Critique by the American Trucking Associations of

Dispelling the Myths: Toll and Fuel Tax Collection Costs in the 21st Century
A Report by the Reason Foundation

It is widely accepted that the fuel tax is by far the most efficient, least costly way to collect highway user fees, while tolls are among the least efficient and most expensive collection methods. With this report, The Reason Foundation attempts to argue that the collection schemes have similar costs and, under certain circumstances, and when opportunity costs are factored in, that tolls are in fact less costly. The paper is, in fact, a policy paper disguised as an academic exercise, one that is immeasurably skewed to promote the authors' obvious biases. It is a fantasy worthy of Lewis Carroll. While the report includes some interesting observations, its overall conclusions are supported by neither solid research nor simple common sense.

With regard to fuel tax collection costs, which the study claims are 5% of revenue rather than the roughly 1% of revenue that other studies report, the Reason study makes a number of interesting points, but has a number of serious flaws. To show the extent to which the diesel fuel tax can be evaded, it uses figures from both before and after the significant changes put in several years ago by IRS (that is, moving the point of taxation to the rack and dying off-highway fuel). Since those changes resulted in drastic decreases in evasion, only the later figures are usable in this regard. A couple of state studies of continuing diesel evasion are also cited, but Reason seems to mischaracterize these numbers as the result of random vehicle inspections, when it is improbable that the inspections were at all random.

To achieve its overall conclusion that the cost of collecting the fuel tax amounts to 20 percent of revenues, Reason relies on the purest speculation, along these lines: Since the Nation's commerce currently suffers from highway congestion, at a cost of billions annually, and since electronic tolling would eliminate all that congestion through pricing, as well as the costs of traffic accidents incidental to it, those billions may be accounted as the "opportunity cost" of the failure to adopt electronic tolling nationwide coupled with congestion pricing. Putting aside the huge capital costs, and the massive technical and institutional challenges associated with such a scheme, to even contemplate such a vast intrusion into the public's lives, travel choices and bank accounts reveals a political tone deafness that is beyond calculation.

Even more problematic is the report's treatment of tolls. It assumes the use of all electronic tolling (AET), although there is no indication of the highway network to which the tolls would be applied. Reading between the lines, it appears that the intent is to toll only major highways. Because the report makes a comparison between fuel taxes and tolls, it can be assumed that the intent is to replace the fuel tax with AET rather than have a dual system, which would eliminate the purported collection efficiencies of AET. Therefore, at a minimum, one would assume that

AET would be applied to the entire Interstate Highway System since all states currently rely on the fuel tax (state and federal) as the primary source of revenue for highways.

The report determines AET collection costs based on three existing toll systems that utilize AET. These toll roads are all located in urban areas and, therefore, see traffic densities that are higher than most Interstate routes, nearly two-thirds of which are rural. This creates an obvious problem: the more traffic density a highway has, the lower the collection cost per vehicle, since the infrastructure to support AET represents a fixed cost. One cannot assume 5% collection costs based on a small sample of highways that have much greater traffic densities than the vast majority of highways to which AET would be applied. Furthermore, we take the authors at their word that the 5% figure is accurate. They provide no verifiable figures or references to back up their claims.

The authors also dismiss traffic diversion, arguing simply that diversion of passenger vehicles to alternative routes will be limited by some vague notion of "genuine value" to motorists. The suggestion that commercial vehicle diversion can be minimized by restricting their access to alternative routes fails to recognize both legal barriers and the practical challenges of determining which vehicles are making local deliveries and which are simply avoiding a toll. Accurately accounting for diversion is important not just because of the lost toll revenue, but also due to the infrastructure, safety, environmental, enforcement and other costs associated with diversion, all of which must be factored into the collection cost of tolls.

Finally, the toll scheme envisioned by the authors is simply unrealistic. It is difficult to imagine that all 50 states would adopt widespread tolling on existing highways, or that the federal government would mandate it, when such practice has proven to be exceedingly unpopular even on very limited highway segments. Furthermore, in order to make their numbers work, the authors suggest that no credits or discounts can be offered to any customers, for even in limited applications, they conclude, such practices would significantly increase collection costs. To assume that states would not want to offer frequent user discounts – as many toll authorities do now – or to exempt government vehicles from tolls, for example, is unrealistic, and their calculations should assume that at least some of these practices would be adopted. Indeed, the authors report that a significant share of fuel tax collection costs are a result of enforcement problems with discounts or exemptions offered to various classes of highway users. It is disingenuous to assume that an AET system would not include similar discounts and exemptions, or to not calculate fuel tax collection costs based on the same assumption applied to AET, i.e. that all credits and discounts would be eliminated.

The Reason Foundation's report is fundamentally flawed. It uses outdated information and poor assumptions to determine fuel tax collection costs. It provides no useful references to support its conclusions on collection costs for the three AET systems that were examined and make the incomprehensible argument that such costs can be applied to a wider (although undefined) highway network. The Reason Foundation has produced high quality, well-supported research in the past. Therefore it is disappointing that the organization has produced what can only be described as a work of academic hogwash designed to promote a public policy position that is so far out of touch with reality that it calls into question the organization's credibility and its ability to positively influence policy decisions in the future.