Testimony of:

Rick Geddes
Associate Professor
Department of Policy Analysis and Management
College of Human Ecology
Cornell University

Before the

Committee on Transportation and Infrastructure
U.S. House of Representatives
January 17, 2008

Contact Information:

Rick Geddes
Associate Professor
Department of Policy Analysis and Management
College of Human Ecology
251 Martha Van Rensselaer Hall
Cornell University
Ithaca, NY 14853
Phone: (607) 255-8391
Fax: (607) 255-4071
rrg24@cornell.edu

Chairman Oberstar, Ranking Member Mica, committee members, fellow commissioners:

Thank you for the opportunity to serve on this important Commission and to assist it in its work. It has been a pleasure to interact with such distinguished colleagues. In the end I found myself unable to agree with the majority of my fellow commissioners on several important recommendations. However, I want to emphasize that we did agree on a number of key issues, and that I have the utmost respect and admiration for my colleagues on the Commission. Working with them has been a distinct honor and a privilege.

I believe that the critical difference between my view and that of the majority comes down to the question of whether the formidable transportation problems now facing our nation are primarily a matter of raising additional revenue through higher taxes, largely within the existing policy framework, or whether a fundamental change in our transportation policy approach is needed. I believe that we must fundamentally change our approach to transportation policy.

A New Policy Approach

Our current approach, and that recommended in the majority report, is to raise revenue through taxation, and then to direct transportation resources by command in a way that we think is most efficacious. In our society, excepting perhaps national defense, the type and quantity of the goods and services we consume are not determined in this manner. They are not determined that way even for services that we consider to be public utilities or network industries, such as gas, telecommunications, and many others.

The policy approach I recommend instead places increased reliance on market forces to allocate resources to where they are most needed. The technology exists today to charge users directly for their road use, without costly delays to pay tolls. As most economists recognize, the ability to charge users directly for their use of a good or service is a critical precursor to fundamental policy change.

The direct pricing of road services allows customers to face the full, true cost of using a particular road. That is a very good thing. When consumers face that cost, they will take it into account in their decisions about when and how to use the road. They will conserve on the use of a particular road at a particular time when it is economically sensible to do so. This will help to balance the capacity, or supply, of the road and the demand for it. The current approach to road funding does not result in consumers facing accurate information about the cost of using a road, and they thus do not conserve on its use. The result is traffic congestion in many areas.

Such technological developments allow consumers to face not only the direct costs of using a road, such as wear and tear, but it also lets them know of important costs they impose on others when they use a road. The choice of one consumer to use a road imposes a cost on all other consumers who are trying to use that road at that same time. Those costs are known as congestion costs, and they are likely to be the largest costs associated with the use of many roads and highways in the United States today. A new policy approach focused on proper pricing would give consumers the information and the incentive to conserve on road use when it is most important to do so, which would alleviate traffic congestion.

However, there is another salutary aspect of moving toward direct road pricing that may be even more important. The price that consumers are willing to pay to use a road gives unbiased information on how much they value that road. If consumers are willing to pay more to use a particular road at a particular time, then they value that road more than another. Resources to maintain and expand roads can therefore be spent where consumers have indicated (through their willingness to pay) that they most value the road's use. Road pricing thus provides a crucial link between how much consumers value a road and the supply of that scarce road capacity.

This link is critical to establish because the alternative, which we rely on currently, has proven to be unworkable. That alternative is to direct transportation dollars to roads and highways using the political process. Unsurprisingly, this process has resulted in transportation dollars being spent unwisely. This is indicated not only by increased earmarking in transportation legislation, but also by academic studies showing that transportation spending has very low rates of return, and does very little to reduce congestion. There is simply no reason to believe that the political process will direct dollars to the most economically valuable projects. Indeed, in the absence of pricing of roads, it is impossible to know which projects consumers value the highest. Pricing must be instituted so that we can know which projects are most valuable, and thus where to spend our scarce transportation dollars.

The fundamental problem facing much of our transportation system today is an imbalance between the road capacity available at any given time and the demand for it. That imbalance can only be corrected through proper pricing. Unfortunately, the majority report suggests restrictions that would actually constrain the use of pricing relative to current law. Basic economics indicates that further constraining the use of pricing is unwise. Such restrictions should not be adopted.

The Funding of Infrastructure

The direct charging of customers for road use has another critical implication. When customers can be charged for road use, there is no reason to use the political mechanism to tax and then redistribute funds via the political process. Instead, investors will be willing to put their own capital at risk to fund those projects. Indeed, billions of dollars in private capital stands ready to fund U.S. infrastructure now.

The introduction of private investment has four salutary effects, among others. First, it ensures that transportation projects will, in fact, be adequately capitalized. Second, it transfers risk from taxpayers to private investors, who bear the risk voluntarily. Third, it ensures that transportation dollars will be spent where they are most needed by consumers, rather than where they provide the most political gain. Fourth, private owners will have strong incentives to maintain and manage the infrastructure in a way that maintains its value through time.

Again, the recommendations in the majority report would place additional restrictions on the use of private capital in the funding of U.S. transportation infrastructure. There is no policy justification for such restrictions, and they should not be adopted. Rather, all possible steps should be taken to encourage private investment in our nation’s infrastructure.

The Federal Role

The Commission had many months of hearings, testimony, personal study, and internal discussions. After that inquiry, however, I was unable to discern a solid policy rationale for collecting tax revenues at the state level, and sending them to the Federal government for redistribution back to the states to fund transportation infrastructure. I believe there is, however, a rationale for Federal provision of a core set of what could be called “public goods,” such as safety, research, and standards on the Interstate system.

The funding and management of the Interstate and National Highway System is clearly a task better suited to state and local authorities. Those bodies are in a position to better understand the needs and desires of their local constituents, and are more likely to be accountable to their constituents for the success or failure of their local transportation systems.

The lack of a compelling rationale for Federal funding of transportation infrastructure was one of the reasons I could not agree with the majority’s recommendation to increase the gas tax. This was coupled with the troubling extent of earmarking in recent transportation legislation, the low returns on investment, and the minimal effect of increased spending on congestion under the current system, as mentioned above.

It is also important to consider that the gas tax is a regressive tax, in the sense that it is borne disproportionately by the poor and middle class. To raise such tax at a time when the country is increasingly concerned about the issues of inequality, and when households are spending larger portions of their budgets on fuel, would require a compelling policy justification. I was unable to find such a justification. Increasing the gas tax will only serve to perpetuate an inappropriate policy approach to surface transportation.

Although the majority on the Commission mentions in several places that it supports new, innovative, and market-oriented ways to fund and manage surface transportation, its recommendations would actually have the effect of constraining those mechanisms. I thus found myself unable to endorse the majority approach.