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What Is Driving Up the Cost of Highway Construction?

The cost of building one mile of interstate highway in the 1980s was three times what it cost in the 1960s, adjusted for inflation, Leah Brooks of The George Washington University and Zachary Liscow of Yale University find in a paper prepared for the 2019 Municipal Finance Conference at Brookings.

Brooks and Liscow marshal historical data from the Federal Highway Administration to try to explain these spending patterns. They rule out a few popular explanations: highway planners did not leave the most geographically challenging routes to do last. Changing costs for construction material or labor don't explain the increase in spending over time. Neither do the costs of acquiring rights of way or the costs of planning. And there were no large changing of federal interstate highway construction standards over time.

Instead, the authors find evidence that suggests two other explanations. One is what the authors call "the rise of 'citizen voice'" beginning in the 1970s, which brought costly environmental review delays. They suggest that "projects associated with wigglier highways may have encountered resistance that both led to less direct routes and also more expensive construction." They find that a 0.01 mile per year increase in the wiggliness of a highway is associated with a $9.71 million increase in costs.

The second possible explanation is an increase in the quantity (not the price) of labor. The authors use unionization rates and the average share voting Democrat in presidential campaigns (an indication of a state's political leanings) over time as proxies for the importance of labor in each state.

Brooks and Liscow also find substantial variation in spending among states: New Jersey, for instance, spent $35 million more per mile than Delaware. They find these differences are not explainable by observable differences in state policy or in the geography of the places where the roads are built. "This puzzling but striking unexplained residual," they write, "resembles the large explained residual in health care spending across states and merits further investigation."

Read the paper here»

The Brookings Institution

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