2026-10-25

Data centers now the largest financial bet in U.S. history

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The Denver Gazette · 25 Oct 2026 · C4 · Stateline.org ·

The sheer size of investment in data centers is drawing concern as it surpasses all other historical booms and crowds out other more job-creating ventures.



Until now, no industry had driven the U.S. economy with such force since the railroad expansion of the late 1800s, when titans battled one another to lay the transcontinental tracks that would connect America from coast to coast.

Railroads in the 19th century consumed about $173 billion in today's dollars and created more than 2% of the nation's annual economic output (GDP) over 20 years.

Today's data center buildout will dwarf that amount, with $10 trillion in investment, and now have almost twice the economic impact — nearly 4% of GDP. That's according to a report created by a Columbia Business School professor, Stijn Van Nieuwerburgh.

States are starting to feel left out of the windfall, many having granted tax exemptions before the boom.

Years ago, before artificial intelligence prompted a tsunami of building, states typically welcomed data centers supporting internet traffic, offering tax abatements and other perks. Many officials now are rethinking that approach as tax revenues take a bigger hit and high energy demands take a toll on affordability.

Nevada, for instance, trimmed tax abatements and will ask data centers to agree to foot the bill for energy and water demands, in a September executive order from Republican Gov. Joe Lombardo.

States where data center costs will be concentrated over the three years are

Texas ($638 billion), Virginia ($249 billion), Ohio ($169 billion) and Georgia ($160 billion), according to projections from Industrial Info Resources, a market intelligence firm.

Southern states dominate the landscape for the number of data centers planned, with large numbers also proposed in Arizona, California, Florida, Indiana, Iowa, Indiana, North Carolina, Oregon, Pennsylvania and Washington state, according to a Pew Research Center report in April.

The profitability of AI has yet to catch up with the expense of the buildout.

"It is not a pretty picture right now," said IIR's senior vice president of research, David Pickering. "I think it will become profitable once things settle down a bit and more legislation is put in place to regulate how we handle AI.

"The big players will no doubt find a way to make it profitable," he said.

There are signs the staggering cost of data centers is crowding out other investments such as housing. Over the past two years new construction value for data centers has more than doubled to $85 billion annually, while all other construction value has dropped 8%, according to a Stateline analysis of U.S. Census Bureau as of August.

As new data center value grew by $48 billion since 2024, new houses and apartments dropped by $29 billion, according to the data.

Adam Shapiro, a vice president at the Federal Reserve Bank of San Francisco, noted the change in a September social media post: "We're seeing a pivotal shift in the U.S. economy: investment is shifting away from residential investment and towards computers."

Some, like the economist Paul Krugman, see the shift as hurting employment in the long run, despite more current hiring for construction workers.

"Because data centers employ so few workers, the vast spending on AI currently taking place will also significantly reduce the demand for labor," Krugman wrote in an Oct. 11 analysis.

Josh Bivens, chief economist for the left-leaning Economic Policy Institute, agreed that the economy's recent dependence on data centers and other AI spending is unhealthy, calling it "a narrow base of growth, basically one sector, and a pretty fragile one."

"Anything that upsets expectations about the future potential profitability of AI investments will likely lead to pretty sharp cutbacks," Bivens said. "I'm uneasy about how durable this strength might turn out to be."

As for the historic nature of the buildout, Mark Higgins, author of a book on U.S. financial history, said there are parallels to the age of railroad building in the late 19th century.

"Railroads were a huge investment," Higgins said. "In the 1800's most of the capital was foreign, and it would attract all this money from Europe, then everything would crash — there were several panics — and Americans would buy the distressed railroads and profit, because they knew which were the good ones."

Railroad construction, which did not include trains themselves, cost $4.3 billion between 1870 and 1890, about $173 billion in today's dollars, according to historical figures provided to Stateline by Van Nieuwerburgh and adjusted for inflation.

Other large-scale construction booms consumed only about 1% or less of annual GDP: canals in the early 19th century, electrification in the early 20th century, highways in the mid- to late-20th century, and telecoms and fiber between 1996 and 2003.

In a report this month, the International Monetary Fund warned of the risk of lower stock prices if high expectations for AI fail to materialize.

"Although core firms in the AI ecosystem have been profitable so far ... weaker or less durable investment and profitability in AI could trigger a correction," the report warned.

The buildout will also double electricity consumption, Van Nieuwerburgh estimated, a continual thorn for data center projects that need more power to process vast data troves to power AI applications.

An Oregon report last month, which led to a continued freeze on data center approvals in the state, said the single most frequent concern in public comments is utility affordability.

An analysis from two universities in July found that the combination of data centers and cryptocurrency mining could raise electricity bills by 8% nationally, and as much as 25% in parts of Virginia. The report came from a collaboration between Carnegie Mellon University in Pennsylvania and North Carolina State University.

Virginia passed an electricity consumption surcharge specifically for data centers that began in July, in a budget compromise that preserved lucrative tax breaks for the data centers. Some localities with heavy concentrations are considering pauses, and at least one city has a moratorium.