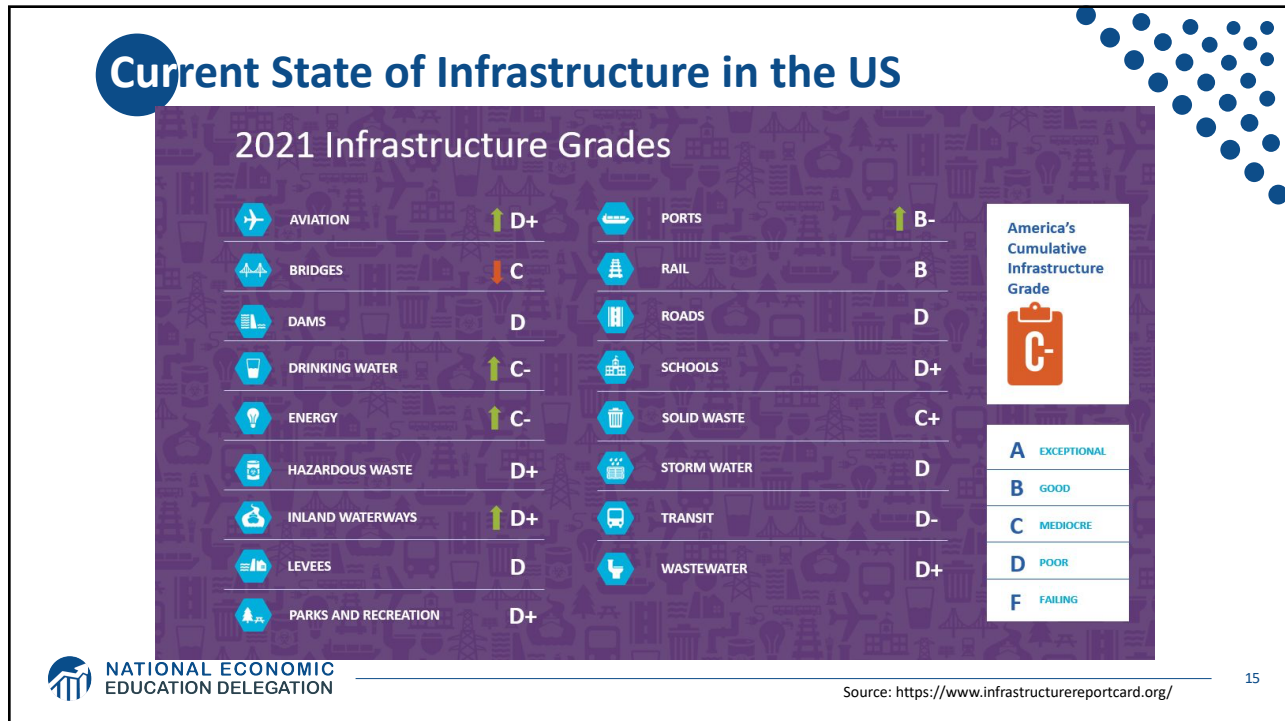
- **Energy**

- Generation
- Transmission

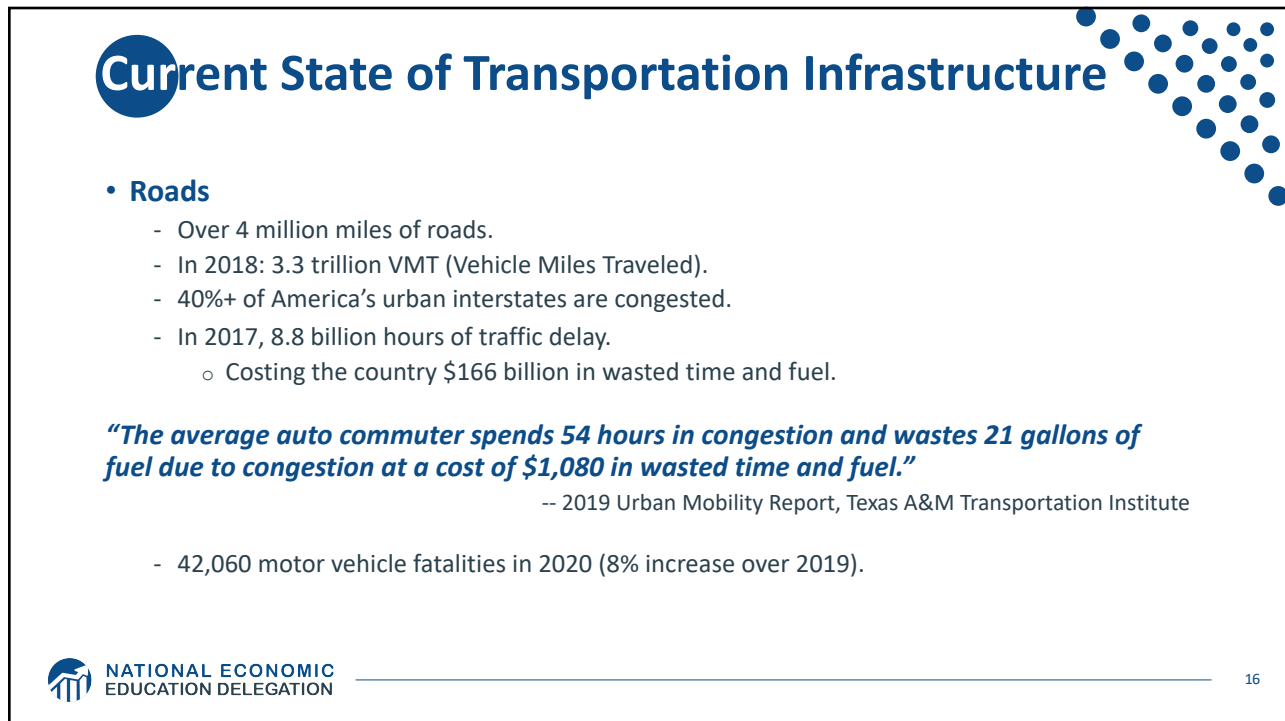
- **Communications**

- Telephone
- Internet

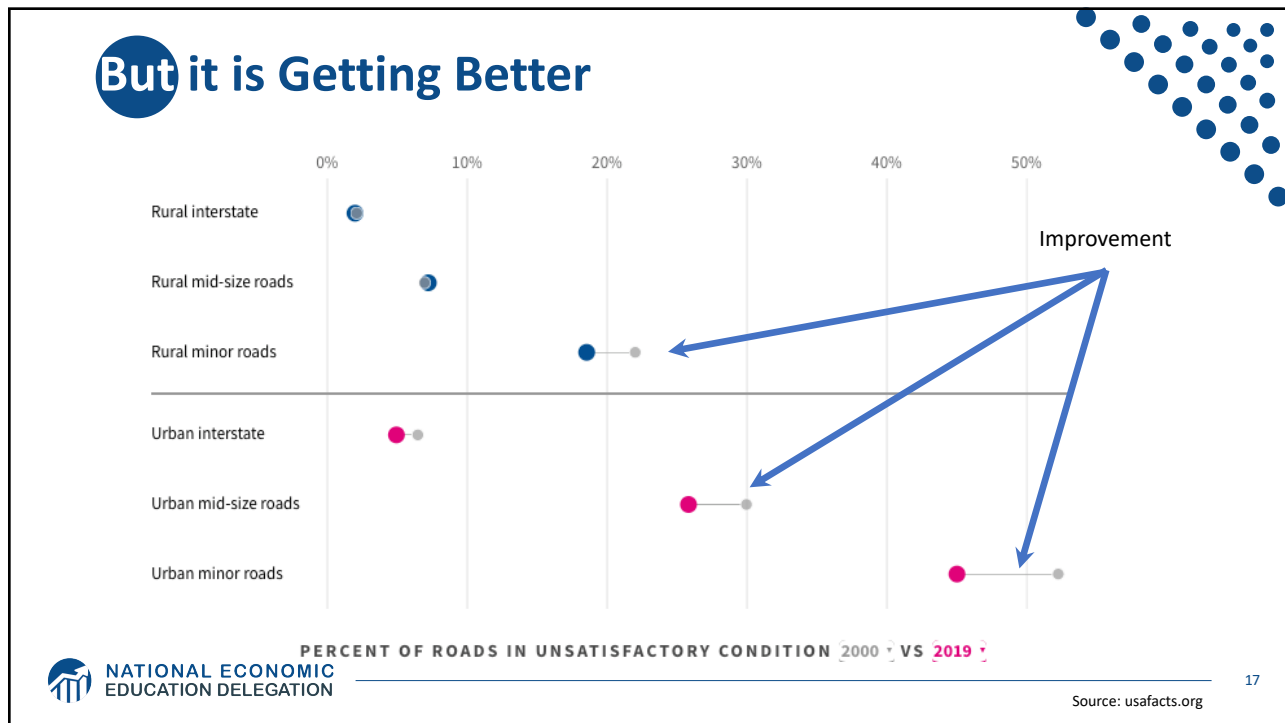




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Current State of Transportation Infrastructure

- **Mass Transit**
 - ~ 6,800 organizations in the U.S. that provide transit services.
 - Transit ridership: peaked at 10.7 billion in 2014.
 - o COVID-19 pandemic caused major disruptions across all transit agencies.
 - 45% of Americans have no access to transit.
 - 50% of passenger trips by bus.
 - o 10% of fleets NOT in “state of good repair”.
 - 33+% by heavy rail (subway/metro)
 - o 3% of fleets NOT in “state of good repair”.

Transit users face increased delays due to service interruptions, and agencies are grappling with growing maintenance and vehicle procurement costs.

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Current State of Transportation Infrastructure

• Aviation

- In 2019, 10 million+ commercial flights
 - o Flying ~3 million passengers daily
- National Plan of Integrated Airport Systems (NPIAS)
 - o identifies over 3,300 airports in the U.S. aviation network
- Contributed 5.1% to US GDP
 - o Generated 10.6 million jobs
