

## FEDERAL EXPENDITURES FOR TRANSPORTATION

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Some of the specific questions set forth by the Subcommittee on Fiscal Policy in its "outline of study" as submitted to the panel participants have a very pertinent bearing upon Federal expenditures for the provision of basic transportation facilities such as highways, waterways, and airways. Indeed, the questions are so opposite to conditions in transportation as to suggest the thought that they could well have been designed with particular reference to basic problems in transportation and the Federal Government's role in regard to them.

Among such questions the following are particularly appropriate in reference to transportation: As a practical matter, are there any standards which can be applied to determine what kind of activities should be undertaken by government, in what amounts and at what rates? For example, are there any practicable economic criteria for comparing demands for public services with private demands? Are there any standards for determining the kind of government programs and the way in which they are conducted so as to minimize government interference in decisions by business and consumers about use of resources? What standards can be applied for determining whether specific programs proposed to be undertaken by the Federal Government are economical? For example, how can any such standards of economy in government be applied in deciding whether a specific program should be undertaken and the size of the program in relation to other Government activities? In what sense can a government spending program be described as wasteful? What considerations should enter into decisions about the level of government (Federal, State, or local) at which public functions are undertaken?

These are major issues affecting transportation and, considering the growth tendencies of Federal programs involving expenditures on behalf of transportation, they are important from the standpoint of the general Federal budget as well. Such expenditures also have a significant relationship to the economic growth objectives of the Employment Act, if for no other reason because that act, soundly construed, must be concerned not merely with growth, as such, but with growth that is economic growth and not just more activity.

The fact that such questions as those presented so persistently come up with reference to government expenditures on behalf of transportation indicates an awareness of the need for better means than we now have for testing such expenditures in economic terms. Basically the problem is the allocation and utilization of resources in transportation for true economy, considering all of the costs that are incurred. Resource conservation and economy are no less essential when transportation facilities are provided by government expendi-

tures than when they are provided through private channels. Unfortunately, however, gross deviations are more likely where Government expenditures are involved, with the result that serious distortions from standards of real economy in competitive transportation occur.

While the fundamental problem of economic allocation and utilization of resources would exist even if all transportation facilities and services were provided by the Government, the consequences of uneconomic allocation and utilization are especially disturbing where, as is the actual case, some basic transportation facilities are provided through public expenditures and some through private undertakings. Under these conditions, public expenditures backed by the taxing power create a serious threat to successful competition by those means of transportation that are privately financed and that, in addition, must pay their share of general taxes. Although those who operate on basic transportation facilities provided by government do pay certain general taxes, they do not pay any taxes or make any payments in lieu of taxes on the publicly financed facilities they use. For common carriers, this tax disparity is compounded by another—the war-emergency transportation excise taxes on freight and passengers which still remain in effect more than a decade later. Private transportation bears no such taxes.

So the question is: What can the Government do to foster and maintain an environment of economic neutrality with respect to transportation, recognizing that the Government is, and in all probability will continue to be, deeply involved in spending programs for the development of basic transportation facilities of various kinds? Or, as the subcommittee's outline very aptly poses the question: Are there any practicable economic criteria for comparing demands for public services with private demands and are there any standards for determining the kind of Government programs and the way in which they are conducted so as to minimize Government interference in decisions by business and consumers about use of resources?

To forestall any possible misunderstanding perhaps it should be acknowledged immediately that perfection in the allocation and utilization of transportation resources can hardly be expected either as to Government expenditures or in private sectors of the economy. Miscalculations and misjudgments in commitments of capital and spending will, of course, sometimes happen. This is really only another way of saying that our economy is a profit-and-loss economy. But certainly this does not mean, either, that all we can rely upon is whim, group, or sectional pressures, and guesswork. Where we can substantially improve upon the economic processes of decision making and reduce the errors in resource commitment there is every reason to do it.

