

# The Political Marginal Value of Public Funds: Evidence from Cross-Border Electricity Infrastructure

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## Abstract

Cross-border infrastructure projects often promise large welfare gains yet fail because they require consent from multiple jurisdictions with misaligned fiscal incentives. We develop a welfare framework for evaluating such projects when political participation constraints bind. We introduce the Political Marginal Value of Public Funds (PMVPF), a criterion that measures policy value net of the compensation required to secure universal consent. In a theoretical network model with decentralized budgets, projects with the largest aggregate efficiency gains can impose the largest concentrated losses, leading to sharp ranking reversals once political feasibility is taken seriously. We develop a sufficient-statistics approach for measuring these objects using high-frequency data on prices, flows, and transmission outages from the ENTSO-E Transparency Platform. To illustrate the framework's quantitative implications, we present simulations calibrated to average European market conditions, which suggest that political compensation absorbs roughly 80–90 percent of aggregate gains, clustering the PMVPF near one. Preliminary simulations indicate that political implementation costs can exceed engineering costs by an order of magnitude, providing a quantitative explanation for persistent underinvestment in cross-border transmission infrastructure.

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