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Transportation Policy Review

Adjusting to the New Age of Austerity

By Robert W. Poole Jr., Director of Transportation Studies, Reason Foundation

Last month I spent three days at an invitation-only transportation retreat along with about 20 other transportation policy wonks, discussing future funding alternatives. Unusually for such an event, the opening session was not about transportation at all. Rather, it was about the massively unsustainable path our federal government is on. This is not a short-term problem. It will provide the context for all federal policy debates for at least a generation.

What this changed context means for transportation is the subject of this column. The grandiose dreams sketched out only three years ago by the Policy & Revenue Commission for a massively expanded federal role, echoed in 2009 by now-departed Rep. Jim Oberstar, have become irrelevant, despite still being reflected in the President Obama's original 2012 budget proposal to more than double the size of the program.

Economist Robert Samuelson put his finger on the problem in a recent column in the Washington Post, "Big Government on the Brink." We have created what he calls a "suicidal government," by which he means that "government has promised more than it can realistically deliver and, as a result, it repeatedly disappoints by providing less than people expect." And as a result, he writes, "The system can no longer make choices, especially unpleasant choices, for the good of the nation as a whole."

Rep. Paul Ryan's dramatic plan to reduce federal spending over the next decade down to 20% of GDP was attacked as a radical fantasy when first introduced, but in a few short weeks it so changed the debate that the President submitted a replacement for his original 2012 budget plan, with the new version more like Ryan's plan over the next few years (even though aiming only to get down to 22% of GDP in the out years). The Gang of Six in the Senate, like the

President's deficit reduction commission from last fall, is talking about eliminating countless sacred-cow "tax-expenditures" as part of wide-ranging tax simplification. There is even serious talk about scrapping tax-exempt municipal bonds.

Yet as I read the missives put forth by every major transportation group, I see calls for larger programs and greater federal spending, as if none of this larger context existed. But the fact is, the federal transportation program that has grown like Topsy since creation of the Highway Trust Fund in 1956 is due for radical surgery. Business-as-usual in transportation—as in every other federal program—is no longer an option.

In the short term (i.e., the current reauthorization), there will be no federal fuel tax increase and the program will be sized to what existing highway user taxes bring in. Period. Bills to increase tax rates must originate in the House, and not even the White House is proposing an increase. There is no general fund money available to supplement what fuel taxes bring in. Consequently, we need to learn to live with this new reality. And that means the federal program must be scaled back and refocused on a handful of truly federal functions—such as interstate commerce, safety, and research.

The idea of revisiting what the federal government (as opposed to state and local governments) does in transportation has a long and bipartisan history. It was one of the key components of President Nixon's "new federalism" and of several proposals during the Reagan Administration. The latter were based on a serious study by the Advisory Commission on Intergovernmental Relations, which urged Congress to devolve to the states all highway funding except for the Interstates. Brookings scholar Alice Rivlin suggested in her 1992 book, "Reviving the American Dream," that most highway and transit programs be devolved to the state level, in exchange for the feds taking on greater responsibility for various welfare functions. Former federal transportation official Tom Downs called for dramatic refocusing and devolution of the federal program when he gave the 2004 Turner Lecture for the American Society of Civil Engineers.

Prior to 1956's creation of the federal Highway Trust Fund to build the Interstate system, the federal role in surface transportation was very small, with only a one cent per gallon gas tax and very modest federal aid to highways (and none for transit). States and localities raised and spent what they decided they needed for highways and transit.

I've been writing for many years about the need to increase investment in transportation. But there is nothing cast in concrete about the federal government forever being responsible for 40% of the total. What we need is more cost-effective investment, with the feds targeting their dollars to truly strategic needs (such as a 21st-century Interstate system) and the states and metro areas taking care of state and local needs.

That kind of re-sorting of responsibilities could very well lead to increased transportation investment, not less. It's been 20 years since Congress last increased the federal gas tax (in ISTEA), but numerous states have increased their state gas taxes since then, and a great many metro areas have voted increased local tax support for transportation investment. I can't think of any action more likely to spur state DOTs and MPOs to articulate to their citizens the case for greater self-help investment than a scaling back and refocusing of the federal role.

The transportation community needs to stop pining for the good old days of ever-increasing federal money and programs. Those days are gone, for as far into the future as we can project. The task before us is to empower states and cities with tolling, pricing, and public-private partnerships so they can do more with less federal aid. It won't be easy—but it's the only realistic way forward. z