The Daily Dish

Infrastructure Finance Revisited

DOUGLAS HOLTZ-EAKIN | AUGUST 27, 2018

Eakinomics: Infrastructure Finance Revisited

President Trump ran for office promising a massive infrastructure spending program. Thus far, little has materialized. But as Forbes points out about the collapse of the Morandi bridge in Italy that killed 43 people: “That tragedy should not have occurred and it led to a heated debate about Italy’s aging infrastructure. The Morandi Bridge, considered an engineering jewel when it was inaugurated in 1967, was the 12th bridge to have collapsed in Italy since 2004.”

Similar concerns arise in the United States, especially because of the absence of a sustainable funding mechanism for highway and transportation infrastructure. The gas tax no longer raises sufficient revenue to fund the demands on the Highway Trust Fund (HTF), and the expansion of electric and hybrid vehicles promises to make the problem worse. This means that the funding in annual discretionary spending bills will become more and more crucial — at exactly the same time that the rising spending on entitlement programs makes annual dollars more and more scarce.

A superior solution would be to charge users of transportation infrastructure a fee commensurate to the wear and tear they impose on the system. This has three policy virtues. First, it provides an incentive for users to choose their driving carefully. A zero price is a recipe for overusing roads and bridges, congestion, and wear-and-tear on the system. Second, it reveals which infrastructure is valuable — highly used and generating lots of fees — and which is not. Finally, it provides a steady source of revenue for maintenance and expansion of the system.

The most promising fee is the vehicle miles tax (VMT) which would tax users of highways based on the type of vehicle (particularly its weight and number of axles), how many miles it traveled, and even where those miles are traveled. One can even split the VMT into a relatively high rate in urban areas — which have the bulk of roads and infrastructure repair needs — and a lower rate in rural areas. These are large improvements in the incentives for road use.

The VMT would generate revenue as well. The National Surface Transportation Infrastructure Financing Commission and recent research by Brookings economist Clifford Winston and his co-authors indicate that a VMT of 1.6 cents per mile would roughly replicate the current gasoline tax receipts. A VMT of 2.0 cents, however, would raise an additional $55 billion annually — putting the receipts into the HTF closer to actual needs.

Talking about spending $1 trillion in infrastructure is dramatic, but a one-time policy. A permanent funding fix that also improves usage incentives would be even better.