- In 2019, 79% of flights were on-time. Delays were caused by
 - o late-arriving aircrafts,
 - o air carriers,
 - o weather, and
 - o diverted flights.



Current State of Transportation Infrastructure

• Ports

- 99% of US overseas trade pass through ports
- Los Angeles and Long Beach – busiest ports in the US
 - o Top 10 U.S. ports account for 3/4th of U.S. trade
- Congestion decreased port productivity by over 25% over the past decade
 - o COVID-19 pandemic exacerbated the congestion related issues
- Port infrastructure upgrades needed to accommodate new, larger ships with deeper navigation channels

• Waterways

- More than 600 million tons of cargo
 - o 14% of annual domestic freight
- Beyond their 50-year design life
- 50% vessels experience delays due to maintenance shut downs



Current State of Water Infrastructure

• Drinking Water

- 150,000+ public drinking water systems
- 1 billion+ glasses of drinking water consumed daily
 - o 80% from surface waters such as rivers, lakes, oceans, reservoirs
 - o 20% from groundwater aquifers
- Delivered via 2.2 million miles of pipes
 - o Majority laid in mid-20th century and are aging
 - o estimated 240,000 water main breaks occur each year
 - o 6 billion gallons of treated drinking water lost daily due to leaking pipes
 - could support 15 million households



