

**STATEMENT OF
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U.S. DEPARTMENT OF TRANSPORTATION
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**BEFORE THE
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON HIGHWAYS AND TRANSIT
U.S. HOUSE OF REPRESENTATIVES**

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Chairman DeFazio, Ranking Member Duncan, and Members of the Subcommittee:

Thank you for inviting me to appear before you today to discuss the Importance of a Long-Term Surface Transportation Authorization in Sustaining Economic Recovery.

The importance of the surface transportation system to the long-term health of the American economy has never been in dispute. A wide range of studies have been conducted on the macroeconomic effects of transportation infrastructure investment. These studies inevitably reach somewhat divergent conclusions, but certain common themes emerge.

First, transportation infrastructure investment generates major short-term effects on employment and the economy:

- It generates direct economic effects by boosting employment and incomes at businesses hired to construct new highway, transit, and other transportation infrastructure.
- Infrastructure investment also increases employment and economic activity indirectly by increasing the demand for construction materials and equipment such as concrete, steel, asphalt, and paving machines, as well as business services purchased by construction companies.
- Finally, the additional income earned by construction workers will be re-spent on consumer goods and services, inducing higher incomes in the consumer goods and services industries.

Second, investment in transportation infrastructure has important long-term effects. Carefully planned transportation infrastructure investment permanently expands the productive capital stock of the economy, increasing output and income per worker for decades to come. In addition, these improvements improve the quality of life of American citizens by reducing transportation costs, providing easier access to markets, reducing congestion, and improving safety.

Focusing first on the short-term effects of surface transportation infrastructure investment, the Council of Economic Advisers has estimated that each billion dollars of

transportation infrastructure investment generates thousands of jobs. Some have raised concerns that these jobs will be generated too slowly to be effective in combating the recession. Yet it has been clear even before the Obama Administration took office that one of the singular features of this recession was that it would be unusually long. Global Insight, one of the leading macroeconomic forecasting firms, forecast in early January, before President Obama was inaugurated, that the recession would continue through the middle of this year and that unemployment would continue to rise until the first half of 2010. While transportation infrastructure investment spends out more slowly than some other forms of stimulus (such as unemployment insurance and revenue sharing with States), the expected duration of this recession and length of time it will take for the labor market to fully recover means that we will still need the job-generating effects of infrastructure investment even if that investment takes place in 2010 or 2011.

The long-term effects of transportation infrastructure investment have been the subject of a wide range of studies over the past 20 years. One of the most thorough studies of these effects was a 2003 study by Global Insight, which looked at the effects of an increase in highway and transit expenditures. It concluded that, for every billion dollars in highway and transit expenditures,

- Gross Domestic Product (GDP) would increase by \$2.188 billion,
- Disposable income would rise by \$977 million,
- Consumption would rise by \$742 million, and
- Investment (other than the transportation investment itself) would rise by \$162 million.
- Federal tax revenues would increase by \$770 million, and a substantial portion of these revenues would be passed along to State and local governments as grants to support transportation investments and other purposes. The total increase in State and local revenues, including Federal grants as well as increases in their own tax revenues, would be \$1.059 billion.
- Finally, the productivity of the economy – that is, the potential GDP – would rise by \$551 million per year – a permanent dividend from the investment in improved productivity.

Earlier studies had yielded somewhat different but broadly comparable results. A 1998 study by Ishaq Nadiri and Theofanis Mamuneas for the Federal Highway Administration found that a \$1 billion investment in transportation infrastructure generated an annual increase in productivity of \$419 million. A series of studies by Mamuneas has found that, while the rate of return to transportation infrastructure investments, in terms of increased output in the economy, has declined since the 1950s and 1960s, it is still over 18 percent.

Transportation plays a particularly critical role in metropolitan areas, the primary engines of the Nation's economic growth. Three-quarters of the Nation's GDP is generated in our top 100 metropolitan areas. To keep these metro areas productive, we need to be able to get people to work, get products to markets, and get customers to businesses in a reasonable amount of time. Case studies of transportation costs in two cities – Chicago

and Philadelphia – have shown that a 10-percent reduction in travel times in these two cities would reduce business costs by \$980 million and \$240 million, respectively.

