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Who Will Pay for the Roads?

Key Findings

- The future of funding for America's highways has been the topic of much political discussion for decades. While many states have increased motor fuel tax rates over the last decade, the federal government has not updated the gas tax since 1993.
- The motor fuel tax is a relatively well-designed tax which acts as a user fee by raising revenue to fund the highway system. The tax also aims to counter the negative side effects caused by driving petroleum-burning motor vehicles and their contribution to congestion.
- Tax revenues per vehicle mile traveled (VMT) are decreasing in real terms while expenditures are increasing in real terms. In 1994, a passenger car averaged 20.7 miles per gallon (MPG) and drivers paid 3.2 cents in state and federal tax per VMT. In 2018, a passenger car averaged 24.4 MPG and drivers only paid 2.1 cents per VMT.
- Discrepancies between tax revenues and highway expenditures will get worse as fuel economy improves, if tax rates are not indexed to inflation, or if share of electric vehicles (EVs) grows.
- One solution is to fund highways by taxing vehicle miles traveled. Rather than using taxes on cars or motor fuel as a proxy for transportation, a tax levied directly on miles gets closer to capturing the externalities and approximating the road maintenance cost of each vehicle.
- A federal VMT tax rate must average 1.7 cents per mile to cover the highway fund's expenditures. The actual rate per vehicle should be differentiated based on weight per axle.

Continue reading.

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