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Current State of Water Infrastructure

• Wastewater

- 16,000+ wastewater treatment plants
 - o 1.3 million miles of public and private lateral sewers
- Used by 80% of Americans
 - o Likely to serve 56 million more people by 2032
- Structural failure, blockages, and overflows cause at least 23,000 to 75,000 sanitary sewer overflow events each year



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Current State of Water Infrastructure

• Dams

- There are over 91,000 dams in the US providing:
 - drinking water,
 - irrigation,
 - hydropower,
 - flood control, and
 - recreation
- Most are privately owned
- Average age – 57 years
- By 2025, 7 out of every 10 dams will be over 50 years old
- In 2019, there were 15,600 high-hazard potential dams



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Current State of Water Infrastructure

• Levees

- A network of 30,000 miles of levees
- Levees in the U.S. Army Corps of Engineers Levee Safety Program protect
 - over 300 colleges and universities,
 - 30 professional sports venues,
 - 100 breweries, and
 - an estimated \$1.3 trillion in property
- Built in the mid-20th century with an average age of 50 years, aging fast
- Levees are crucial with majority of the U.S. population living within 50 miles of a coast



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How Do We Compare?

We're #9!

Countries With The Best Infrastructure

Rank	Country	Infrastructure Score
1	Hong Kong	6.7
2	Singapore	6.5
3	Netherlands	6.4
4	Japan	6.3
5	United Arab Emirates	6.3
6	Switzerland	6.3
7	France	6.1
8	Korea	6.1
9	United States	6.0
10	Germany	6.0
11	United Kingdom	6.0
12	Spain	5.9




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Source: World Economic Forum, [i]The Global Competitiveness Report 2017–2018[i]

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The 2021 Infrastructure Package



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What is in it?

• Transportation

Roads, bridges, major projects	\$110 Billion
Passenger and freight rail	\$66 Billion
Public transit	\$39 Billion
Airports	\$25 Billion
Port infrastructure	\$17 Billion
Transportation safety programs	\$11 Billion
Electric vehicles	\$7.5 Billion
Zero and low-emission buses and ferries	\$7.5 Billion
Revitalization of communities	\$1 Billion

• Other

Broadband	\$65 Billion
Power infrastructure	\$73 Billion
Clean drinking water	\$55 Billion
Resilience and Western water storage	\$50 Billion
Removal of pollution from water and soil	\$21 Billion



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How is it paid for?

- Unspent emergency relief funds
- Strengthening tax enforcement – crypto currencies
- Revenue generated from higher economic growth
- Increased federal budget deficit



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Infrastructure Benefits



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Why Should we Invest in Infrastructure?

- **Vital ingredient to economic growth**

- Facilitates economies of scale, raises productivity
A 10% rise in infrastructure assets directly increases Real GDP per capita by 0.7 – 1%.
 - Assuming increases in spending translate 1-1 to the stock of assets:
 - ~\$50 billion will raise GDP per capita in the US by ~\$300 - \$450.
 - **\$100 to \$150 billion** in increased GDP.
 - Productivity growth raises standards of living



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Why Should we Invest in Infrastructure?

- **Vital ingredient to economic growth**

- Reduces trade costs by improving access to markets
 - o Port capacity improvement
 - o Reducing traffic congestion
- Reduces effective distances, facilitates trade and agglomeration
- Advances public health by providing clean water and effective sewage systems



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Case for Spending More on Infrastructure Maintenance

- **Rundown infrastructure increases costs**

- Longer travel time → higher costs for businesses
- Wear on cars → more spending on car repairs → faster car depreciation
- Vehicle deterioration → Additional fuel consumption

"The average motorist in the U.S. is losing \$523 annually -- \$112 billion nationally -- in additional vehicle operating costs as a result of driving on roads in need of repair."

-- November 2016 Urban roads TRIP report

- **Deferred maintenance is a debt burden on the future generations.**



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Infrastructure in economic models

- **Vast macroeconomic literature on relation between infrastructure and economic growth**
 - Neoclassical growth model aka the Ramsey Model
 - Endogenous growth model
 - Variants
- **Wide variation in the magnitude of economic effects of infrastructure spending on growth or productivity**



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Econometric issues that make the task difficult

- **Direction of causality**
 - Between infrastructure investment and productivity
 - Between infrastructure investment and output
- **Spurious correlation**
 - Non stationary data
 - Ignoring unobserved factors that might affect both infrastructure investment and output
- **Heterogenous Effects**



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Public or Private Infrastructure Investment?

- **Nonrival consumption**
- **Non-excludable use**

- Social benefits might exceed expected financial return.
- Private sector likely to underprovide key types of infrastructure.
- Economic case for public provision of infrastructure assets.



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Public or Private Infrastructure Investment?

- **A few arguments for public provision:**

- Provision of public infrastructure increases productivity of private infrastructure
 - o Incentivizes private capital investment,
 - o Increases labor productivity,
 - o Indirectly increases employment and wages.



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Public or Private Infrastructure Investment?

