Investments in Infrastructure Bring High Returns

State and local governments are major investors in the country’s streets and highways, bridges, ports, airports, commuter rail, bus and subway systems, water treatment and distribution, sewerage, solid waste management, police and fire stations and equipment, and courthouses. In many places they build hospitals and clinics, and some provide electric distribution or telephone service as well.

Research conducted over the past 25 years has established beyond a doubt that public infrastructure investment generates high returns. A recent summary of that research finds that the rate of return on public investment is between 15 and 45 percent, higher than rates of return on private sector investments. The summary concludes:

In short, the research is clear that public investment should boost measured economy-wide productivity while also spreading the benefits of this growth more broadly and increasing quality of life that is not captured in productivity statistics.¹

The connection between public infrastructure and private sector productivity makes sense. Transportation improvements, for example, mean that raw materials and finished products can be shipped more quickly, more reliably, and at a lower cost to the producer and consumer. A clean and reliable water supply is essential to most any business, as are police and fire services that protect business assets. What is perhaps surprising is the
magnitude of the benefit to the private sector: public investment substantially raises private economic productivity, and in so doing raises rates of GDP growth and could lower future budget deficits even if that investment is financed by issuing bonds. The increased growth and income that would follow from a substantial level of new public investment would generate sufficient tax revenue to not only cover the debt payments but to reduce deficits.\(^2\)

Importantly, the benefits of infrastructure investments are shared among everyone — individuals as well as businesses. The same road improvement that reduces shipping costs reduces the time workers spend commuting and families spend driving to school or the grocery store. The improvements to the quality of life that result from reduced travel time, cleaner water, better access to health care and recreation, or safer streets are shared broadly among the general population. Thus the total payoff from infrastructure investments is even larger than the 15 to 45 percent return measured by gains in private sector productivity.

A recent report makes a strong case for states increasing their investments in infrastructure as a way to put workers back to work, increase productivity and job growth, and enhance the quality of life for a state’s residents: “Reversing the decline in state investment in transportation, public buildings, water treatment systems, and other forms of vital infrastructure is key to creating good jobs and promoting full economic recovery — and this is an especially good time for states to do it.”\(^3\)

