

this Act shall be construed to authorize, without appropriate action by Congress, the adoption, revision, or implementation of—

- (A) any transportation policy, or
- (B) any investment standards or criteria."

During the last several years, the Executive Branch, through the Bureau of the Budget has evolved a system (PPBS) for planning Federal expenditures in an economically efficient manner through the setting of what amount to investment criteria. These criteria are applied in most government Departments and agencies as an administrative requirement. There would not appear to be special reasons for imposing particular restrictions such as those in Sections 7(a) and 4(b) (2) on DOT's authority to manage its programs.

#### *Laws Relating to the Federal Aid Highway Program*

The Federal Aid Highway Program as it is currently structured under Title 23 would appear to contain the following three principal constraints on the implementation of sound economic analysis.

1. The law provides that Federal Highway expenditures be determined by the amounts collected from motor vehicle user taxes as they are placed in the Highway Trust Fund. Such pay-as-you-go trust fund financing schemes can be restrictive in the following two ways:

i. The trust fund equation of expenditures to amounts received from user taxes may not guarantee an economically efficient total amount of expenditure to the extent that might be possible if the receipts were from a competitive market and the taxes were annually adjusted.

ii. The pay-as-you-go arrangement may build a further inflexibility into the system. In any program in which future receipts accrue as a result of capital expenditures the agency should be allowed to borrow against future earnings at some rate of interest. Under a more flexible system, a program with a rate of growth (and rate of increase of capital stock) higher than the interest rate would spend in a given year more than it collects, while a low growth program would collect more than it spends.

2. Another type of inflexibility, essentially independent of the trust fund concept, may arise from the fact that amounts allocated to specific States and specific programs within States are distributed according to formulas in proportion to areas, populations, and miles of postal route without explicit regard to the relative benefit/cost relationships of projects among or within those States. Furthermore, the funds which States receive for constructing Interstate Highways are apportioned in proportion to the estimated cost of completing the system in each State, which would hardly be expected to provide an incentive for economic allocation with the State since the State itself contributes only ten percent.

3. Finally, the fact that the funds for highway construction are allocated within each State by the State Highway Department or equivalent agency tends to make it more difficult for DOT to implement economic analysis since these agencies are not under its administrative control.

Broad legislative changes needed to relax the above apparent constraints might be along the following lines:

Money collected from road user taxes might be placed in the Treasury and not in a special fund.

Road user taxes might be revised on a continuing basis according to the long run marginal cost due to the movement of different types of motor vehicles. Special congestion taxes might also be levied where appropriate and feasible.

Grants might be allocated to States based on benefit/cost considerations of capital investments towards which the grants would apply.

The DOT, in cooperation with the States might help develop benefit/cost criteria for the evaluation of highway investment.

The total amount of grants might be determined by the results of benefit/cost studies of capital investments.

#### *The Federal Airport Act*

Although the Federal Airport Act contains a method of allocation of funds similar to the highway laws in that most of the fundings is allocated by a fixed formula based on area and population of States, it does not, however, contain the trust fund features of the highway laws and it provides more Federal administrative control over individual projects by means of the National Airport