- **A few more arguments for public provision:**
 - Provides short-term stimulus to the economy by creating jobs
 - Promotes trade and commerce
 - Promotes equity
 - Pays prevailing wages
 - More demographically inclusive
 - Encompasses all congressional districts
 - Promotes public health and well-being
 - Improves public safety
 - Affects not just the present but the future generations also

- **Some of these are more debatable than others**

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Empirical Evidence on Effect of Gov't Spending

- **In studies from 80s, early 90s:**
 - A 1% increase in the stock of public capital raised GDP by 0.39%
- **In more recent studies**
 - by only 0.08% in the short run, 0.12% long run
- **In terms of multiplier, most short-term estimates are less than 1**
 - Due to negative effects of tax/interest rate increases on private C and I
- **Longer term multiplier**
 - OECD panel data – 1.6
 - US interstate highway system – 1.8

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Empirical Evidence on Effect of Gov't Spending

- **Estimates from the 2009 American Recovery and Reinvestment Act**

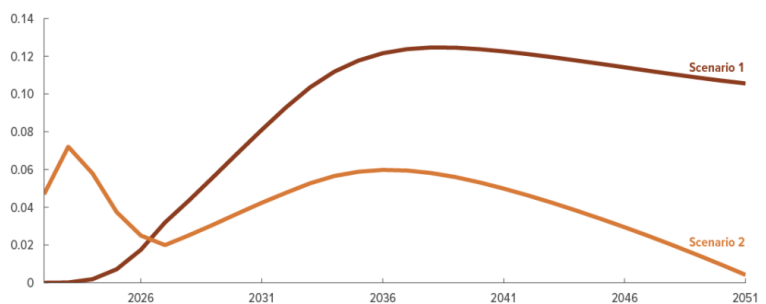
- Each \$100,000 spent led to 0.8 job-years created
- Highway construction employment unaffected in 2009-10
 - o fell sharply afterwards
- Significant “crowd-in” of state and local highway spending
 - o For each \$1 of federal grant and additional \$2.30 in state spending

A CBO study on effects of Gov't Spending on Infrastructure on Real GDP

- **Two scenarios to finance \$500 billion over 10 years:**

1. Reducing gov't noninvestment purchases
 - o **Reduces** net cost by 1/3rd
 - o Real GDP increase averages 0.09% between 2022-51
2. Increasing federal borrowing
 - o **Increases** net cost by 1/4th
 - o Real GDP increase averages 0.04% between 2022-51

Increases in the Level of Real GDP
Percent



Infrastructure Investment in the US

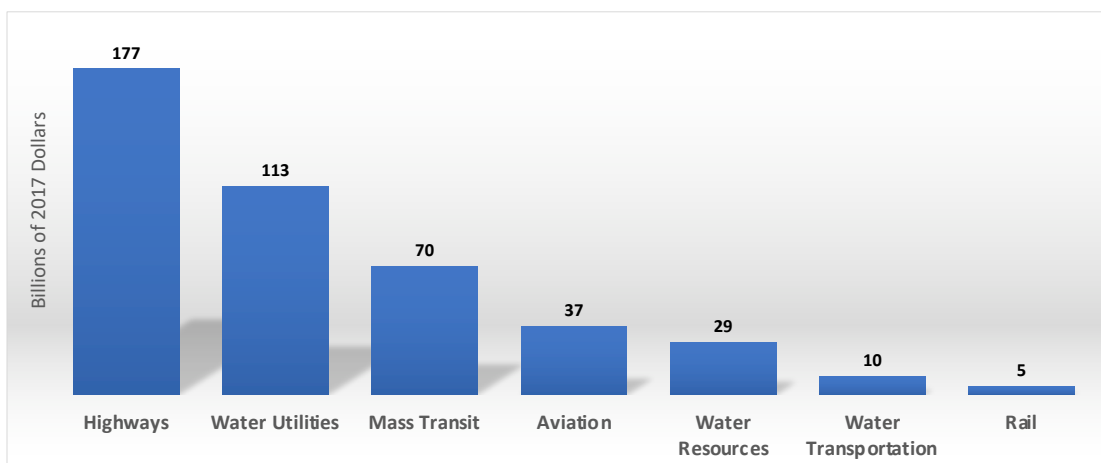
- **Transportation, drinking water, and wastewater infrastructure**
 - mainly funded by the public sector
- **Publicly owned transportation infrastructure**
 - Highways
 - Mass transit
 - Aviation
 - Water transportation
 - Rail
- **Publicly owned water infrastructure**
 - Water utilities
 - Water resources
- **In 2017, Federal, State and Local governments spent**
 - \$441 billion on infrastructure
 - 2.3% of gross domestic product