#### TRANSPORTATION USER CHARGES

There can hardly be any question but what the principal defect now existing in the policies and standards by which Government expenditures on behalf of transportation facilities are determined can be very substantially corrected. This defect is, in all too many situations, the lack of a sensitive connection between spending for and paying for transportation facilities provided by the expenditure of Government funds obtained from general tax revenues. In these circumstances the costs involved have little or no influence upon those who seek

Government expenditures for their own advantage in private or commercial transportation operations. Those who urge the provision of transportation facilities for their use and advantage cannot even be said to represent a true "demand," for the economic concept of demand has meaning only in relation to a price or cost. Thus, for example, when a steel company, or oil company, or coal company, or perhaps all of these and others similarly situated seek a waterway improvement from the Government at a cost to general taxpayers but not to themselves, they do not in a true sense constitute an economic demand. The economic discipline of cost fades into the background and, then, decisions are made primarily through political activity rather than in terms of economic calculation. We do not know what the demand for subsidized transportation actually is, nor is there any satisfactory way of finding out so long as those who petition for and use the facilities are not required to pay the costs.

It is for these reasons that the costs of transportation facilities and services provided by Government expenditure need to be brought out of hiding and registered effectively at the point of business and consumer decision by requiring compensatory user payments from those who use such facilities and services. A simple expression of this principle may be stated as follows: Users of transportation facilities and services provided by Government expenditure should have such facilities and services only to the extent that they pay for them in compensatory charges.

The answer to the question of whether transportation user charges would help to bring about a more economic allocation of resources in transportation seems very positively in the affirmative. In short, this policy would afford substantial relief from political pressures for uneconomic projects and spending programs because sponsors' recommendations to the Congress would be made on a more realistic economic basis.

Reimbursement of the costs by compensatory user charges would also establish a sounder competitive basis for the utilization of available alternative means of transportation according to relative economy, all costs considered. Without such charges, shippers and consumers cannot make unbiased economic choices in deciding which mode of transportation to use in particular situations, for they will, of course, take no account of hidden subsidy costs from which they are relieved and which instead are borne by taxpayers. Their choices are misguided or distorted choices and, as such, they foster not economy in transportation but diseconomy resulting from misdirection and misutilization of transportation resources. Such diseconomy can only mean that, in the aggregate, transportation costs are increased, not decreased. Yet the belief dies hard that subsidized transportation is cheap transportation.

This discussion is particularly concerned with expenditures and compensatory charges for transportation facilities and services. Doubtless there are other important areas where prices for services received rather than general taxes would be a superior economic tool in financing and controlling government spending,<sup>1</sup> particularly where

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<sup>1</sup>This and other aspects of Government spending and its control are discussed by C. Lowell Harriss, *Government Spending: Issues of Theory and Practice*, Public Finance, international quarterly journal devoted to the study of fiscal policy and related problems, No. 1, 1957.

the users are identifiable, the uses are measurable, and the objectives of policy can be attained by this means of financing. The user-pay principle does not, of course, offer a universal solution or panacea for problems of effectively directing and controlling Government spending in all areas of Government activity. It would hardly be appropriate in public-school financing, for example, because our basic objectives of universal education could not in this way be achieved. Nor would it be effective in respect to the maintenance of public law and order, the national defense, or carrying out the objectives of certain welfare programs. With respect to penal institutions and houses of correction, the user-pay principle would, most certainly, break down.

Transportation, however, presents about as clear a case as would be possible to conceive for application of the user compensation principle. In present-day transportation in this country, with the several alternative modes now available to meet our requirements, economic criteria should have a greater role than they do under prevailing policies and methods of financing. This is not a matter of advantaging one means of transportation as against another; quite to the contrary, general application of the user compensation principle would go far toward establishing an environment of economic neutrality. In transportation, noting once again the terms of reference in the subcommittee's outline, these are "the standards for determining the kind of Government programs and the way in which they are conducted so as to minimize Government interference in decisions by business and consumers about use of resources."

