



POLITICAL INCENTIVES AND TRANSPORTATION FUNDING

Politicians often promise the public large benefits from transportation projects without fully realizing or explaining the projects' costs. A better understanding of the political incentives that influence these decisions can help policymakers make more efficient choices about transportation spending strategy.

A new paper for the Mercatus Center at George Mason University gathers and analyzes economic research on transportation benefit-cost analysis and the voting behavior of politicians, and concludes that current transportation infrastructure spending policies lead to inefficient decisions and are often driven by political forces. Policymakers should compare potential project costs to those of similar completed projects to assess the accuracy of cost projections, and highway financing should be shifted from the federal government to local governments in order to better target project benefits and costs.

To read the paper in its entirety and learn more about its author, economist Robert Krol, see [“Political Incentives and Transportation Funding.”](#)

HIGHLIGHTS

Benefit-Cost Estimates Are Inaccurate

Economic research shows that the costs of transportation projects are consistently underestimated and traffic flows overestimated.

- Projects that appear to be economically viable when proposed often turn out poorly. In some cases, governments deliberately overestimate benefits and ignore or underestimate costs.
- These errors are large and are not random, suggesting that they are part of deliberate attempts to achieve a desired outcome rather than to provide an accurate forecast of the costs and benefits of the project.

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This political use of the benefit-cost analysis often leads to an inefficient use of funds and goes largely unchecked by any institution of government or by citizens.

Legislative Voting Practices and Institutions Encourage Waste

Legislators embrace inefficient transportation projects because the benefits of a project accrue to their constituents while the costs are spread out nationwide, and local taxpayers do not pay the full cost of a local infrastructure project. Projects often move forward even when the total cost of the project exceeds total benefits.

- Federal funding of state and local highways results in an inefficient use of transportation dollars. For example, at the federal level, project benefits are concentrated in a state or district, whereas tax costs are spread out nationwide.
- As long as projects deliver benefits to a particular congressional district while dispersing the cost throughout the country, members of Congress are likely to vote in their favor.

POTENTIAL REFORMS

Two reforms could help reduce the political incentives to spend taxpayer money on inefficient transportation infrastructure projects.

Compare Proposed Project Estimates to Previous Project Estimates and Outcomes

Transportation project benefit and cost estimates need to be compared to actual estimates and outcomes from similar completed projects and subject to outside peer review by specialists unaffiliated with the project. The comparison to previous projects must also be transparent and open to public review, so that citizens can decide whether the range of projections for possible project outcomes is reasonable.

Shift Highway Funding from Federal to State and Local Governments

Highway financing should be shifted from the federal government to state and local governments. This reform would result in a greater concentration of both the benefits and costs at the local level, which would increase the focus on the costs of infrastructure projects. Additionally, states should be given greater control over highway pricing. Congestion pricing is one approach that could potentially lead to the more efficient use of highways, reducing the need for additional construction.

CONCLUSION

Government officials like to portray themselves as careful stewards of the taxes paid by citizens, but transportation project spending proves that they often fail to live up to this image. Transportation project justifications are severely biased in favor of questionable projects, and legislative voting behavior helps certain interest groups at the expense of the average voter. Instead of spending more money on more inefficient projects, the government should reform how transportation spending is determined and allocated.