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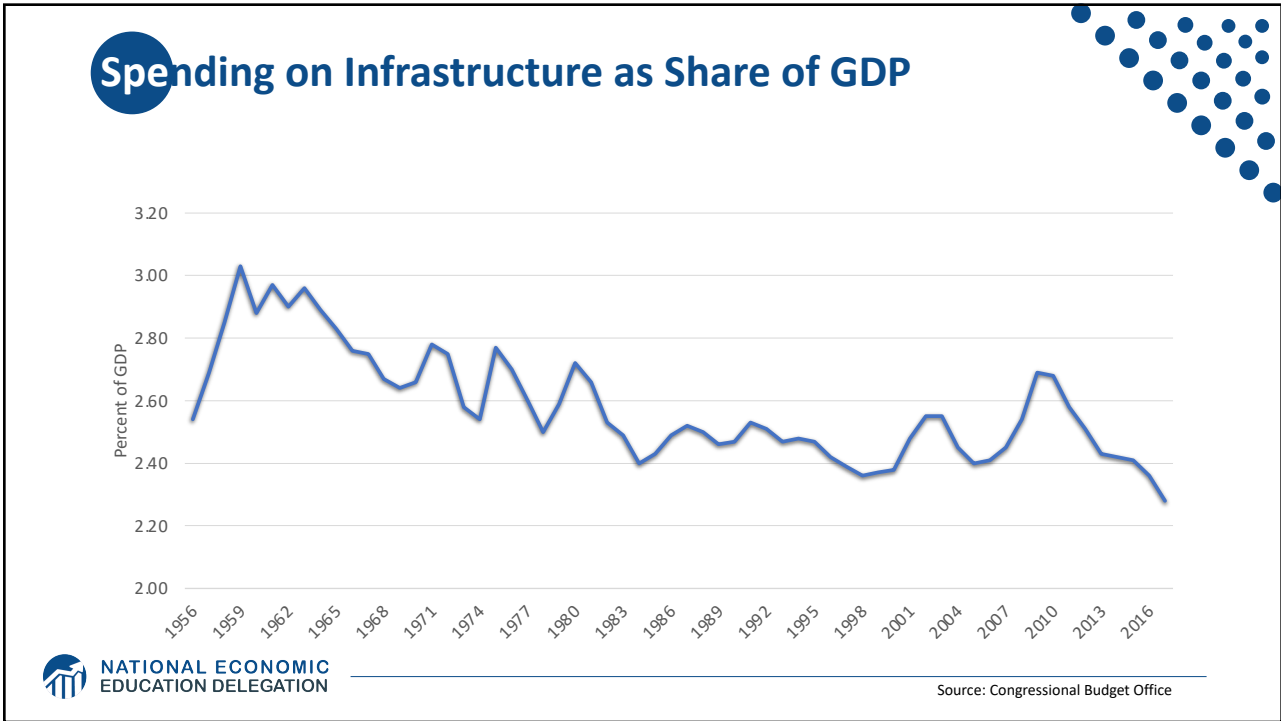
Government Spending on Infrastructure, 2017



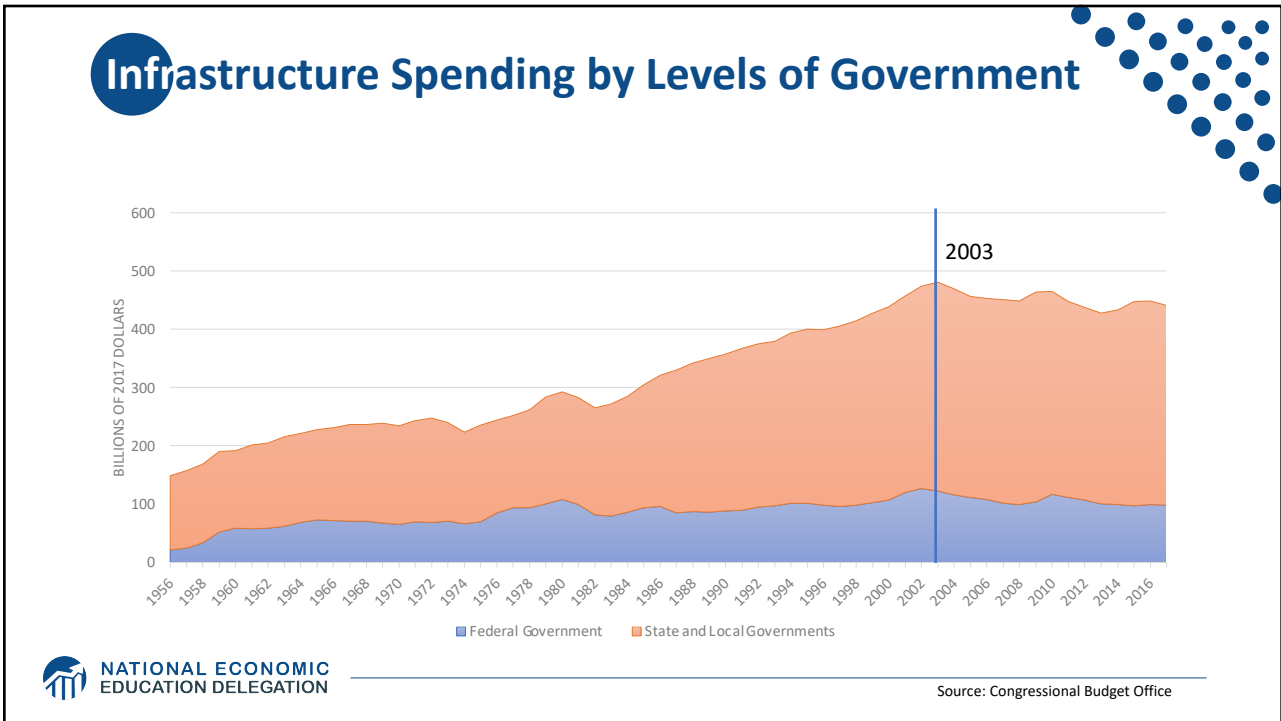
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Source: Congressional Budget Office