Although this conclusion respecting user charges has had increasing acceptance, both inside and outside the Government during three President administrations and in numerous committees of Congress over the past 20 years or more, effectuation of the user-pay principle has been slow and erratic. We continue to have what may well be called chronic subsidies in transportation not because there is any longer a basic need for them in order to have a sound and adequate national transportation system but, rather, because please and pressures for their continuation are so strongly exerted by those who reap special economic advantage from them. For example, the infant industry argument is stretched almost beyond recognition and then is subtly transformed into a further development contention in which each new stage of development takes on the cloak of infancy. A closely associated rationalization is that a superior means of transportation should be nurtured by Government support in order to fulfill its promise, overlooking the fact that prolongation of subsidy makes the true determination of relative economic superiority impossible. There is also the kind of argument stemming from historical analogy in which the major premise is that what was done a hundred or more years ago or from time immemorial ought to be regarded as a model or standard of policy now and for the future, in total disregard of differences in conditions which make such historical comparisons invalid today. Still another perennial favorite among the contentions for subsidy is that the tax-supported mode of transportation makes a contribution to the national defense, which may well be true as far as it goes but overlooks the fact that each mode of transportation and every important segment of the whole economy adds something to our total national strength and security.

Finally, there is the contention that the particular mode of transportation for which subsidy at taxpayers expense is being urged will diffuse indirect benefits throughout the national economy and because of this diffusion transportation users should not be required to bear the costs. Diffusion of indirect benefits is, of course, not a unique but very general phenomenon in an interdependent economic system. All forms of transportation and, for that matter, all worthwhile types of economic activity have this common characteristic; it is not peculiar to any one of them. This fascinating theory of diffused and indirect benefits as a basis for financing transportation and other economic facilities and services has startling implications if we imagine its application as a general policy throughout the economy. Consider, for example, the consequences of applying it to steel, to coal, to aluminum, to telephones, to automobiles, and to a host of other goods and services that might, by some standard or other, be regarded as generally beneficial. At least we can be sure that this would play havoc with the functioning of the price system.

Whether in transportation or elsewhere, indirect or diffused benefits are no justification for spreading subsidies around wherever such benefits can be indicated. Moreover, the best transportation facility for a given purpose will, all cost and services considerations accounted for, contribute the most in diffused or indirect benefits to the economy generally. Should it then receive the most bountiful subsidy, whether or not it is needed for successful performance?

These indirect and diffused benefits are really the eventual product of transportation. If the costs are borne directly by the users, they will either absorb them for the services they receive or pass them on to others as a component part of the price of economic services or goods supplied to others. This, in the usual course of our price-cost economy, is the proper (i. e., consistent with economic allocation of resources in a competitive economy) way for transferred, indirect and diffused benefits to be brought into relation with the stream of economic costs. When this fundamental requirement of real economy is made effective, we shall have the essential basis for an unbiased allocation and utilization of resources in transportation.

A reasonable regard for brevity does not permit here any detailed analysis of the various Government spending programs for basic transportation facilities such as highways, waterways, airports, and airways. However, some further observations regarding certain of these transportation programs are especially pertinent to the questions presented in the subcommittee's outline.

#### THE EXPANDED FEDERAL-AID HIGHWAY PROGRAM

Although Federal grants-in-aid to the States for highway development had been established policy on a limited scale for many years, the much greater magnitude of the new program which eventuated in the Federal-Aid Highway Act of 1956 called for a searching re-examination of policy issues, and especially for a realistic determination of how the very large outlays proposed could be paid for. Up to that time there had been no definite plan for financing Federal highway aid and there was no specific connection between the Federal spending for highways and required payments by highway users to support such spending, although contentions had now and then

been advanced that the proceeds from some of the existing general fund excise taxes could be regarded as serving that purpose.

In the early stages of considering proposals for an expanded Federal highway program virtually all attention was centered on highway needs, with very little on financing that would involve additional levies with which to pay for the proposed expenditures. Not until this approach was substantially reversed and the matter of sound financing was definitely confronted did a feasible plan begin to emerge.

