The Daily Dish

Policy Objectives and Highway Finance

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Eakinomics: Policy Objectives and Highway Finance

Automobile and truck transit has traditionally produced several policy concerns. To begin, the fuel burned as miles are traveled generates environmental damages. Policymakers have had two tools available to mitigate these damages. The first is the federal gas tax (actually an array of taxes for gasoline, diesel, kerosene, etc.). This tax is a good way to include the cost of environmental damages in the price of gasoline and to regulate them accordingly. Higher taxes and higher prices lead to incentives to have fuel-efficient cars and to drive less overall.

The second instrument are Corporate Average Fuel Economy (CAFE) standards that dictate the average miles per gallon required of fleets of new cars, yielding less fuel burned and, thus, less environmental damage. Notice, however, that CAFE standards have no incentive to limit driving and perhaps even the perverse incentive to encourage more driving.

The astute reader will note that the relatively inefficient policy — CAFE standards — has been ratcheted up sharply over time, while the efficient instrument — gas taxes — are frozen at their 1993 level of 18.4 cents per gallon.

A second set of policy objectives are focused on transportation policy. Specifically, it is desirable to have drivers, especially of trucks, to pay for the wear-and-tear that they generate on the road and highway system. By assessing a user fee for the use of highways, drivers have an incentive to regulate their driving miles. At the same time, the user fees collected serve as a financing mechanism to repair and maintain the highway system. Traditionally, the gas tax was viewed as a rough-justice approximation to such a user fee, and receipts from the federal gas tax are earmarked for the Highway Trust Fund (HTF), the primary vehicle for financing federal transportation infrastructure.

From this perspective, two things have gone wrong. First, the gas tax looks less and less like a user fee each year. The development of hybrid and electric vehicles means that increasingly there are miles driven, and wear-and-tear created, without any corresponding gasoline purchase or tax revenue generated. Because the gas tax is still at 1993 levels, the "user fee" is increasingly out of line with the costs of wear-and-tear on highways.

Second, the gas revenues are no longer sufficient as a stable funding source for the demands on the HTF. The recent history of federal surface transportation suggests that Congress has drifted into a no-man's-land between user-fee financing and general revenue financing of surface transportation. In both the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) in 2005 and the Moving Ahead for Progress in the 21st Century Act (MAP-21) in 2012, Congress enacted higher spending without higher revenues. The budget gap has been filled with transfers from the general fund. MAP-21 authorized the transfer of just under $20 billion from the general fund to HTF, thereby bringing the total transfers of general funds to HTF over the last several years to approximately $55 billion. Overall, 25-30 percent of federal surface transportation programs are currently supported by general funds, rather than by user fees, and that percentage continues to grow.

A promising solution to the transportation policy problems — albeit not the environmental objectives — 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 indicates that a VMT of 1.6 cents per mile would roughly replicate the current gasoline tax receipts. However, a VMT of 2.0 cents 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.

Perhaps it is time for a VMT. It is promising solution to several interrelated transportation policy problems:

- The HTF does not have an adequate long-term funding source and has increasingly relied on general revenue transfers. Congress should proactively decide whether transportation infrastructure will be paid for by user fees or general revenue. A VMT could be the stable funding source to replace the failing gas taxes.
- A gas tax is increasingly less like a user fee. A VMT is directly linked to use of transportation infrastructure.
- The gas tax is a blunt instrument. The VMT is more efficient because it can be tailored to a vehicle's weight, number of axles, and geography, thereby matching the fee paid with actual wear and tear on roads.