



Should Infrastructure Spending Be State, Local or Federal?

With the Trump administration's proposal to add \$200 billion of federal funding for transportation projects over the next decade, there's a renewed debate about whether we should raise the federal gas tax. One side makes the argument that a 25-cents-per-gallon gasoline tax is needed and long overdue; the other side says the hike would cost consumers \$71 billion, or 60 percent of the expected gains from the recent tax cuts. But neither side is asking a more fundamental question: Should the federal government be involved in infrastructure spending at all?

Yes, it is true that the federal gas tax of 18.4 cents per gallon hasn't been raised since 1993. It is also true that when adjusted for inflation, it has less purchasing power now. It is also correct that the gas tax hasn't been enough to cover the annual amounts that Congress has authorized to be spent on transportation infrastructure in recent years.

But it doesn't follow that the only acceptable policy option would be to hike the federal gas tax rate to cover frivolous overspending. An alternative would be to refrain from spending money we don't have, but that's a crazy thought in the D.C. swamp, where interest groups are rewarded with spending programs, whether they are paid for or not.

A better solution would be to return all public funding to state and local governments, where it belongs anyway. In a report titled "Who Owns U.S. Infrastructure?" the Cato Institute's Chris Edwards notes that 98 percent of U.S. streets and highways are owned by state and local governments. Indeed, contrary to common belief, most infrastructure projects are local in nature. And if they own the assets, state and local governments should also pay for them. Also, if they want to expand or maintain their infrastructure, they should go to their own taxpayers to raise the money based on the merits of the projects.

According to data from the American Petroleum Institute, unlike the federal rate, the average state gas taxes have gone up since 1994, from roughly 21 cents to 33 cents. In other words, states do not seem to have an issue with raising taxes for given projects.

State and local governments could also issue debt — which, sadly, is made easier by the tax exemption on municipal bond interest. Finally, they could go to the private sector for a public-private partnership. All of those options would make those who spend money on infrastructure more accountable to those paying for it. Those options would also make more sense than the current system, which collects money in the state and sends it to the federal government, where bureaucrats take their cut before sending the



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money back to the states via politically designed formulas.

Unfortunately, people tend to be attached to the way things are — or, more accurately, to the idea they have of how the system functions. The truth is that it's been decades since the system has actually operated the way people think. For instance, the idea was that the tax would act as a “user fee,” in the sense that those using the roads financed by the fund would effectively pay for it. But it's hardly the case, as general funds have been raided over the years to cover all the spending.

Also, as is often the case with government programs, the Highway Trust Fund expanded to cover transit and other parochial projects that did not benefit the nation as a whole and certainly didn't respond to the “user fees” model. With that expansion came additional increases in the gas tax — including one from 4 cents to 18.4 in 1993 — until further attempts to increase it became politically unpopular.

Now is the time to rethink the way we fund our infrastructure. The best place to start would be to end the federal gas tax and let state and local governments raise and spend their own money for their own projects. That would behoove them to make the case to their taxpayers for what they really need, and it would free them from many of the tedious strings that are attached to government funding. Everyone would benefit except D.C. bureaucrats. That's what I would call winning.

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