Only a few of the significant provisions of the 1956 act can be touched upon here. There were certain notable achievements, however, that merit particular emphasis in the context of this subcommittee's search for improved standards of governmental expenditures.

The first of these accomplishments is the requirement of the act that Federal expenditures for highway aid shall be covered entirely by revenues from charges levied upon highway users, with a trust fund of receipts from user charges set up to assure that this requirement is met. Since the conditions and principles involved are essentially the same, consideration might well be given to applying this trust fund control plan to the financing of government expenditures on behalf of waterway and airway transportation facilities as well as to highway facilities.

In the 1956 Highway Act Congress also provided that operators of large and heavy vehicles on the highways shall pay special user charges in addition to the kinds of charges imposed on passenger automobiles and other ordinary vehicles. Although the scale of the special charges adopted was modest, in principle at least the extraordinary responsibility of large and heavy vehicles for highway costs was recognized despite very strenuous opposition from the commercial trucking industry.

Also, for the first time, Congress in the 1956 act found it necessary to impose limits upon the dimensions and weights of vehicles permitted to operate upon the Interstate System of Highways, in order to protect the highway investment and to prevent a continuing upward spiral of increasing vehicle sizes and weights, and of the resultant highway standards and costs that would be necessary to accommodate such vehicles. As the House and Senate committees proceeded in their deliberations on the highway problem, they foresaw the pitfall of an open-end commitment to provide evermore costly highway facilities for vehicles of ever-increasing weights and dimensions.

Congress also recognized that it had not reached final answers in its first action on these problems. Accordingly, the Secretary of Commerce was directed, through the Bureau of Public Roads, to conduct further investigations of these and related matters. Studies now being conducted, particularly under the directives of section 210 of the act, involve a consideration of the effects of vehicle sizes and weights on highway costs. This section of the act further directs the Secretary of Commerce and his aids to study and report on "indirect benefits" from highways "in addition to benefits from actual use of such highways." It will be interesting to see what findings this analysis of "indirect benefits," a subject referred to elsewhere in this paper, may bring forth.

## THE ST. LAWRENCE SEAWAY

Provisions of law, in both the United States and Canada, authorizing joint development of the St. Lawrence seaway require that its costs be self-liquidating from tolls upon the users. Although prior to authorization sponsors of the project gave unreserved assurances that the navigation project would easily be self-supporting and involve no costs to taxpayers, some prospective users, now that the waterway is approaching completion, express misgivings as they press for low tolls in disregard of the costs to be met.

While this turn of events is not altogether surprising where a government-financed project is involved, the implications are nonetheless significant. If, as some of the sponsors and prospective users of this project now contend, it cannot be self-supporting, as contemplated, this would necessarily mean that it is not an economically sound transportation facility. The seaway as a navigation facility can provide nothing except transportation and no amount of emphasis upon "general benefits" could change this fact or elevate an otherwise uneconomic facility to the status of economic soundness. Those who now contend that the seaway cannot pay its costs and who make appeals to various "general benefits" in an attempt to avoid adequate toll charges would do well to consider the economic implications of their position and to note in this connection the following penetrating analysis with reference to waterway projects generally, as contained in the report of the task force on water resources and power of the (Hoover) Commission on Organization of the Executive Branch of the Government:

\* \* \* Facilities solely for navigation provide transportation, nothing else, and all of the intangible benefits must necessarily be derived from a waterway improvement as an instrument of transportation. The essential fallacy of bringing intangible benefits into the reckoning as additional factors is that they beg the entire question of whether a proposed waterway facility will actually be an economically sound transportation alternative and they, therefore, lead to multiple counting of the alleged economic benefits twice if not more than twice.

