On Infrastructure, There Ain't No Such Thing As A Free Lunch

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I first encountered this acronym in the early 1970s when a high school social studies teacher wrote it across a blackboard. He promoted an analytical, market-oriented approach to socioeconomic issues at a time when the curriculum and teaching were dominated by searing, emotional debates prompted by the Vietnam War. TANSTAAFL: There Ain't No Such Thing As A Free Lunch.

I was reminded of his lesson by a recent front-page article in the New York Times concerning bad public sector experiences with privatization of public infrastructure – "In American Towns, Pumping Private Profit From Public Works." In its timing and effect, the article seemed calculated to raise concerns about our new president's "trillion dollar" proposal to address the nation's public infrastructure deficit by providing incentives for much greater private investment.

Private industry participation in the provision of public infrastructure should not be a partisan issue, nor should its value be questioned simply because there are instances in which private capital and industry have negotiated advantageous terms with public entities.

For several years, and with good reason, the Obama administration promoted a public-private partnership (P3) infrastructure procurement model. Its value is well understood and proven outside the U.S., where the model is common and has been refined over decades.

In appropriate circumstances, the P3 model can yield substantial, immediate and longer-term cost savings. It does so by promoting innovative project design and imposing long-term (up to 30 years) operation and maintenance responsibility on the party best placed to bear that responsibility – the private party that designs and constructs a facility.

Equally important, long-term contractual arrangements can help public owners overcome the all-too-common tendency to defer regular capital maintenance and reinvestment due to budget fluctuations and election cycles, leading to precisely the sort of costly deficit and performance issues we face today. The costs associated with performance issues, in terms of economic efficiency, health and safety, are very real costs of inconsistent, patchwork maintenance.

The issue is not private participation; it is, as with most transactions, a matter of execution. People make bad financial decisions, and private sector participants in the infrastructure industry are not immune.

P3 transactions are complex and vary greatly in purpose and structure. There are wide disparities between parties in knowledge, experience and expertise, and P3 transactions are relatively new to the U.S. This can produce an unbalanced transaction, notwithstanding that P3 procurements are normally accomplished through a competitive process.

Poor execution of isolated transactions is not a reason to reject private industry's increased participation in the delivery of public infrastructure services. Instead, it is a reason to make certain that public officials are well-informed, understand clearly the risks and rewards of alternative procurement models, and have access to independent, expert advisors.

All of us need to get beyond the public vs. private sector debate if the nation is to address its public infrastructure deficit. Let us accept that private participation can add value in appropriate circumstances with proper execution. This issue is a distraction from far more fundamental issues we must address, many of which flow from our federal system of government and historic deference to local determination.

The U.S. is unusual in the degree to which our federal system empowers 50 separate states and, within each state, hundreds of local governments to make decisions with respect to our public infrastructure. State and local governments have long had discretion, subject to constituent support, to determine the nature of their infrastructure, to raise revenue to pay for it with taxes and user charges, and to borrow money anticipating revenue collection to pay for it.

This local autonomy fostered massive, unprecedented investment in infrastructure across the country beginning in the 1800s. Much of this nation's public infrastructure has been acquired and is owned by state and local governments, and local taxpayers and users have paid for it, creating legal, political and socioeconomic interests in it.

That local autonomy has, however, been a mixed blessing. It produced massive investment in individual facilities and systems that enhanced the standard of living and promoted economic growth in communities across the United States.

It is, however, an often fragmented system that is characterized today, with the convergence of communities, by facilities and services that are duplicative or lack the scale needed to make further investment cost-effective.

This problem has been exacerbated by heightened environmental and other regulatory requirements that increase the complexity and cost of the facilities that are required to serve any single community. To varying degrees, local governments have recognized the need to pool resources and entered into cooperative, regional arrangements. However, there remains, in many parts of the country, a significant issue as to how we should balance duplication and scale of facilities vs. local autonomy and control.

Our federal system introduces further complexity with its overlapping web of federal, state and local permitting and regulatory requirements. It is not sufficient that someone is prepared to write the check to pay for a project. Without further harmonizing and streamlining regulatory requirements, it will be years, if not decades, before many important projects will be "shovel ready."

Ultimately, the infrastructure we have is a function of what we, as local communities and a nation, are willing to pay for – through taxes, availability and user charges. Recent generations have consumed, without adequate reinvestment, much of the public infrastructure paid for by prior generations. At the same time, population growth and relocation, demographic shifts and technological change have stimulated demand for new infrastructure investment.

But many taxpayers and users, already struggling, may prefer to live with and continue to consume what remains of the infrastructure we have, making only patchwork repairs. They cannot envision a direct, tangible benefit of paying for its improvement. Greater private investment may help us meet our needs; but so long as lenders expect to be repaid and investors demand a return, Americans must be willing to pay for what is provided, regardless of how it is procured.

TANSTAAFL!

Our existing public infrastructure deficit presents an opportunity – to enhance the efficient use of our existing infrastructure and to thoughtfully consider and adopt new tools to address our needs in the most efficient and cost-effective manner. The money to meet our infrastructure needs exists and can be made available. Much of it is in search of sensible, executable investments that have the support of state and local governments and their constituents.

Federal leadership is needed not only to provide fiscal support, but also to garner the state and local administrative, fiscal and popular support needed to realize the opportunity.

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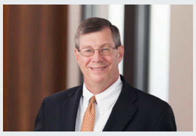

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