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by Ed Lotterman

Yes, we should rebuild highways and airports — but the money won't fall from the sky

A newly elected Congress is beginning work, and transportation infrastructure is billed as a high priority. This is welcome after years of behaving like a slumlord, letting our property deteriorate to maximize current income.

Past generations willingly paid to give future generations better roads, but the current cohort of voters is doing the opposite. So bipartisan support for increased spending is good. One can only hope that the two parties can compromise on what to build and where to get the money.

There always is danger in self-deception, that we can somehow build roads and bridges without paying more. At the federal level, the incoming Trump administration and GOP majorities in both houses of Congress have promised no change in the federal motor fuel tax, last increased in 1994.

What is the practical economics of this? If we spend more money, what differences does it make how we get the funds?

There are several basic road-funding approaches at the state level:

- Raise money for the general fund with taxes like income or sales. Use this fund to build roads, bridges and mass transit as for state parks and universities.
- Raise money for a dedicated transportation fund from taxes on motor fuels and license fees.
- Borrow money by selling bonds. Pay interest and principal on the bonds as it comes due from the state's general fund.
- Borrow money via bonding, but pay principal and interest from dedicated transportation funds. Idaho did this more than a decade ago when it borrowed money to pay for an array of highway projects including major improvements to I-84 in the Treasure Valley. The Legislature pledged future federal gas-tax revenue to pay back the money owed.
- Have some government entity build toll roads or bridges, financing these with borrowed money, which is repaid from tolls collected. Toll revenues must also pay for ongoing operation of the system and required maintenance of the physical infrastructure.

- Let private, for-profit businesses finance and build toll roads and bridges. As it would for government entities, the toll revenue would amortize construction and pay operating and maintenance. Historically this was the model for many toll bridges, including the Brooklyn Bridge.

Funding out of general revenues is simple and reduces the number of taxes that must be administered. But transportation then must compete with all other programs and is subject to fluctuations of tax revenues with the general business cycle.

Funding from dedicated transportation taxes relates taxes-paid to benefits-received better than a general fund. The benefits to individual motorists are much more identifiable than benefits from a mental hospital or tech college. Politically, there is greater willingness to pay fuel taxes if people know the money will go to roads they use than there is to pay the same amounts into a general fund via existing sales or income taxes.

Note, however, that there are spillover benefits to society as a whole from good transportation infrastructure. We all eat food and use other products that come to us in trucks. Better roads lower transportation costs and thus product prices for everyone, whether they own vehicles or not.

Borrowing to build highways captures the federal subsidy to state and local government incorporated in the federal-income-tax-exempt status of such bonds. Borrowing also spreads a “lumpy” investment like a bridge across decades of benefits to users. This is like a school district borrowing for a new high school, a railroad selling corporate bonds to buy 300 new locomotives or a utility bonding to build a new power plant.

The primary, but seldom-mentioned, feature of bonding for transportation is that it uses general tax revenues under camouflage. One often hears legislative officials use the term “bonding” as if the money wafted from heaven. It does not come immediately from the general treasury or current revenues, but principal and interest eventually must come from taxes or tolls. Citizens pay, one way or another.

Toll roads and bridges charge direct users and exempt taxpayers. But, at least with historic technology, there were high administrative costs. This came both from the government side of operating toll booths and the implicit cost to drivers of having to stop every few miles to pay tolls. These costs are moderate for a distinct structure like a bridge but would be astronomical if applied to neighborhood streets.

However, toll facilities have a lot of practical limitations. Having private businesses build and operate these reduces overt tax burdens and can reduce apparent public debt. And private businesses have profit incentives for efficiency. But the details of specifying the contract and how it is put up for bid are indeed devilish. And you create a monopoly that can abuse the public and create economic inefficiency, as can any other monopoly. There are horror stories of cities that sold off the right to operate parking meters with no limits on future rates. Parkers ended up paying abusive amounts.

New technology may soon allow us to achieve the economist's holy grail of "marginal cost pricing" of all road use via differential GPS and the internet. Until then, however, the fuel tax is a tried and true method of funding.

The GOP has a particular fetish about not raising nominal gas tax rates, just as Democrats are particularly given to the belief that bonds are magical. But, adjusted for inflation, existing fuel tax rates are lower than in most of the last 60 years. And as a percentage of household personal income, the fuel tax paid on average amounts used has never been as low as now.

For the proximate future, just restoring inflation-adjusted state and local fuel tax rates to where they were in 1966 would be the simplest and, in all likelihood, the most economically efficient way to fund new spending. That would mean 29.8 cents per gallon federal tax instead of 18.4 and 45 cents for Idaho rather than 32.

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