The sound promotional development of industry, of agriculture, of higher living standards and of the economy generally depends upon the economic utilization of available resources on the basis of alternatives available or capable of development. A waterway that is deficient when measured in terms of economy as a facility for transportation cannot be given any real justification by adding on so-called intangible benefits to give it greater validity, for the reason that the other forms of transportation which are existing or potential alternatives to it likewise provide such collateral and intangible benefits and, obviously, the best economic facility as an instrument of transportation will contribute to such intangibles to the maximum extent \* \* \*.<sup>2</sup>

<sup>2</sup> Commission on Organization of the Executive Branch of the Government, Task Force Report on Water Resources and Power, June 1955, vol. 3, pp. 1317, 1332-1333, Evaluation of Federal Navigation Projects, by Charles D. Curran, task force administrator. See also, in the same volume, pp. 1299-1316, User Charges on the Waterways of the United States, by John H. Frederick.

In an economic appraisal of the seaway project there are still other circumstances to be considered. Under existing policies, users of the seaway are to have the use, without charge, of improvements by the United States in the connecting channels and harbors of the Great Lakes. Also, electric power is to bear all of the common costs of this joint power-navigation undertaking, with no share of such costs assigned to the transportation function. If transportation through the St. Lawrence seaway cannot even bear its own direct or separable costs, then the seaway shapes up as an extremely dubious economic venture in transportation and as a waste of economic resources.

#### FEDERAL AIDS TO AIR TRANSPORTATION

The economics of air transportation has from its beginning been closely interwoven with advances in military aviation, as the spectacular development and operation of modern aircraft has been spurred by tremendous expenditures of public funds required for the national defense and security. This intrinsic relationship, stemming from the fact that the basic tool of air commerce is also a primary military instrument, will continue indefinitely. It has, of course, already contributed very greatly to the rapid growth of civil air transportation.

Especially in view of this very substantial intrinsic advantage and impetus, there is all the more reason to question the justification for continuing, in addition, to bestow upon civil air transport subsidies and aids that were initiated as temporary expedients when air commerce was a fledgling activity and industry many years ago. As yet, however, little progress has been made toward the elimination of such special aids to civil air transportation so as to place it on a sound economic basis of self-support.

While most of the domestic airlines now receive "service rates" of mail pay that are considered to be free of subsidy, some are still on a subsidy basis and all of them continue to be eligible for subsidy under the "need" provision of the Civil Aeronautics Act of 1938, which stands unchanged.

Federal expenditures for airway facilities and services, and for airport aid, have increased in recent years along with the growth of air traffic, and further substantial increases have been programed for the years ahead.<sup>3</sup> Still, although the matter has been under consideration for some time, no policy has been adopted which would require the commercial airlines and private flyers to pay in compensatory user charges a reasonable part of the costs<sup>4</sup> of these federally financed facilities. In its present form and at the present rate the existing Federal excise tax on motor fuel, which applies to aviation gasoline as well as to other grades of gasoline but not to kerosene as used in jet engines, would not serve as an adequate user charge for aircraft and has never been designated as such by Congress.

This matter of airway and airport user charges seems likely to come before Congress in the near future. When Mr. Lewis S. Rothschild,

<sup>3</sup> Civil Aeronautics Administration, Federal Airway Plan, Fiscal Years 1957-62, December 1956.

<sup>4</sup> The Federal airways also serve military aircraft, so that some apportionment of the costs is indicated.



Undersecretary for Transportation, Department of Commerce, appeared before a subcommittee of the House Committee on Appropriations on March 13-14, 1957, he stated :

\* \* \* We have been taking a hard look at the possibility of instituting user charges in the field of air facilities, and we believe that our studies are sufficiently far advanced so that we can see a feasible way of adding user charges.

Within the present session of the Congress we expect to be up here to give you our ideas as to how a substantial part of this money can be recovered through the medium of user charges.<sup>5</sup>

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<sup>5</sup> House Committee on Appropriations, hearings before the subcommittee on Department of Commerce appropriations for fiscal 1958, 85th Cong., 1st sess., pp. 222-223.