

# The Virtuous and Vicious Cycles of Infrastructure and Economic Development

By Khadija Anjum, Hannah Bahnmiller, and Alia Fierro Cornell University, December 2015

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.

## Investment Tax Base Tax Base

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



The Creative Responses to Fiscal Stress project is directed by Mildred Warner of the Department of City and Regional Planning at Cornell University. Research for this report was conducted in collaboration with Cornell's Community and Regional Development Institute, the Fiscal Policy Institute, the Association of Towns of the State of New York, the NYS Conference of Mayors and the NYS Association of Counties. Recommendations made in this report do not reflect official positions of any collaborating organization. Partial funding for this project was provided by the US Department of Agriculture Hatch and Smith Lever grant programs, administered by the NYS Agricultural Experiment Station at Cornell University. Additional project reports can be found at http://www.mildredwarner.org/restructuring/fiscal-stress

### Which Road Will New York State Take?