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Cut Federal Highway Spending

Private firms can build and run roads, bridges, and transit better than government.

By Chris Edwards
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Congress faces gridlock on many issues until after the November elections, but a transportation bill is still high on the agenda, because the federal Highway Trust Fund (HTF) will soon run out of money after years of elevated spending. Congress will probably put a bandage on the HTF to get it through this year, but eventually it will have to choose between tax increases and spending cuts.

HTF spending on highways and urban transit adds up to $53 billion a year, while the HTF rakes in $39 billion in revenues, mainly from the federal gasoline tax. That leaves a gap of $14 billion. President Obama wants to fill the gap with corporate tax revenues, but that bad idea is dead on arrival in Congress.

Senator Bob Corker (R., Tenn.) has a different idea. His bill, co-sponsored by Senator Chris Murphy (D., Conn.), would hike the federal gas tax by 12 cents per gallon. In his press release on the bill, Corker calls himself a conservative and claims that higher federal taxes "would create thousands of new jobs."

But Corker's position is the opposite of conservative. If Tennessee needs more money for roads, it can raise its own gas tax any time it wants. Wouldn't Tennesseans prefer that their gas taxes stay within the state for local roads, rather than flowing to wasteful Washington to fund subways and bicycle paths elsewhere?

The real conservative solution for the HTF is to cut spending by $14 billion a year to match revenues. The reduction in federal aid would encourage states to pursue privatization and other innovative solutions for their highways and transit.

Corker claims that his federal tax-and-spend solution would "boost economic growth." But that is not true if federal spending is inefficient and low-return — which it is. Transportation expert Cliff Winston of Brookings recently noted that federal "transportation policy is so inefficient that infrastructure spending fails to generate the large promised benefits."

Here are some of the reasons why:

- **Investment is misallocated.** Federal aid is not based on market demands. The HTF creates winner and loser states in terms of taxes paid and spending received, and many loser states — such as Texas — have growing populations and a higher need for investment. At the same time, the HTF unfairly redistributes money from lower- to higher-income states.

- **Aid spending is mismanaged**. For the states, federal highway aid has only a small matching requirement, so it seems almost "free" to them, which encourages waste. Federally funded projects often have large cost overruns — for example, the Big Dig in Boston, which exploded in cost to five times the original estimate.

- **Federal mandates raise costs.** Federal aid comes with strings attached. Davis-Bacon labor rules, for example, inflate wages on highway projects by an average of 22 percent, according to the Joint Economic Committee of Congress.

- **Aid distorts decision-making**. Federal aid for urban transit covers about 40 percent of capital costs, on average, but just 6 percent of operating costs. That bias has induced local governments to buy expensive rail systems rather than more-flexible and efficient bus systems.

A good way to cut HTF spending would be to end aid for mass transit and other non-highway uses. The original idea behind the HTF was that gas taxes would be user charges for funding highways. But since the 1970s gas taxes have been siphoned off for other purposes, and today about one-quarter of HTF spending is for non-highway purposes.

Cutting transit aid would, hopefully, encourage cities to privatize their bus and rail systems. Before the 1960s, most urban transit in America was private, but that ended when the federal government began handing out aid only to government-owned transit systems, giving them a competitive advantage. Local governments everywhere squeezed out private bus and rail systems, and that sadly ended a century of private transit investment in our cities. It's time to reverse course by cutting federal aid and bringing entrepreneurs back into transit.

The same is true for highways. Cutting federal aid would encourage states to partly privatize their highways through public-private partnerships (P3s). America is lagging countries such as Canada and Australia in the worldwide trend toward infrastructure P3s. If we embraced these reforms, we could attract billions of dollars of private financing to help upgrade our highways and bridges.

A number of U.S. states are pursuing P3s, including Texas, Florida, and Virginia. In Virginia, a private partnership built and largely financed new electronic toll lanes along 14 miles of the Capital Beltway (I-495). The lanes were completed on time and on budget in 2012.

Infrastructure can also be fully privatized. FIGG Engineering Group financed and constructed the $142 million South Norfolk Jordan Bridge over the Elizabeth River in Virginia. The bridge opened in 2012, and its cost will be paid back to investors over time with toll revenues. Now FIGG is pursuing other opportunities to build unsubsidized bridges, including a $250 million project in East Chicago, Ind.

We need many more such projects. When private businesses take the risks and put their profits on the line, projects are more likely to be constructed and operated efficiently. Indeed, studies have found that P3 projects are more likely than government projects to be completed on time and on budget.

I suppose Senator Corker is a "conservative" in that he favors an old-fashioned approach to the HTF based on tax-and-spend. But the modern, market-based approach is to decentralize transportation funding and inject more entrepreneurs and private investment into our highway and transit systems.

— Chris Edwards is editor of www.DownsizingGovernment.org at the Cato Institute.