National Infrastructure Banks Prove Superior to PPPs

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This Brief makes the case that National Infrastructure Banks (NIBs) have historically proven to be superior to Public-Private Partnerships in building American infrastructure.

There have been four major National Infrastructure Banks/Systems in our nation's history,[1] starting with the First Bank of the United States created in 1791 by Treasury Secretary Alexander Hamilton, and ending with Franklin Delano Roosevelt's Reconstruction Finance Corporation (RFC, 1932-1957), which lifted us out of the Great Depression and contributed to our victory in World War II. In all four cases, during the periods when these Banks were in operation,

- American infrastructure spending expanded sharply;
- Economic growth became supercharged, leading to better paying jobs, reduced income inequality, and a more productive private sector;[2] and
- Expanded government tax receipts (from higher growth) meant that nearly all infrastructure loans were repaid, and the Banks either broke even or turned a profit.

The new Tappan Zee Bridge

across the Hudson River—on
time and not a PPP.

Meanwhile, since the 1970s, as the availability of public funding for infrastructure projects started to wane, [3] [4] governments increasing turned to Public-Private Partnerships [5] to fill the financing gap. **A Public-Private Partnership (P3) typically involves a private entity financing, constructing, and operating a public investment project in return for a promised stream of payments (directly from government or indirectly from users) over the projected life of the project.**

Proponents of P3s make the case that private companies can finish projects more quickly, cheaply, and innovatively than governments can, although there is no clear evidence of this over the long run. At the same time, P3s have exhibited serious disadvantages, including: [6] [7]

- Higher project costs (resulting in higher user fees) on account of:
- The need for private investors to earn a rate of return greater than the government's bond rate, even though most or all of the income risk is borne by the public sector.
- The tendency of for-profit companies to maximize their revenue (a conflict of interest), especially as the public services they provide are natural monopolies to begin with. And
- Contract problems, associated with:
- Long contract lengths that may not be sustainable if the private provider is inept or corrupt, in which case bankruptcies[8] may occur, or local government may feel obliged to bring a project back in-house because of poor service provision or escalating user fees.[9]
- Lack of technical capacity, by public officials to formulate and manage sufficient oversight over complicated infrastructure projects.

Possibly the most serious drawback of P3s, however, is that they have NOT stepped in to fill the infrastructure financing gap. The American Society for Civil Engineers estimated in 2017 that $4.7 trillion is needed over the next ten years to repair our nation's infrastructure, of which $2.1 trillion is currently NOT funded ($1.1 trillion is not funded for road transport alone).[10] Meanwhile, only about 1.5% of the country's infrastructure projects are paid for by private capital, despite banks having plenty of liquidity (cash on hand) to fund them.[11] If P3s could have financed critical infrastructure projects over the past 60 years (since the RFC was wound down), they would have done so already.

Rather, the proven alternative to P3s would be a new National Infrastructure Bank to lead in funding infrastructure repair, and adopting cutting edge technologies, to substantially spur economic growth and good paying jobs, as was done in the past. Such a Bank would have the scale and technical expertise to rebuild infrastructure across America. Moreover, it would work closely with existing P3s such as utilities and transit and port authorities to provide the critical funding that is sorely lacking today.

[1] A Brief History of the Principle of National Banking in the United States, by americansystemnow, August 27, 2018.

[2] The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War, by Robert J. Gordon, Aug 29, 2017.

[3] It's Never Infrastructure Week – U.S. government investment spending is the lowest it's been in 70 years. That's probably too low. By Justin Fox, September 6, 2018.

[4] It's Time for States to Invest in Infrastructure, by Elizabeth McNichol, August 10, 2017.

[5] Public-private partnership, From Wikipedia,

the free encyclopedia.

[6] Public-Private Projects Where the Public Pays and Pays, By Matthew Goldstein and Patricia Cohen, June 6, 2017.

[7] More states privatizing their infrastructure. Are they making a mistake?, By Brad Plumer, April 1, 2012.

[8] Lessons to be learned from bankruptcy filings in public-private partnership (PPP) projects in the United States, by Offei Adarkwa, Omar Smadi, and Ahmad Alhasan (Center for Transportation Research & Education (CTRE), Iowa State University), Volume 2 Issue 2 – 2017.

[9] See various surveys of public officials by the State and Local Government Review, a quarterly, peer-reviewed, academic journal on public administration.

[10] American Society of Civil Engineers' 2017 Report Card for America's Infrastructure.

[11] Filling the infrastructure financing gap, By Otaviano Canuto, Executive Director World Bank, 12/04/2017.