

## Chapter 12

# The Growing Separation Between Markets and Government: Factors Affecting and Solutions for Highway Infrastructure Financing

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### ABSTRACT

*The nation's surface transportation infrastructure represents a key component to economic growth in the United States for the 21st century. The establishment of the Interstate Highway System in 1956 represents one of the country's greatest public works achievements. The funding mechanism has been the Highway Trust Fund that collects fuel taxes to finance transportation projects. The rationale for this structure was to create a self-financed program. Over the last couple of decades, fuel taxes have not kept pace with highway needs. This chapter will examine the widening funding gap and options for making the program a true pay-as-you-go system once again.*

### INTRODUCTION

As the nation continues its recovery from the Great Recession, synergy between government (local, state and federal) and the markets is essential to generate the revenue necessary for the provision of basic services. A healthy economy is required for a government to function effectively. Highway infrastructure represents an integral component to economic growth. It represents a crucial part of maintaining a transportation system with global implications for the United States. To remain competitive on an international basis, transportation spending must be driven by performance and return on investment (Miller Center of Public Affairs, 2009)

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In addition, the American Society of Civil Engineers (2013) has given the nation's infrastructure a D+ grade. When put into that context, the country's inability to address highway infrastructure is particularly troubling.

The challenges faced in highway infrastructure spending also represent the growing separation between markets and government. As we move further into the 21<sup>st</sup> century, the gap between funding and infrastructure needs continues to widen. This chapter will discuss how the funding formula has not kept pace with marketplace changes such as inflation, increased fuel efficiency and a reduction in driving.

The financing of highways has become a vexing problem as synergy becomes ever more elusive between markets and government due to the rising coarseness in our politics, creating a wider separation from the market-based solutions need to address this challenge. Among the options to be discussed in this chapter for the closing the shortfall: raising additional revenue, reducing spending on HTF projects, and/or authorizing additional transfers.

While this chapter will focus on factors affecting and solutions for highway infrastructure financing (the highway account of the HTF), a major hurdle in addressing these needs is whether the political courage exists to enact that various market-based solutions that are available. The choices require choosing between revenue-raising initiatives that government must employ, but requires the shepherding from elected officials unwilling to bear the political costs (i.e., being voted out of office) necessary to achieve these goals.

The nation's transportation infrastructure serves as an economic engine. In this chapter, the primary focus will be on the highway account since the majority of money is deposited there and the issues around mass transit are important, but deserving of their own chapter as well. Any discussion on mass transit will center on whether the HTF should be used solely for highway infrastructure. Finally, the increasing political hurdles to funding the HTF will be explored. The trend since 2009 has been towards short-term extensions of a weeks or a couple months versus the multi-year funding of the past. While not a focus of this chapter, it is important to recognize partisanship and polarization in this social media age is higher than ever. Until the fever breaks, it will be extremely difficult to deal with the challenges that the HTF faces.

## **OVERVIEW OF THE HIGHWAY TRUST FUND**

One of the greatest public works achievements of the 20<sup>th</sup> century was the creation of the Interstate Highway System in 1956 by the Highway Revenue Act (FHWA, 1998). This established the Highway Trust Fund (HTF) as the mechanism for funding highways. There were a set of federal highway user taxes on fuels, including gasoline and diesel that would fund HTF and help build the Interstate system. The federal government has mostly used revenues collected through federal fuel taxes to finance transportation projects (GAO -13-77, 2012). The goal was to make the program self-financing. It's based on the principle that those benefitting from the highways pay for it. Another portion of the HTF is providing federal grants provided to states and those states making a 10% match to build their part of the Interstate system. The states own the highways (built to federal standards) and its operated as a national system.

Most federal spending on surface transportation is financed through the HTF (CBO, 2014). The HTF serves as an accounting mechanism that has two accounts – one for highways and the other for mass transit. The highway account is largely devoted to construction and maintenance of highways and

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