By improving transportation safety, appropriate infrastructure investment can not only reduce the toll of crashes on individuals and families, but can lessen the burden of crashes to society. Highway crashes cost the nation an estimated \$230 billion in 2000. This includes lost productivity, property damage, and medical expenses, and 21 percent of this cost is paid by public revenues, equal to a \$200 per household tax. By incorporating data-driven, integrated safety design and technology (such as rumble strips, median barriers, and left turn lanes), infrastructure investment can reduce the number, and cost, of highway crashes.

Moreover, the competitiveness of our economy in the international marketplace depends on how efficiently we can get parts to our suppliers and finished products to markets. Manufacturers benefit from economies of scale that arise from concentrating production in a small number of plants, but unlocking these benefits requires an efficient transportation system able to efficiently move parts and materials produced elsewhere, and to distribute products to geographically scattered customers in domestic and international markets. Similarly, mining and agricultural production often takes place great distances from where consumers live. Moving coal and ore and grain to market requires an efficient transportation network.

Unfortunately, our current surface transportation system is not meeting the Nation's economic needs. The performance of the Nation's highway system has clearly declined over the past decade. The percentage of vehicle-miles traveled under congested conditions rose from an average of 24.9 percent in 1997 to 28.6 percent in 2006. This resulted in an increase in hours delayed from 2.7 billion in 1997 to 4.2 billion in 2007, and an increase in the total cost to drivers from \$53.6 billion in 1997 to \$87.2 billion in 2007. Moreover, the condition of our Nation's highways, bridges, and transit systems falls well short of a state of good repair. About 53 percent of highway vehicle-miles traveled are on roads that are in less than "good" condition. Almost 30 percent of our bridges are structurally deficient or functionally obsolete. Almost 22 percent of our transit buses – and 32 percent of our transit rail cars – are over-age, while 78 percent of our transit bus maintenance facilities and 70 percent of our transit rail maintenance facilities are in less than good condition. We don't even know what the condition of our railroads and ports is, because we don't gather data on that in a systematic way. We can't have a first-class economy built on a second-class transportation system.

Nor is increasing our economic competitiveness the only reason for addressing our surface transportation needs. We need to begin making progress on halting the seemingly inexorable growth of greenhouse gases in our atmosphere, and that means reducing the carbon footprint of the Nation's transportation system. About 28 percent of the greenhouse gases generated in the United States are attributable to transportation, so we need to build a more energy-efficient transportation system. We need an efficient financing system for transportation projects that takes into account all of the costs and benefits to society of these investments, and which directs funding to the modes that can

generate the greatest net benefits for society. We need to create the proper incentives for the introduction of energy-efficient cars and trucks into our highway vehicle fleet. We need to build a sustainable model for transportation in the 21st century, built on cleaner energy and reduced environmental costs.

At the same time, we need to make sure that our transportation system makes a more positive contribution to enhancing the livability of our communities. We need to build a transportation system that gives our citizens the choices they want – to get to their destination by the transportation mode of their choice, whether that is driving, or public transportation, or bicycling, or walking. When people choose public transportation, we need to make sure that intermodal connections are safe and easy – from transit to intercity rail, from transit to air, and from highways to transit. We need to make sure that the transportation system doesn't adversely affect local communities, either by generating unwanted noise or by blocking highway-rail grade crossings. We need to make sure that our citizens, whether they live in urban areas or rural areas, have appropriate access to our bus, rail, and aviation systems. We need to integrate our planning processes for transportation and land use so that we build communities where our transportation systems and land use planning are made for each other.

Finally, we want to take advantage of the opportunities that new technologies present to us. We need to make greater use of Intelligent Transportation Systems, both to reduce highway congestion and to improve safety in all our modes. We will move promptly to implement the positive train control requirements in last year's Rail Safety Improvement Act, and we will provide the resources necessary to accelerate deployment of the Next Generation Air Transportation System. And, of course, new technology will be the basis of more energy-efficient cars, trucks, and other vehicles.

At the same time that we expand the resources available for investment in our surface transportation system, we also need to effect fundamental reforms in how we plan and execute investment in the surface transportation system. First, because national economic competitiveness is such a compelling objective for our surface transportation system, it is important for that system to be designed to address national needs for an efficient 21st century economy. The President proposed a National Infrastructure Bank to address those national infrastructure needs. When supply chains reach across America, it is important to have a national vision that addresses national needs as well as local visions that address local needs.

