TRANSPORTATION INFRASTRUCTURE AND COUNTRY ATTRACTIVENESS

Cross-country comparison conducted by the World Pensions Council (WPC) suggests that transportation infrastructure, although important, is not a major determinant of institutional investment.

By a cruel irony, the death of Margaret Thatcher earlier this year coincided with the publication of the quadrennial "Report Card for America's Infrastructure"[1] published by The American Society of Civil Engineers (ASCE). The United States earned a grade of D+, the equivalent of 3/20 in the Mainland European grading system, a surprisingly low mark for a country still viewed as the center of gravity of the world economy and a futuristic "beacon of economic modernity."[2] Before the start of the Great Recession in 2008, contrarian academics such as Prof. Juliet Schor were often ostracized even by their "progressive" peers for daring to question the economic achievements of the Clinton and Bush Administrations, affirming instead that *"as public goods decay and democracy wanes, the populace is offered SUVs, malls, and debt"*[3]

On the other side of the Atlantic pool, Britain is now lagging behind many EU nations when it comes to transportation infrastructure. Yet the UK's National Audit Office recently joined forces with some of the nation's economic thought leaders to criticize the *Conservative*-led cabinet of Prime Minister Cameron for planning to build a second high-speed rail line (HS2) in 2015, at a time when nations such as France, South Korea and China already have dozens of such fast-transit rail systems.[4] This disapproving attitude seems to stem from deeply rooted ideological convictions- notably a pronounced scepticism as to whether sustained government investment in transportation infrastructure is at all desirable.

SHEDDING THE IDEOLOGICAL EXCESSES OF THE PAST 33 YEARS...

Transportation infrastructure is the *archetypal* "long term asset class" with slow, capital-intensive investment cycles and concessions typically spanning 30 years or more. To understand the current situation in the US and the UK, we therefore have to study the ideological underpinning of US and British politics back in the late 1970s/early 1980s, an era of acute polarization marked by the rise of a new breed of "neo-conservative" policy makers eager to shed the traditionally centrist policy mix pursued by "Eisenhower Republicans" in Washington DC and moderately conservative "One Nation Tories" in London. Infrastructure was once an *apolitical*, positively connoted, technocratic term shared by mainstream economists and policy makers from both sides of the ideological fence including conservative thinkers such as Walt Whitman Rostow and President Eisenhower, a praetorian Republican leader who had championed federal government investment in the Interstate Highway System, America's national road grid, and the Verrazano-Narrows bridge, once the world's largest suspension structure.

But things changed abruptly with the advent of an extreme form of "free market" ideology in the early 1980s- partly as a reaction to the perceived doctrinal and material challenges coming from Soviet economists and military policy planners.[5] Suddenly, the word infrastructure became tinged with "Marxist" or "Brezhnevian" connotations in a Manichean war of ideas pitting Washington against Moscow and Beijing, or, even worse, became associated with petty "pork

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barrel" politics- progressive US lawmakers being accused of "diverting" scarce federal funding (badly needed for the intensified arms race against the Soviet Union in 1981 and the "War on Terror" after 2001) towards useless levees, "bridges-to-nowhere" and other low-priority transportation infrastructure needs in remote parts of Kansas or Louisiana. This radical worldview remains largely dominant today, even after the Katrina debacle of 2005…

BASIC RAIL TRANSPORTATION INFRASTRUCTURE INDEX (BRTI)

COUNTRY	CAPITAL CITY	FIN. CENTER/ 2ND CITY	AVG SPEED KM/H	SPEED INDEX	COST EFFICIENCY INDEX	BRTI INDEX
UK	London	Manchester	150.47	60.19	48.15	54.17
US	Washington D.C.	New York	116.19	46.48	23.59	35.03
Canada	Ottawa	Toronto	104.36	41.74	29.80	35.77
Germany	Berlin	Frankfurt	125.04	50.02	33.67	41.84
France	Paris	Lyons	232.50	93.00	37.10	65.05
Russia	Moscow	St Petersburg	149.88	59.95	26.65	43.30
Brazil[a]	Brasilia	Sao Paulo	60.30	24.12	84.5	N.A.[a]
Turkey[b]	Ankara	Eskisehir[b]	133.33	53.33	75.00	64.17
Italy	Rome	Milan	163.20	65.28	44.56	54.92
China	Beijing	Shanghai	248.68	99.47	98.85	99.16

a : Brazil has no modern national train network connecting its major urban centers. We have therefore used the inter-urban bus lines as a proxy, which clearly limits the speed index and reduces costs exaggeratedly, thus yielding an artificially high cost-efficiency level (the metrics won't be used for cross-country comparisons).
b : We have replaced Istanbul (modern train connection under construction) by Eskisehir, one of the main urban centers in Northwestern Turkey and a gateway to Istanbul.
Olivier Charrousset of the French Society of Financial Analysts (SFAF) has contributed to the data collection phase of this article.

