

The Virtuous and Vicious Cycles of Infrastructure and Economic Development

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Local governments across upstate New York are faced with the challenges of fiscal stress. There are multiple strings that tug at this issue, such as abandoned and crumbling infrastructure, a decline in state funding, as well as declining and aging populations.

While local governments strive to maintain the roads, bridges and water systems that sustain their communities, New York State's crumbling infrastructure has become a pervasive issue. In the aftermath of the Great Recession, state aid to support infrastructure maintenance and improvement declined. Today's diminishing funds have been cause of great concern for upstate governments, who recognize that infrastructure investment is necessary for economic development.

The interaction between infrastructure and economic development can be understood as a simple cycle with the potential to spiral upwards toward a virtuous cycle of growth or downwards in a vicious cycle of decline. The graphic to the right illustrates these mutually reinforcing processes. In a virtuous cycle, infrastructure investment leads to economic growth, which strengthens tax bases and, in turn, generates further growth. However, upstate localities experience a vicious cycle where under-investment in infrastructure weakens growth, erodes tax bases, and exacerbates economic decline.

To address upstate New York's vicious cycle of infrastructure underinvestment, economic decline and degrading tax bases, we suggest the following as potential solutions:

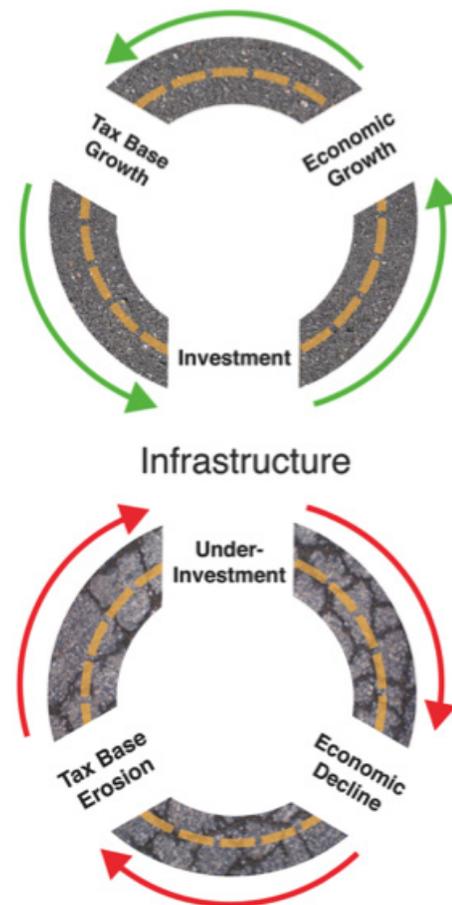
1. **Strengthen the tax cap by reforming it:** Reform the tax cap to allow capital expenditure exemptions for local governments (as is the case currently for schools). This will provide greater fiscal flexibility for infrastructure investments.

2. **Increase State Investment in Infrastructure:** State aid for infrastructure has been declining and state economic development policy is not sufficiently focused on infrastructure. A more

balanced economic development approach is needed to allow all municipalities, school districts and the State to grow together.

In addition to supporting economic growth, the proposed measures will help upstate NY retain to its best young talent. New York State will be able to reverse its vicious cycle towards a balanced and virtuous cycle of growth and efficiency.

Which Road Will New York State Take?



*The full report on which this brief is based can be found at <http://cms.mildredwarner.org/p/234>