Second, because of the need to invest in the full range of surface transportation infrastructure modes – highway, transit, rail, and water – we need to have a transportation financing system that can meet the needs of each of these modes. The traditional trust fund approach to transportation funding has been essential in building the Interstate Highway System and expanding our network of transit systems. But we need a more flexible funding system to meet the transportation needs of the 21st century. We need a funding system that can provide intermodal connections, including to ports and railroads. The proposed National Infrastructure Bank would supplement the Highway Trust Fund

and allow us to take a truly intermodal approach to funding the most compelling national needs across the surface transportation spectrum.

Third, if we are to focus our transportation infrastructure investment on improving the Nation's economic competitiveness, we need to draw upon the best available economic analysis to guide our transportation infrastructure investment decisions. In the TIGER Discretionary Grants and High-Speed Rail portions of our Recovery Act programs, we have called upon grant applicants to provide benefit-cost analyses of their proposed investments. We recognize that economic analysis cannot measure all the benefits and costs of proposed infrastructure investments, but the systematic evaluation of all categories of benefits and costs provides us with a decisionmaking framework that allows all kinds of benefits and costs to be systematically evaluated and compared, whether they can be quantified or not. For projects designed to maintain or rebuild existing infrastructure, we will be calling on State and local governments to make greater use of asset management techniques to reduce the costs of maintaining their infrastructure in a state of good repair over the long term. If we invest more efficiently, we can get more from every dollar that we invest – more economic productivity, more economic development, more accessibility, more sustainability, and more livable communities.

Fourth, we need to improve accountability by making greater use of performance measures for our transportation system. When we invest tax dollars in transportation infrastructure, people have a right to know what performance they can expect from that investment. We need to measure how well our transportation system is performing and report back on whether we are meeting our performance objectives. We need to demonstrate that we are using our tax dollars responsibly and that people are getting the performance improvements they paid for.

So I think there is little disagreement about the crucial role that transportation infrastructure investment plays in the Nation's economic development. We need a robust program of investment in transportation infrastructure to return our economy to health and to keep it growing. Moreover, because transportation infrastructure investments take a long time to plan, engineer, and construct, we need a stable flow of Federal funding to ensure that the States and other infrastructure owners can make those investments.

Ever since the Interstate Highway System was authorized in 1956, we have recognized that the construction of transportation infrastructure is a long-term process, requiring extensive planning, engineering, and analysis before groundbreaking can begin. Accordingly, we have structured the authorization process around a series of long-term authorizations for the highway and transit programs – typically, over the last couple of decades, six years for each authorization. These long-term authorizations allow States, metropolitan planning organizations, and transit authorities the time they need to plan and develop their transportation infrastructure with a clear commitment of funding from their Federal partners.

The rationale for these long-term authorizations remains just as valid today as it was in 1956. If anything, the time required to reach consensus among local stakeholders and

complete required analyses has grown longer, rather than shorter, making long-term commitments of funding even more important. We also need a long-term reauthorization to carry out the reforms in the surface transportation system that both this Committee and the President recognize as necessary.

There is widespread agreement that the level and focus of Federal transportation investment must address the needs of the surface transportation system more effectively. However, the best way to achieve that goal at present is through an 18-month reauthorization that lays the groundwork for accountability and performance standards in a six-year reauthorization.

An 18-month reauthorization would allow the Federal government to implement a few targeted reforms in preparation for a six-year reauthorization when the economy begins to recover. Moreover, it would allow Congress, the Executive Branch, the States, and other stakeholders adequate time to carefully consider and develop the complex policies that will be included in the full reauthorization. It would also allow this time to be used to incorporate the valuable lessons from the innovations in transportation investment in the Recovery Act, such as the processes by which money is spent at the State and local levels, as well as the various geographic priorities for investment.

The Obama Administration shares with this Committee a strong belief in the importance of a long-term reauthorization of the surface transportation program. We cannot achieve our goals without it. But it needs to be the right kind of long-term reauthorization. We cannot achieve our goals with the kind of reauthorization that we would likely be able to pass this year. We therefore believe that the right strategy is to enact an 18-month reauthorization this year, and devote ourselves over the coming year to working out the details of a strong reauthorization that will serve this Nation for decades to come.

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