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## World Offers Cautionary Tale for Trump's Infrastructure Plan.

LONDON — The rest of the planet bears a warning for President Trump's plan to lean heavily on private business in conjuring a trillion dollars' worth of American infrastructure: Handing profit-making companies responsibility for public works can produce trouble.

In India, politically connected firms have captured contracts on the strength of relationships with officialdom, yielding defective engineering at bloated prices. When Britain handed control to private companies to upgrade London's subway system more than a decade ago, the result was substandard, budget-busting work, prompting the government to step back in. Canada has suffered a string of excessive costs on public projects funneled through the private sector, like a landmark bridge in Vancouver and hospitals in Ontario.

By contrast, China has engineered one of the most effective economic transformations in modern history in part through relentless investment in infrastructure, traditionally financed and overseen by an unabashedly powerful state. China illustrates both the benefits and perils of state domination. It has constructed projects strategically, as part of a highly successful effort to catalyze economic growth. Yet the state has wielded authoritarian powers, generating waste and corruption.

The Trump plan was heralded as a way to lift America's sagging infrastructure while spurring growth. But it risks yielding India-like problems while failing to produce China's economic benefits.

Many economists warn of a classic mismatch of incentives. Governments may have good reason to invest in projects that yield no profit, building roads to nowhere that ultimately open up undeveloped land for job-generating commerce. Government alone has the incentive to upgrade shoddy wastewater treatment and supply systems for drinking water. Absent public guarantees for profits, private companies have no inducement to bring such works into creation.

"Private investors need to have a decent rate of return," said Louis Kuijs, head of Asia for Oxford Economics, based in Hong Kong. "They cannot wait 40 years, and they are simply not able to take into account the additional tax revenues for the government."

India's heavy reliance on so-called public-private partnerships — the mechanism Mr. Trump has in mind — comes not from some ideological predisposition toward private enterprise, but from the fact that its government is short of financing. Like most countries, India cannot borrow as cheaply as the United States, which attracts virtually unlimited flows of investment by dint of the dollar serving as the global reserve currency.

India has expanded its highway network with private companies collecting tolls. Power stations have been erected, though often at costs far in excess of initial bids. Banks, many operated by the state, have been left with piles of bad debts as developers have failed to recoup enough to pay their loans.

"It hasn't worked out," said Pranab Bardhan, an economist at the University of California, Berkeley, and the author of "Awakening Giants, Feet of Clay: Assessing the Economic Rise of China and India."

“Many of the infrastructure projects in India are now stalled.”

In 2008, the Indian highway authority granted a contract to a private company, a subsidiary of L&T Infrastructure Development Projects, to establish a six-lane toll road beginning in the state of Tamil Nadu, running north from the city of Chennai. By the government’s reckoning, the highway was supposed to be finished three years later at a cost of about \$65 million. But difficulties in acquiring land led to delays and cost overruns. Two years ago, the company defaulted on its loans. The road has yet to be completed.

That Mr. Trump will find investors for his plans may be taken as a given. Be it Japan, Europe or North America, central banks have maintained rock-bottom interest rates in an effort to spur recovery from the worst financial crisis since the Great Depression. As a result, money managers are on the prowl for investments offering a decent rate of return.

“Infrastructure investment, which typically yields 3 to 4 percent, looks relatively attractive,” said Linda Yueh, a visiting senior fellow at the London School of Economics.

But others question why the United States needs to involve private money. The American authorities can tap vast and sophisticated bond markets, with municipal bonds exempt from federal taxes.

“The borrowing costs for the U.S. government are zero,” said Mark Weisbrot, a co-founder of the Center for Economic Policy and Research in Washington. “There’s simply no reason to turn to private capital and all the complications, uncertainties, and opportunities for corruption and bad outcomes that you add to the mix.”

China provides a textbook case of what happens when the state invests aggressively in infrastructure. From 1992 to 2013, China allocated about 8.6 percent of its economic output toward infrastructure projects, according to an analysis by the McKinsey Global Institute. In 2013 alone, China spent \$829 billion on infrastructure, more than the United States, Canada and Western Europe combined.

Inefficiency has added to the cost of many projects. Corruption has erected no shortage of white elephants. Still, China’s huge expansion demonstrates the benefits of the state guiding infrastructure spending.

Had the private sector been shaping plans, the Pearl River Delta in southern China would presumably not have gained the ports, highways and electrical supplies that transformed it into a clattering zone of industry. Once in place, the infrastructure attracted vast sums of foreign investment. The region grew into the factory floor to the world, generating millions of jobs for poor migrant workers.

That process has been aided by features of the Chinese political system that are anathema in the democratic world.

The government can seize land, moving less-than-enthusiastic residents to new homes. China has not been constrained by owls or fish or other environmental considerations.

In many areas, China overbuilt infrastructure, helping bring government debt levels to alarming proportions. The construction industry has frequently conspired with state banks and local officials to unleash projects that can be justified only as opportunities to make money change hands, enabling well-connected fingers to extract a cut.

Atif Ansar, the co-author of a paper studying China’s infrastructure investments and a management

scholar at the Saïd Business School at the University of Oxford, said he and his colleagues found many roads that “were almost empty” in parts of southwestern China.

“Had China focused on about a third of its most productive investments, it would have reaped lasting economic benefits without the debt overhang,” Dr. Ansar said.

As China’s indebtedness has soared, the state has expanded infrastructure investment while turning to a new mode that limits the state’s direct outlay — the public-private partnership. Two years ago, China invited private investors to finance more than 2,000 proposed infrastructure projects totaling an estimated \$622 billion.

Mr. Trump is not one to let cautionary tales stand in the way of his plans. The globe appears poised for another test case in what happens when private finance is handed control over public works.

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