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Using Market Processes to Reform Government Transportation Programs: Report No. 1

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There's a simple solution to this traffic problem. We'll have business build the roads and government build the cars.

—Will Rogers

The quote above, attributed to one of America's preeminent comedians and social commentators, came at the dawn of the automobile age in the 1920s or early 1930s, but it remains an accurate assessment of the quandary confronting the nation as it struggles to devise—in an age of fiscal austerity—a transportation policy that will enhance mobility and protect the huge investment that has been made in America's infrastructure.

Public v. Private Ownership. Today the nation's transportation system is a mix of public and private responsibilities. In general, the private sector builds, owns, and operates the rolling stock (cars, trucks, and trains) and airplanes, while the public sector builds, owns, and operates the infrastructure—notably, nearly all of the roads as well as nearly all airports and the air traffic control system. The only exceptions to this are the privately owned freight railroads, which own and operate both their rolling stock and infrastructure (and consistently runs at a profit and pays taxes), and the federally controlled Amtrak, which owns its rolling stock and some of its infrastructure (and consistently runs at a loss and absorbs taxes).

What sparked Roger's quote is that the transportation system has never suffered from a shortage of privately provided rolling stock and airplanes.¹ By contrast, the transportation system—notably in the

leading commercial centers—does suffer from a shortage and deterioration of infrastructure that has worsened over the past two decades. Noting that the number of licensed drivers (up 71 percent), registered vehicles (up 99 percent), and miles driven (up 148 percent) have all soared since 1970, former chairman of the House Transportation and Infrastructure Committee Don Young (R-AK) lamented during the last reauthorization process that “during the same period new road miles have increased by only 6 percent.”²

The Basic Problem with Public Ownership. Among the several reasons the public sector has difficulty in adequately responding to modern transportation needs, there are two chief ones.

1. Politicization of Transportation. Created in 1956 to build the interstate highway system, the federal highway program achieved that goal in the early 1980s and was expected to go out of business and turn responsibility back to the states. But the huge annual inflow of revenues from the federal fuel tax tempted Congress to expand the program's mission to justify its existence.

Today, only about 65 percent of trust fund spending goes back to serve the motorists and truckers

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who fund the system, as lobbyists and stakeholders have succeed in expanding trust fund responsibilities to transit, truck parking lots, covered bridges, sidewalks, the National Forest Service, transit on Indian reservations, historic preservation, Appalachian and Mississippi Delta redevelopment, roadside beautification, bicycles, hiking paths, university research, earmarks, and commuter rail—to name just a few—plus a vast federal bureaucracy that costs more than \$425 million to operate each year.

Every one of these diversions reflects some passing fashion or lobbyist effort from the distant past that managed to achieve a perpetual claim on the trust fund. With the trust fund going insolvent in 2008 and now subsidized by general revenues at a time of yawning budget deficits, these many whimsical, costly, and unproductive diversions represent a worsening burden on the government and the nation's economy.

2. Transportation Ranked Low on Budget Priorities. As part of the federal budget, transportation programs must—in practice and in theory—compete with other federal programs for available resources. Until 2008, highway and transit spending escaped this constraint by virtue of a dedicated funding source (federal fuel taxes) and a trust fund that protected these revenues from congressional and presidential predation.

But after several years of spending more than it earned, the trust fund required its first ever infusion of general revenues in 2008, and many more infusions are predicted unless dedicated revenues are increased or spending is cut.

Implications. This mode of operation makes little sense from an economic perspective. Transportation services represent a vital commercial activity providing benefits to every American and every American business. Yet the amount of transportation service provided is based on overall budget priorities rather than the needs and desires of trans-

portation users. Such a system is also independent of consumers' willingness to "buy" more transportation services, since no market exists to accommodate an increase in demand. This results in more congestion and more infrastructure decay.

While it may be possible for a socialist enterprise to mimic the market, the politicization of transportation programs work to undermine that effort. Most Americans want to drive their cars on congestion-free roads, yet most federal, state, and local elected officials and department employees intervene by mandating the provision of non-road transportation products that most transportation consumers do not want.

In a functioning market, a report to the president of a national restaurant chain that sales of apple pies have jumped would induce him to order more apple pie production, yet if today's transportation officials ran that chain, they would respond by ordering more salad. In today's transportation world, that salad is street cars, high-speed rail, Amtrak, and bicycle paths.

What's Next? Over the next few months, this new Heritage transportation reform series will present several reports on ways in which market processes can be integrated into the current transportation system in ways that offset diminished budget resources and the poor investment and spending choices of the past. These reports will include analyses of the benefits of competitive contracting and deregulation in transit and passenger rail, public-private partnerships for operations and infrastructure investment, general privatization, and the use of tolls and other user fees to supplement existing financial resources.

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1. Many of America's anti-car advocates believe that our transportation problems stem from this abundance as American travelers seek cost- and time-effective mobility solutions that streetcars and bicycles cannot deliver.
2. Representative Don Young (R-AK), "New Measures Will Meet Transportation Needs," *Roll Call*, December 8, 2003, p. 4.