

COMMENTARY

As Systems Erode, User Fees Are the Key to Infrastructure Reform

By *Randal O'Toole*

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The nation's infrastructure is being widely discussed this week, with incoming Transportation Secretary Elaine Chao's confirmation hearing. But President-elect Trump's infrastructure plan, which Ms. Chao and other officials will be tasked with implementing, is nothing particularly groundbreaking. Instead, it's merely a new way of borrowing money, while offering no clear way to repay that money or to insure that it is spent on the most important projects.

Members of Congress have their own ideas. Some are proposing a variety of new, hidden taxes to fund infrastructure construction.

Taxes, however, are the wrong way to fund infrastructure. Instead, infrastructure should be funded exclusively out of user fees for four reasons.

First, user fees are fair and equitable. Why should corporate overseas profits fund American highways? Why should toll road users pay for rail transit? Such unfair funding mechanisms encourage government waste as agencies gold plate their projects to get the most money out of taxpayers.

With user fees, everyone pays for the highways, transit lines, water and sewage facilities, and other infrastructure that they use. No one has to subsidize someone else and no one has an incentive to overuse a resource because the cost is shifted to someone else.

Second, user fees provide essential feedback to both infrastructure providers and users. User fees help providers set priorities for spending money. If a piece of infrastructure is highly profitable, it means we need more of it; if it loses money because users aren't willing to pay for it, it means we shouldn't build more.

Similarly, user fees inform consumers about the best infrastructure to meet their needs. Shall I go to work by driving on a highway, local streets, by transit bus, rail transit, or by bicycle? Correctly priced infrastructure will help people find the combination of speed, convenience, and cost that is best for them.

Third, user fees solve resource shortages such as congested highways and droughts. Traffic congestion, which is a \$200 billion a year drain on our economy, is nothing more than a pricing problem. California, Oregon, and other states are experimenting with new mileage-based user fee systems that could eliminate congestion and raise revenues to expand capacity where it is needed

Droughts are also a pricing problem. Even the arid West has plenty of water, but it is currently allocated to some of the least valuable uses without regard to what users are willing to pay. User fees for water would effectively end any worries of shortages during dry years.

Finally, user fees solve the problems with crumbling infrastructure. Despite alarmist cries from those who seek to make profits from infrastructure spending, much of our infrastructure is actually in pretty good shape. In general, the infrastructure that is crumbling, such as the Washington DC Metro rail system, is infrastructure that was paid for out of tax dollars, while infrastructure paid for through user fees, such as state highways, are in better condition every year.

The reason is simple: when politicians fund infrastructure out of user fees, they direct the money to glitzy new projects that will get their names in the media rather than to maintenance of existing projects. As I recall a Department of Transportation official once saying, political leaders would rather “fund ribbons, not brooms.” Transportation agencies funded out of user fees, however, know they have to keep their infrastructure in good shape or users will stop paying.

For example, the number of bridges that are structurally deficient has declined by nearly 60 percent since 1990. Most of the decline is among bridges owned by state highway agencies funded out of gas taxes, tolls, and other user fees, while most of the remaining deficient bridges are owned by city and county road departments that are typically funded out of property taxes.

The Washington, D.C. Metro rail system is a perfect example of how tax-funded infrastructure fails. The system has been declining for more than a decade. Yet rather than fund repairs and rehabilitation, politicians decided to build the Silver and Purple lines, both of which create more problems than they solve.

There may be a few kinds of infrastructure, such as schools, that might not be easily funded out of user fees. But these are the exceptions.

For everything else, including transportation, water, sewage, telecommunications, and the electrical grid, taxes aren't the answer. For the sake of fairness, feedback, congestion relief, and adequate maintenance, these things can and should be funded exclusively out of user fees. Members of Congress, incoming Secretary Chao, and other officials with purview over infrastructure should look to user fees as the way forward.



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