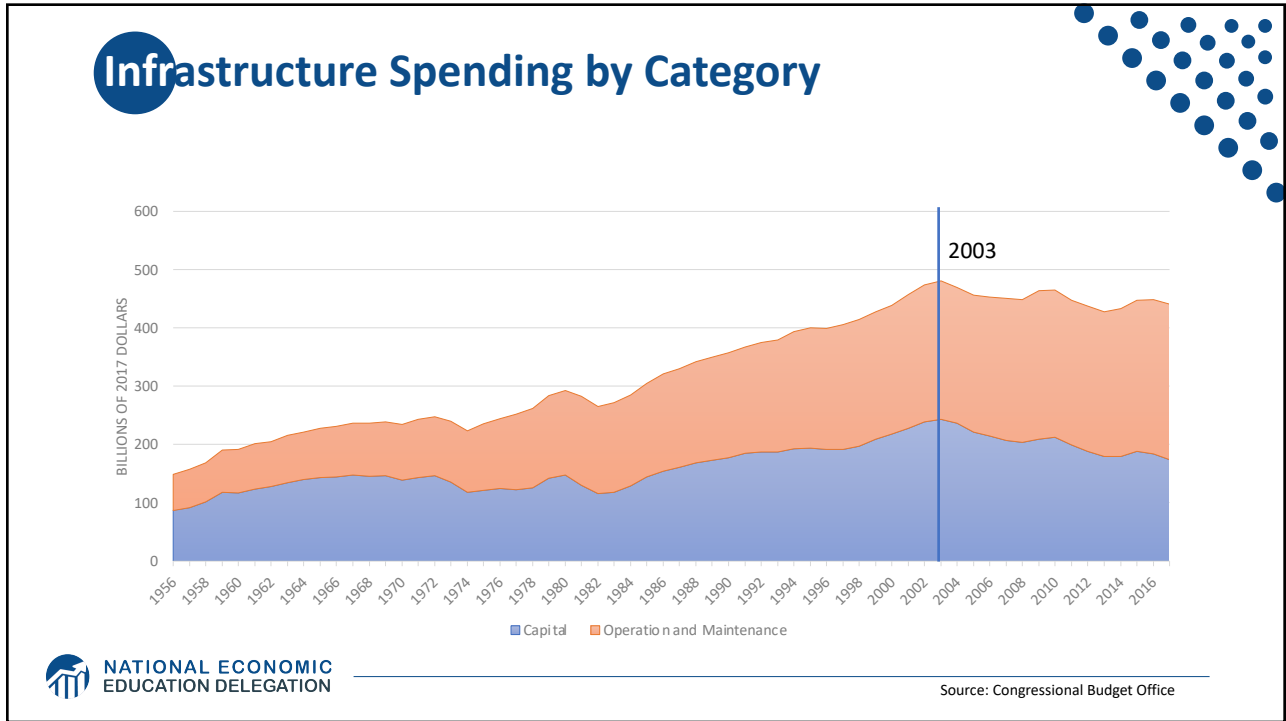
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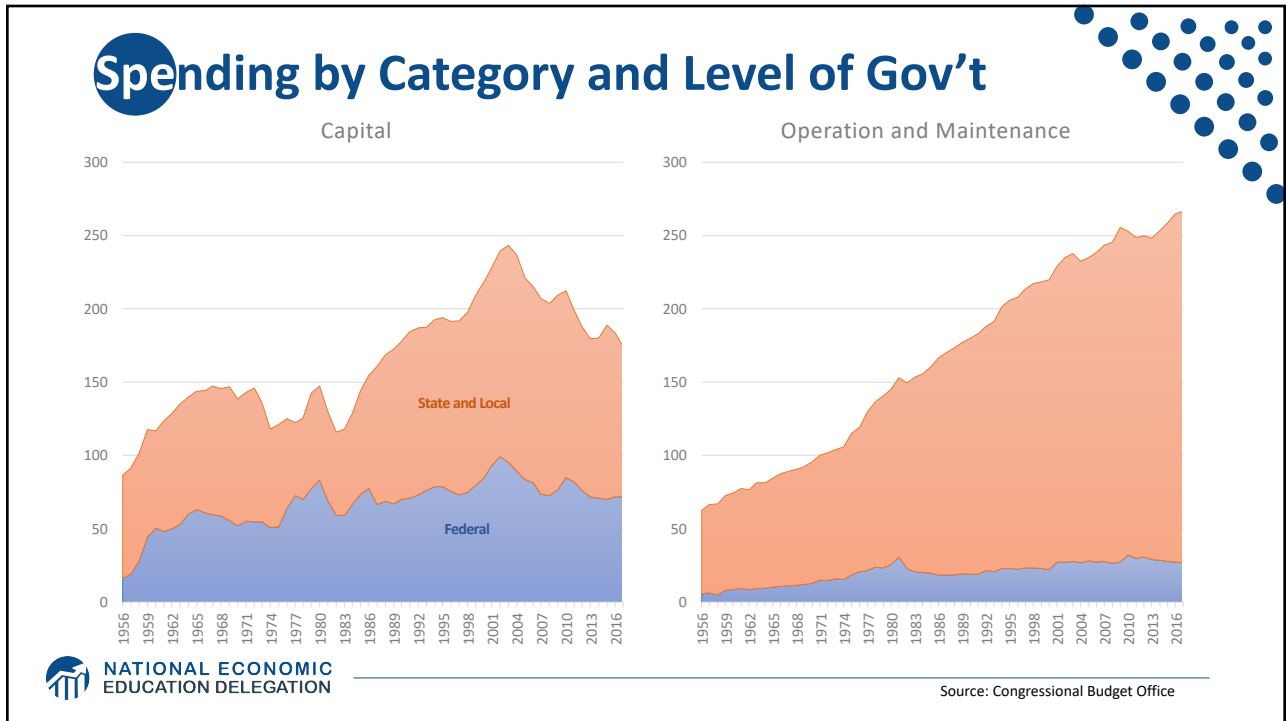
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Federal vs. State and Local Gov't Roles in Infrastructure Investment

Mode	Typical Maximum Federal Share of Total Spending	Decision making roles of Federal, State and Local Gov'ts
Highways	80% of capital	State and local gov'ts choose projects, following federal rules and conditions
Mass Transit	80% of capital, 50% of operations	State and local gov'ts choose projects, following federal rules and conditions
Rail	Not applicable	Regulatory
Aviation	75%-90% of capital	State and local gov'ts choose projects, following federal rules and conditions; Federal gov't designs the national aviation system
Water Transportation	40%-100% of construction, 50%-100% of operations	Federal gov't chooses water projects with Congressional approval

