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Why user fees should pay for transportation infrastructure

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A recent White House memo to Senate Republicans about the proposed infrastructure bill notes that President Biden “fundamentally disagrees with the approach of increasing the burden on working people through increased gas taxes and user fees.” Instead, he proposes to fund infrastructure out of deficit spending (meaning future working Americans) or perhaps by taxing major corporations (which would pass the cost on to working people).

President Biden is completely wrong about this: transportation infrastructure should be funded exclusively out of user fees for at least five reasons.

First, infrastructure funded out of user fees is better maintained than infrastructure funded out of tax dollars or deficit spending. Managers whose revenues depend on pleasing users will keep infrastructure in good shape to keep the money flowing. Managers whose revenues depend on pleasing politicians will build grandiose facilities and then neglect them because the politician are more interested in the next great project than in maintaining the old ones.

Nationally, 7.5 percent of highway bridges that are owned by cities and counties, which get most of their road funds from tax dollars, are in poor condition compared with 5.5 percent of state-owned bridges, which are funded out of gasoline taxes and other user fees. Best of all are bridges owned by various toll-road authorities, only 2.2 percent of which are in poor condition. Worst of all are rail transit systems, which are funded mainly out of tax dollars and which have a \$174-billion maintenance backlog.

Second, transportation users are the main beneficiaries of the transportation they use, so they should pay the cost. There are some side-benefits from transportation, but there are side-benefits to everything, and if we allow subsidies due to these side-benefits, then everyone will claim such side-benefits in order to get the subsidies. Transportation funding will then become a pure political battle that has nothing to do with reality.

Third, user fees are more than just a way of paying for things. They are signals to users and producers about the values of the things they use. User fees tell users what kinds of transportation are most expensive to provide, and they tell providers what kinds of transportation we most want to use. Subsidies interfere with those signals.

Fourth, limiting funding to user fees gives providers incentives to be efficient and to avoid grandiose projects. Subsidies insulate transportation agencies from the need to be efficient and often encourage wasteful megaprojects.

Finally, user fees are socially just because people are getting what they pay for. Far from putting a burden on low-income people, a user-fee-driven transportation system gives everyone a choice of the kind of transportation that works best for them.

In contrast, infrastructure that is paid for out of tax dollars usually ends up primarily benefitting high-income people because they have more political power. At least three-fourths of the subsidies to public transit come from regressive taxes, yet the median income of transit commuters is much higher than the median of all workers. Nineteen out of twenty low-income people don't ride transit to work, yet they disproportionately pay for transit systems that are disproportionately used by high-income people.

In addition, when it comes to highways, proper user fees can help eliminate the congestion that costs Americans hundreds of billions of dollars a year. Highways are unusual in that their throughput declines when they get congested. Better road pricing can ensure that they will rarely if ever be congested, thus allowing more people to use the roads during the busiest times of the day.

President Biden's plan to massively increase spending on infrastructure without asking users to pay for it is a recipe for disaster. People who don't have to pay for the transportation they use soon gain a feeling of entitlement: the government owes them the construction of some super-expensive project simply because everyone else is getting infrastructure for "free" as well.

When Congress created the Interstate Highway System in 1956, it declared that the highways would be paid for solely out of user fees. It turned out to be one of the most successful major construction projects in the world.

It's time to go back to first principles. Congress should stop deficit spending on highways, transit, Amtrak, and airports. If necessary, we can give low-income people transportation vouchers just as we give people food stamps and housing vouchers. But for most, paying for the transportation we actually use is less of a burden than paying taxes to support infrastructure projects we don't use.

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