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## How to Improve Infrastructure Project Selection.

### **Account for positive regional spillovers, environmental impacts, and job creation benefits**

**What this report finds:** Resources for infrastructure investment are limited; therefore it is critical that we select and prioritize those projects that provide the highest net economic and social benefits. Under our current system, the benefits and costs of certain projects may be underestimated, leading to underprioritization of critical projects and overprioritization of projects that have a high social cost (e.g., transportation projects that result in significant carbon emissions). We find three major weaknesses in the current system:

- First, an insufficient level of coordination across levels of government means that the significant regional and national benefits (“spillover effects”) of local infrastructure projects aren’t always taken into account.
- Second, the costs of climate change—and therefore the value of mitigating carbon emissions through green energy investments—are likely being underestimated when prioritizing infrastructure projects.
- And finally, the economic benefits of infrastructure projects to distressed communities—both through job creation and through addressing critical needs like safe drinking water—are likely also being underestimated in the prioritization process.

**Why it matters:** Infrastructure plays a key role in the economic vitality of our country. When infrastructure investment is managed inefficiently, we lose opportunities to meet some of our country’s most critical needs: maintaining the quality and integrity of our national infrastructure networks, addressing the challenges of climate change, and narrowing economic gaps across regions.

**What can be done about it:** Establish a governing body at the federal level to oversee infrastructure coordination; regularly reassess the social cost of carbon (SCC) emissions; and earmark a significant portion of infrastructure investment as economic stimulus for communities in distress.

### **Introduction**

Despite a recent outpouring of bipartisan rhetorical support for an increased investment effort in infrastructure, resources for public investment of all kinds—including infrastructure—remain extremely strained. Net federal investment, for example, saw its most recent peak in 2010 and has been lower than this peak level in each year since (BEA various years).

Given this, it is crucially important to make sure that each dollar actually shaken free for infrastructure investment provides maximum “bang for the buck” in terms of social and economic benefits. Further, a number of developments in the American economy—for example, the growing threat of climate change and the extraordinarily uneven pace of recovery from the Great Recession—mean that current methods for prioritizing infrastructure projects are inadequate because they fail to ensure that we have the right mix of investments to meet future challenges.

This report highlights weaknesses in the status quo of how infrastructure projects are selected and prioritized, and it provides broad recommendations for how these weaknesses can be addressed.

**Key findings and recommendations of this report are:**

**Infrastructure investment in the United States could benefit from much greater coordination of project selection across levels of government (federal, state, and local).**

Coordination is essential because a bigger-picture view is essential to ensuring that the benefits of regional and national spillover effects are taken into account when selecting and prioritizing projects. The benefits of coordination will likely grow in the near future as key infrastructure challenges that require a coherent national response—such as fundamental restructuring of the electric utility sector—rise in importance.

**Recommended policy solution: Establish a governing body at the federal level to oversee infrastructure coordination. Effective coordination across levels of government will almost certainly require a strong lead role for federal government institutions.** Either a cabinet-level agency or an empowered interagency working group (modeled after the Financial Stability Oversight Council) would likely be needed to develop both the capacity and the authority to have meaningful sway over project selection decisions. A potentially useful federal tool for developing the capacity to make informed project selection decisions could be a national infrastructure bank; this bank could also explicitly specialize in projects with large likely regional spillover effects.

**Cost-benefit analyses in the selection of infrastructure projects likely underestimate the full costs of carbon emissions that lead to climate change.** The federal government under the Obama administration took a major step forward by including a social cost of carbon (SCC) emissions estimate in many governmental decision-making processes, but the current SCC value is potentially too low and likely underestimates the value of greenhouse gas mitigation. In addition, states are still free to essentially ignore the costs of carbon emissions (and the benefits of mitigation) when making infrastructure prioritization decisions.

**Recommended policy solution: The federal government's estimate of the SCC should be reassessed on a rolling basis by a panel of experts that continually track new research and estimate its implications for the SCC.** The “insurance value” of the SCC—stemming from the probability of climate catastrophes occurring due to greenhouse gas emissions should be given a larger weight in the SCC's calculation.

**The welfare costs of regional disparities in economic health are likely underestimated in the national process for selecting and prioritizing infrastructure projects.** This is mostly because so much infrastructure selection is done by state governments, which understandably do not take other states' economic circumstances into account when making investment decisions. However, even some of the official guidance provided by federal agencies to states about what should be considered a benefit of infrastructure investment likely radically undervalues the job-creation character of this investment.

**Recommended policy solution: A significant tranche of federal investment funds should be earmarked for allocation based on long-term indicators of labor market distress, both by geography and (perhaps) by community groups within regions.** The explicit goal should be to use the public investment to make sure that jobs created disproportionately benefit the places and communities that are experiencing the most labor market distress.

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## **Economic Policy Institute**

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