Federal Support for State and Local Infrastructure

- **Federal government provides to state and local governments**
 - major financial support for highways, mass transit, aviation, and water utilities.
 - relatively little financial support for water infrastructure

Funding vs. Financing Infrastructure Investment

- **Funding**
 - Spending current resources
- **Financing**
 - Issue bonds to be repaid in future
 - Attractive option if government doesn't have funds now
 - Limits future availability of funds
- **1/3rd of public investment between 2007-16 involved federally supported financing.**



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Sources of Federal Infrastructure Financing

- **Discretionary spending**
 - subject to appropriation
 - capitalization grants for state banks and
 - fund the net subsidy costs of direct federal credit programs
- **Direct spending**
 - authorization of mandatory spending
 - 2009-10 Build America Bonds program for transportation and water projects
 - future programs of tax credit bonds
- **Federal tax exemption for the interest paid on various bonds**



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Federal Financing of State and Local Infrastructure

- **50%+ state and local infrastructure spending financed through**
 - bonds that provide federal tax preferences or
 - federally supported loan programs
- **Examples:**
 - Tax exempt bonds ← Most widely used
 - State revolving funds and infrastructure banks (or state banks)
 - Direct Loans -- loans made using banks' capital funds
 - Leveraged Loans -- using the proceeds of bank issued tax-exempt bonds
 - Tax credit bonds
 - Direct federal credit programs



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Fiscal Substitution of Federal Infrastructure Investment

- A \$1 increase in federal highway grants, reduces state and local spending by 20-80 cents.
- The effect will vary depending on
 - fiscal condition of state and local governments,
 - whether federal spending change is permanent or temporary,
 - magnitude of the spending change,
 - direction of the change



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What About Private Sector Investment?

- State and local governments own almost all of the nation's transportation and water infrastructure.
- Most of the private-sector investment in these occurs through public-private partnerships for publicly owned infrastructure.



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What Is a Public-Private Partnership?

- **Per Engel et al. (2011)**

“an agreement by which the government contracts a private company to build or improve infrastructure works and to subsequently maintain and operate them for an extended period (for example, 30 years) in exchange for a stream of revenues during the life of the contract”

- New federal investment tends to favor new construction
- Traditional procurement separates design, construction and maintenance aspects
- Contractors involved in new construction not incentivized to build to minimize long term maintenance costs
- PPP helps correct this incentive problem.



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Types of PPP contracts

- **PPP contracts differ based on the amount of risk transferred from the public to the private sector:**
 - Design-Build (DB)
 - Design-Build-Operate-Maintain (DBOM)
 - Design-Build-Finance-Operate-Maintain (DBFOM)
 - Similarly, we can have DBF, DBFM, etc.



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Few Public-Private Partnerships in the US

- Colorado I-70 Project
- Denver FasTracks commuter and light rail project in Colorado,
- Goethals Bridge reconstruction project linking New York City and New Jersey
- Bayonne Water Joint Venture LLC project, a water and wastewater PPP in New Jersey
- Automated People Mover (APM) project at Los Angeles International Airport (LAX)
- LaGuardia Airport Terminal B P3 project



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Few Public-Private Partnerships in the US

- A few unsuccessful P3s in California
 - Route 91 toll lanes in Orange County
 - Route 125 toll road in San Diego County
 - Presidio Parkway project connecting the City of San Francisco to the Golden Gate Bridge



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An Alternative Financing Tool – User Fees

- **Make those who use infrastructure more heavily, pay for it.**
 - User fees help in appropriately rationing assets to the space.
 - Help in demand management where congestion is an issue



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An Alternative Financing Tool – User Fees

• Singapore's congestion pricing model

- Singapore -- an island nation with land area of 250 sq. miles
- Limited street capacity in the central business area
- Heavy congestion
- Electronic Road Pricing (ERP) System launched in 1998
 - o variable pricing designed to respond to congestion in real-time
- Complementary policies to ERP
 - o Parking fees inside the restriction zone doubled
 - o Buses and bus frequency increased
 - o HOV+4 lanes established
 - o 15,000 park-and-ride spaces were established outside the restriction zone



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Another Aspect of Infrastructure – Broadband

- Talk of a digital divide ubiquitous
 - especially considering the current pandemic
- 21 million+ Americans lack meaningful access to the internet
 - Meaningful access: 25 Mbps download and 3 Mbps upload
 - 14.5 million have no access at all
- Lack of access more common among the less educated, low income, living in rural or suburban areas
- 9 million+ school children lacked internet access for online schoolwork



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Broadband Access

- Modern-day equivalent of the interstate highway system
- Lack of access not just a rural problem
 - In 2016, 57% of households in Detroit, MI;
 - 49% in Memphis, TN and
 - 48% in Cleveland, OH without fixed broadband
- Digital redlining within cities
- Where available, service is often limited to a single service provider – natural monopolies
 - Due to high up-front fixed costs of laying fiber optic lines



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Solutions to the Access Problem

- 2021 Infrastructure Bill
- FCC Launched a \$20 billion Rural Digital Opportunity Fund in February 2020
 - \$6 million budget
 - Target census blocks that without 25/3 Mbps broadband
- Taking matters into their own hands, cities and communities:
 - Building municipal infrastructure and cooperatives providing broadband
 - Despite legal barriers or bans on publicly owned networks in 19 states
 - 850+ communities served by a municipal network or cooperative
- Community-owned networks are less expensive and have more transparent pricing than private ISPs – Harvard Study



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Community Network Map

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Source: <https://muninetworks.org/communitymap>

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Technological Advancements of the Future to the Rescue?

