The Daily Dish

Infrastructure Returns

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Eakinomics: Infrastructure Returns

The Trump Administration has gone silent on infrastructure (I miss the old days of the weekly Infrastructure Week!), but this *Wall Street Journal* article reminds us that Congress needs to take care of business on the existing federal infrastructure programs. Most of the dramatic infrastructure proposals featured both large price tags (up to $2 trillion) and expansive definitions of what constitutes "infrastructure" (including items such as public housing, the Veterans Administration, public schools, and broadband). But the federal government has a long history in financing transportation and water projects (the Congressional Budget Office has a nice summary here), although that history does not always support the idea of a crisis (see AAF's 2016 paper).

The main issue is, unsurprisingly, money. For years the surface transportation bill (which authorizes transportation spending) has permitted spending more money than was raised by the gas taxes deposited into the Highway Trust Fund (HTF). The Treasury must raise the remainder from general revenue or borrowing. This history suggests that the future should take one of two paths. First, Congress could break the link between gas taxes/HTF and transportation spending. In effect this route means gas taxes would become general revenue (not user fees for highways) to the Treasury, and transportation spending would look like any other discretionary account.

Alternatively, Congress could raise the dedicated revenue to cover all the spending authorized from HTF. That path would mean raising the gas tax and/or indexing it to a measure of construction prices. The problem is that this approach has been a political impossibility for years, and with the advent of hybrids and electric vehicles the gas tax looks less and less like an appropriate user fee. A promising solution is a 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. 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. Even better, it would be possible to 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.

Congress does need to take care of funding the traditional infrastructure programs. But it would be wise to do more than simply extend them for another 5 or 6 years. It is time to fix the structural problems in transportation finance.