

## DISCUSSION OF REPORT OF COMMITTEE ON HIGHWAY FINANCE

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Dr Trumbower's paper is a noteworthy contribution to our studies in highway finance. It makes available for the first time in one record the information on administration, costs of collection of taxes, and answers the question of where these taxes go. Two or three things stand out which are worth special note.

*Per Cent of Taxes Available for Highways Remarkable*—It seems to me a remarkable achievement that in the case of the registration fees nearly 98 per cent of the funds available after deducting costs of collection and administration should be available for highway purposes and similarly nearly 90 per cent of the gasoline taxes.

The difficult task of the future in highway finance will probably be to preserve the integrity of these special taxes for highway purposes. This is particularly true of the gasoline tax. In one State of which I know, an ambitious program was recently launched to add a cent to the State's gasoline tax—and divert the proceeds to advertising the State throughout the Nation. Another State would maintain its school system by gasoline taxes.

The ease of levying the gasoline tax and the low cost of its collection have made it a shining target for tax spenders. Fortunately, there has been no marked diversion of these funds to date, but as they grow in amount there will be an even greater temptation to divert part of them to other purposes.

*Only Registration Fees and Gas Taxes Discussed*—Dr Trumbower's discussion concerns itself only with the State registration fees and gasoline taxes. Sight should not be lost of the fact, however, that the Federal excise taxes, personal property taxes, and miscellaneous county and local taxes constitute a total almost as great as the figures indicated. There has, however, been a revision in the Federal excise taxes so that the passenger car and bus are the only vehicles subject to this tax at a rate of 3 per cent.

*Taxes Should be Centralized*—Sound finance would seem to require the confinement of the motor vehicle registering power within the hands of the State. There has apparently been some utilization of the gasoline tax by counties and municipalities but in general it appears that the registration fees and gas taxes should be reserved entirely to the State.

*State Property Tax for Highways Decreasing* —The result of putting this theory into practice has brought about the lessening or elimination of the State property tax for highways in a great number of States. Land and improvements have thus been left to the local units as a source of tax funds. The raising of the funds and their expenditure becomes a matter of home rule at the same time that the motor public to a large extent is financing the main roads.

The lessening of this highway tax load on property is shown in Bureau of Public Roads figures which indicate that in 1920 the States derived directly or indirectly by taxation 20.7 per cent of their funds while in 1924 this figure stood at 10.5 per cent.

Taxes on property specifically for road purposes dropped from 11.2 per cent of the total in 1920 to 3.3 per cent in 1925.

If thus appears that there is no longer any basis in fact for the claim that highway transportation is being developed from taxes levied on other transportation agencies.

*Majority State Funds for Construction* —An analysis by the U. S. Bureau of Public Roads of State highway expenditures for 1925 reveals the fact that 60 per cent of the funds expended were for road and bridge construction. Slightly more than 18 per cent was used for maintenance.

Materials and equipment, administrative and engineering costs, interest and principal payments on bonds and miscellaneous expenditures accounted for the balance.

Probably less than 25 per cent of the total funds can be said to have gone to maintenance. During this same period special taxes from motor vehicles accounted for 43.5 per cent of the State funds. It thus appears that these taxes provide for the maintenance of the main roads and in addition take care of a substantial part of the permanent investment in location, road bed, drainage, etc.

About a third of the local funds were expended for maintenance with the motor vehicle taxes contributing about 11 per cent of the local highway funds.

*Main Highways a General Obligation* —We have to consider the difference in the theory underlying the financing of main state system roads against the local service roads. The latter in great part serve the land through which they run, the former renders the same service to adjoining land but in addition serve the cities and other parts of the Nation.

This involves the question of re-distribution of motor taxes back to units smaller than the State for road purposes. The advisability of such rebating is worth discussion. Certainly it would seem fair where the State has relinquished a State property tax for highway

purposes for the counties and other units to be considerate in their demands for a share of these special motor taxes. In any event, consideration must be given to the volume and character of service rendered by these local roads in determining what portion of these funds should be returned to them.

In the case of the towns and municipalities there is an even greater difference in the theory of use, to be considered. Expediency in the small States having large cities will probably dictate the return of a large share of the funds to the municipalities. In their case, however, the streets were originally built to serve the land and improvements thereon. Automobiles and trucks have simply extended and replaced the service rendered by the horse carriages and wagons.

*Budget Requirements Should Govern Tax*—Dr Trumbower's figures indicate that the total cost of rural highways in 1925 reached a figure of a billion and a quarter. Of this, special motor taxes paid about 30 per cent—providing for 46 per cent of the State expenditures and 11.5 per cent of the local disbursements. As the highway disbursements are stabilized the budget requirements for road purposes should be kept in mind with a view to making the tax requirements fair and equitable to all.

The gasoline tax provides a sliding scale of taxation which so far has done its sliding upwards. A 5-cent tax is in force in some States. Certainly they should not be so high as to become unproductive or less productive either through the curtailment of use of the vehicle or evasion of the tax.

*Recreational Highways*—Consideration will undoubtedly have to be given to the constructing, maintaining and financing of purely recreational highways. By this term I would include roads into newly developed park areas of a state, roads opening up scenic territory, lake regions and mountain country. Should the financing of these roads be considered in the same way as State roads or local roads or separately?

*How Finance Roads of Future?*—We are told our main roads must be widened, straightened and strengthened. Parallel roads must be built and in some cases through roads on separated grades to relieve congestion and to by-pass intermediate points.

These requirements, coupled up with the constant demand for improvement of large mileage of roads to meet our secondary needs will necessitate continued expenditures on the present scale.

As Dr Trumbower's paper indicates, the trend in taxation is in the direction of an increase in the total rural highway disbursements with the motor vehicle as the instrument for collection, in an increasing amount, due to the increasing number of vehicles on the road.

As long as motor vehicle funds are conserved for the development of the roads used by the motor vehicle this policy seems to be soundly based. The one factor which will have to be watched very closely is that the tax per unit shall not be made excessive.

CHAIRMAN MACDONALD: The next report is that of the Committee on Maintenance.