INVESTMENT ATTRACTIVENESS NOT VERY SENSITIVE TO TRANSPORTATION INFRASTRUCTURE

Using a basic cross-country comparative framework, we will argue that what is needed is more, better calibrated, government spending on transportation infrastructure. For the sake of argument, we will focus initially here (a longer version of the paper will be published in Nov. 2013 with more comprehensive statistical sets) on a simplified cross-country comparison of the standard rail connection between the political capital and the financial capital (or, alternatively between the first-largest and the second-largest city) in a representative sample of 10 nations: Britain, Canada, China, France, Germany, Italy, Russia, Turkey, the US, and Brazil (no homogeneous rail data available for this Latin American country- see above).

Not surprisingly, centralized "Saint-Simonian" nations such as China and France fare particularly well. Germany's mediocre score is partly due to the fact that the country's most modern rail networks are clustered in the Western part of the country, near the border with France and Belgium (in which some may see a Gallic influence!), to the detriment of the central and northeastern landers. Similarly, Britain's best rail transportation network is the High-Speed 1 line (HS1 or 'Channel Tunnel Rail Link') connecting the country to Paris, a strategic infrastructure asset designed by French engineers, and owned and operated by Canadian pension funds.

The US and Canada have particularly low marks, a reflection of the overall decline of their transportation infrastructure assets as well as the deliberate decision to favor road and air transportation in the context of relatively cheap and abundant fuel supply and a "suburban car culture" that maintains strong political patrons (Texas and Albertan oilmen and Detroit carmakers have always found sympathetic ears in Congress/Parliament). With notable exceptions such as Gov. Robert F. McDonnell of Virginia[6], many Republican policy makers still cling to the idea that the US doesn't need to invest more in social and transportation infrastructures- or don't want to be seen as endorsing such costly policies for fear of offending their tax-averse political base…

This article summarizes the preliminary results[7] of our ongoing research project on "Infrastructure Investments and Country Attractiveness": the finalized findings of a comprehensive study using more robust metrics for cross-country and cross-sectorial comparisons will be presented at The International Asset Owners Summit held in Hong Kong in November 2013, a forum organized by the World Pensions Council and key pension and governmental stakeholders from across Europe, Asia and the Americas. ■

(1) American Society of Civil Engineers (ASCE), '2013 Report Card for America's Infrastructure: Overview/Executive Summary', March 19, 2013,

(2) Richard Eden, 'Historian Niall Ferguson: Why I am quitting Britain for 'intellectual' America', Daily Telegraph, Feb. 5 2012

(3) Juliet Schor, 'As Public Goods Decay and Democracy Wanes, the Populace is Offered SUVs, Malls, and Debt', Boston Review, September/October 2005

(4) The Editorial Page, 'Down the Train: UK Government Still Has to Make Convincing Case for HS2', Financial Times, May 17 2013

(5) Alexander, Arthur J., Abraham S. Becker, and William E. Hoehn. 'The Significance of Divergent US-USSR Military Expenditure.', RAND Policy Paper Prepared for the US Air Force, 1979 Series, p. 56. The authors imply repeatedly that America's "ability to compete with the Soviet Union is undergoing gradual erosion", an argument used in 1981 by the Reagan administration to justify increases in military spending and corollary cuts in federal funding for infrastructure projects on the domestic front.

(6) The Editorial Page, 'Virginia's Roads Rescued', Washington Post, May 18 2013

(7) Can be visualized fairly simply using a Cartesian coordinate-system "mapping" with our proprietary BRTI index on the x-axis and the perceived medium-term economic attractiveness (based on our analysis of Euromoney Country Risk data) on the y-axis: jurisdictions such as Canada, Benelux, Germany and Hong Kong faring much better than the others…