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The Case For Localizing Federal Transportation Policy

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[This article has been modified and updated from a Capitol Hill briefing I gave for the Cato Institute. You can watch the full speech here.]

Should the federal government dictate urban policy? This seems to be the default assumption among many Republicans and Democrats, for pet issues ranging from housing to infrastructure to immigration. But for those who care about cities, this approach may be wrong for two reasons. The first is that the federal government redirects tax revenue away from cities and into less productive rural areas, amounting to a raw deal for major metros. The second is that even when cities do receive federal funding, it is often wildly out of step with their needs. These problems are particularly pronounced for today's topic, transportation.

Let's examine this first problem, of cities receiving less money from the federal government than they put in. As Nicole Gelinas once noted for *City Journal*, New York City between 1981 and 2005 got 85 cents for every dollar it gave to the federal government. This "permanent 15-cent deficit," she explained, was one reason among many that the city had trouble completing major transportation projects.

“For big projects like the Second Avenue subway,” she wrote, “the federal funds we get are bought with our own money and then some."

New York City is not an aberration. A 2009 report by the *New York Times* on President Obama’s stimulus bill determined that the 100 largest metro areas were getting less than half of the transportation money, despite compiling two-thirds of the national population and an even larger share of economic output.

Yet this underlies a longtime trend, in which states of largely rural and suburban character get more federal funding per tax dollar paid than urban ones. It is particularly pronounced for transportation funding, says University of Michigan economist David Albouy. He determined that states represented by Republicans—aka states with lower densities—receive more in federal transportation grants. Another study in 2009 by Boise State University found that for the federal Highway Trust Fund, “states that are less urban and better represented on the four key Congressional committees generally benefit from redistribution.”

The reason why is no mystery: urban areas generate higher incomes, meaning they are taxed more per capita, only to see that money funneled into poorer rural areas. It is also due to a political system that grants senatorial representation--and electoral votes--based on state lines, rather than on a per capita basis. This guarantees that *funding* will not be divided per capita, either. And again, this is namely so for transportation, which is often funded through a pork-barrel process that puts a premium on political influence.

So if we continue funneling money to the federal government for transportation, these economic and political factors will ensure that it goes disproportionately to states with lower incomes, densities, and populations...and away from major cities.

But this isn’t the only way the federal government hurts cities' transportation capabilities. The Davis-Bacon Act requires that prevailing wages are paid on federal construction projects; and President Obama signed an executive order mandating that Project Labor Agreements--or prearranged union deals--be used for all federal contracts exceeding $25 million. Both have been found to increase construction costs. The federal government also imposes various environmental and aesthetic requirements as a condition for funding, which, again, increases costs and slows the approval process.

Indeed, the very structure of modern federal transportation policy is hardwired towards inefficiency, whether for big cities or small, and Republican or Democratic states. The federal government collects taxpayer money from the local level (generally through the gas tax), and sends it to various federal agencies and politically-driven congressional legislators, who send it back to where it came from, with a new, more onerous set of guidelines. How is this better than if localities just kept their transportation money? It isn't: one Heritage Foundation study found that since the federal gas tax was implemented in 1956, 28 states suffered a negative return ratio on the money they put in.