3 Reasons for Infrastructure Investments

By:www.ProfitableInvestingTips.com.

The Biden infrastructure and jobs proposal has been launched. Getting the $2 Trillion proposal through Congress in one piece may be difficult but should not be impossible as every member of Congress would see benefits of spending, jobs, and infrastructure improvements in their districts and states. The sorry state of US infrastructure is touted as the reason we need such a plan and so much spending. But there are really three reasons for infrastructure investments which are high unemployment, dead end jobs, and infrastructure in need of fixing.

Why Invest in Infrastructure?

The Brooking Institution makes the case that the USA has three major problems of which infrastructure is just one.

> *As COVID-19 continues to take a toll on the economy, America faces three interrelated challenges: (1) high unemployment alongside a historically low reemployment potential; (2) a precarious labor market with too many low-wage, dead-end jobs; and (3) large infrastructure gaps that hamper productivity and growth.*

So many skilled, middle-class jobs have left the USA over the years as work has been sent offshore or taken over by automation. The Covid-19 pandemic has gutted the service industry and many companies have found that they can replace workers with computer programs. Thus, skilled trade and factory jobs which turned into gig service jobs are going away as well. The benefit of so many infrastructure projects is that they require the sort of skilled workers that the USA once had so many of. These projects employ US workers and cannot be done in foreign shops by foreigners. The point that The Brookings Institute makes is that by investing in infrastructure we will create jobs and jobs that will last. And, those jobs will be skilled jobs with better pay. And, on top of that, we will get to fix all of that broken and out of date infrastructure!

How Do Infrastructure Investments Pay for Themselves?

The leading argument for why Congress should not pass Biden's infrastructure and jobs proposal is that he will be raising taxes to help pay for it. The work as envisioned will take eight years or more to complete and higher taxes by themselves will cover half of the cost during that time. If these projects were to provide no further economic benefits (and higher tax revenues) it would take 16 years to pay for the Biden proposals. But, infrastructure work that is properly planned and executed does pay for itself many times over in increased efficiency, more jobs, economic growth, and higher tax revenues.

Investing in Bridges

An excellent example is the Brent Spence Bridge that crosses the Ohio River from Cincinnati to Northern

Kentucky as noted by *NPR*. More than a billion dollars worth of freight crosses the bridge on I 75 every day, connecting businesses from Michigan to South Florida. The bridge was declared obsolete in 1980 (40 years), is constantly backed up by a couple of miles and has had parts of it FALL OFF over the years.

Repairing the bridge and building a new one alongside would cost $2.6 billion over several years. Northern Kentucky University did an economic benefit or cost-to-benefit analysis of this project considering just local factors in Ohio and Kentucky. Their study sheds light on how spending on such a project has direct and induced effects as well as a multiplier result. The project would create more than 24,000 jobs over a ten-year period, $1.9 billion in labor income, and nearly $200 million in additional state and local tax revenue. Here are the factors that they used to assess the project.

Direct impact: revenues or income of businesses or operations including labor, parts and supplies, property and property improvements and so on Indirect effects: additional employment, labor income or output within the region which is the result of business spending, such as the purchase of advertising services, cleaning services, vehicle purchases, etc.

Induced effect: additional employment, labor income or output within the region which is the result of employee payroll (labor income) spending, on items such as utilities, medical care, groceries, childcare, etc.

Total impact: the sum of the direct impact, indirect effect and induced effect.

Output: is defined as the additional economic activity and spending in a region

Employment: the number of full and part-time jobs

Labor income: wages or pay plus benefits earned by individuals in the region

Multipliers: quantify the "ripple effect" of industry spending and jobs. Each industry sector has its own effects on the economy. For example, hospitals spend more on laundry services than grocery stores. Average pay also differs by industry, and more highly paid employees spend more on groceries, cars and so on than employees with lower pay. IMPLAN (the analytic system they used) provides multipliers on more than 400 detailed industry sectors.

This was an analysis of local factors and did not take into consideration increased federal tax revenues or the effects on businesses in the Michigan to South Florida corridor of improvement of this Ohio River Bridge. The bottom line is that fixing things like an economically important bridge (as opposed to a "road to nowhere" pays for itself. It does so with direct, induced, and multiplier benefits during the construction phase and then with economic efficiency for decades thereafter.

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