- **Low Earth Orbit (LEO) satellite internet**
 - On June 13, 2020 Elon Musk's SpaceX launched 58 satellites into low earth orbit as part of the Starlink program.
 - Aims to provide low-latency (less lag) satellite internet.
 - Better internet coverage than traditional communications satellites.
 - Could potentially provide high quality internet to homes and businesses without access to cable, fiber, or reliable cellular internet.

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Enormous Economic Benefits to Access

- **Individual benefits:**

- Better health and life outcomes.
 - o Access to health and education online.
 - o Job search and development of digital skills.
- Higher property values.
- Increased population and job growth.
 - o Higher rates of business formation.

- **Broader economic benefits:**

- World Bank
 - o 10% increase in access yields a 1.2% jump in real incomes.
- Indiana
 - o ROI = 300-400%.



Pace of Investment

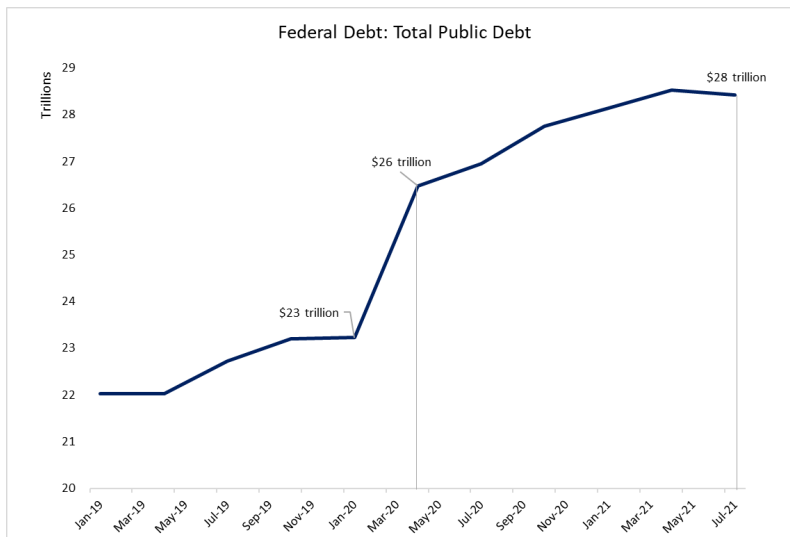


Too Much, Too Soon? Too Little, Too Late?

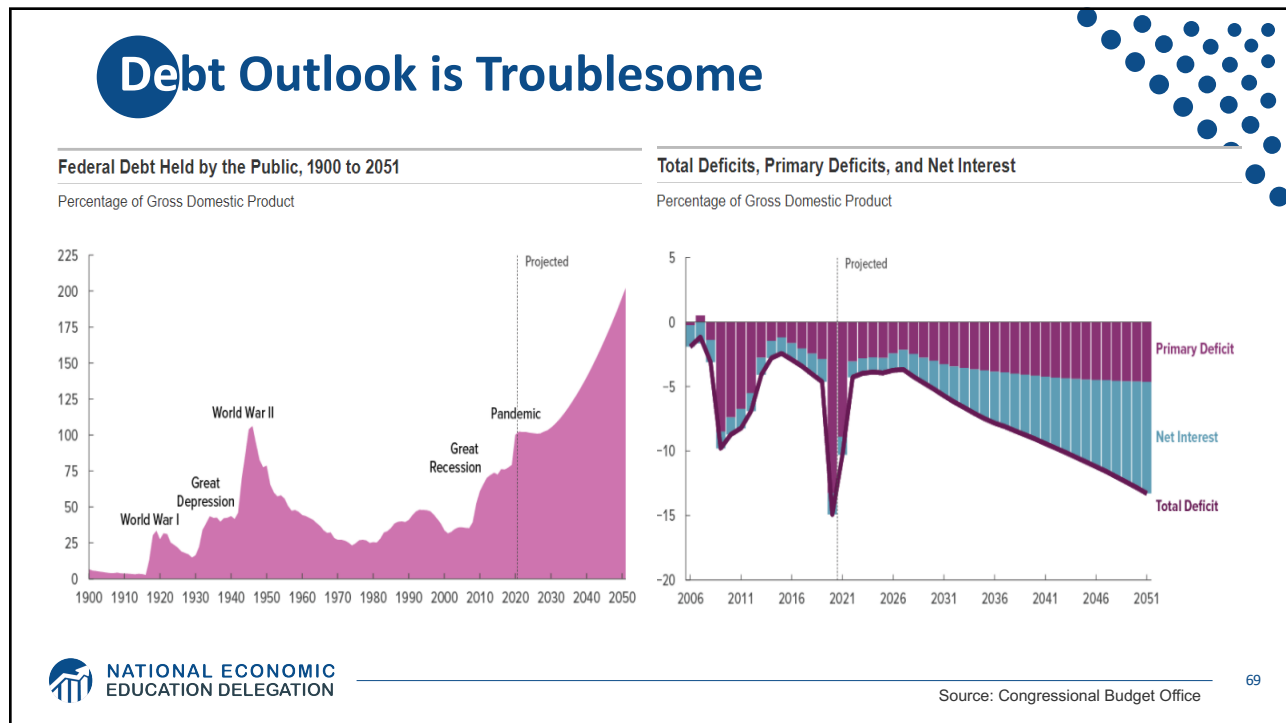
- Is the current infrastructure package appropriate?
- The United States has enormous needs.
 - Basic infrastructure – bridges, roads, etc.
 - Other:
 - General R&D: 2% of GDP in the 1950s, currently 0.75%.

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COVID Borrowing



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Thank you!

Any Questions?

www.NEEDelegation.org

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