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Private Roads and the Economics of the Environment

by Scott McPherson

In the interest of battling automobile-created air pollution, environmentalists call for more public transportation — more buses and commuter trains and the higher taxes needed to fund them — to get people out of their cars.

Granting, for the sake of discussion, that air quality is as poor as environmentalists say it is, is public transportation really the answer?

Actually, far from offering a solution, it is only because of government that people are able to drive so much to begin with. The government's largest public transportation scheme is its subsidy to drivers through government ownership of the roads.

Think about this: What keeps people from having everything they want?

Simply, it is the price. If you have to pay the full price for what you want, you have an incentive to limit the amount of it you use, so that you leave enough money to satisfy needs in other areas of your life.

With roads, however, the government taxes all drivers somewhat equally. The cost is socialized, while the reward is internalized — no one pays the full price, yet everyone gets to use the roads as much as everyone else. With such a system in place, what incentive exists for anyone to drive less?

But environmentalists contend that Americans *are* paying the price for their roads because government recoups through tolls, gas, and other user-fee-type taxes more than 70 percent of what it spends on highways (www.fhwa.dot.gov/ohim/onh00/bar11.htm), meaning that Americans *are* willing to pay to drive. Thus, they dismiss as a red herring the contention that government ownership of roads encourages car use.

This would be true, were it not for two flaws in their analysis: First, they forget that present costs borne by drivers are distributed over all other drivers, as indicated above.

Second, and most important, they are confusing *cost* with *price*. Americans may be willing to pay much of the *cost*, but it is arguable whether so many of them would be willing to pay the full market *price* of driving their cars.

What's the difference? The *cost* of something is the amount a manufacturer has to spend in order to produce his particular good. This he then sells for as much as he can get on the open market. This is more accurately called the *price*. The calculated difference between the two is his *profit*.

On the roads and highways, drivers can (at best) pay only the material *cost* of driving (construction and maintenance) because there is no way of determining the market *price* of a publicly owned commodity. Economist Ludwig von Mises amply demonstrated that only *private* ownership of resources allows for important economic calculations such as *price*. And, once constructed, roads are certainly a valued resource.

Turning all existing roads and the building, maintenance, and ownership of all future roads over to private, market-oriented owners would change the current system from one based on *cost* to one based on *price*.

The next time you see a traffic jam, ask yourself this question: How much would each of those individual drivers be willing to spend — if he had to pay straight from his own pocket — to get where he's going?

Rest assured, the owner of a private road would quickly find this out by charging as much as he could, so as to maximize his profits. And the more people there are who wish to drive on his road — i.e., the higher the demand — the higher would go the *price*. And everyone knows that Americans love to *drive*.

The end result would very likely be more people doing a lot *less* driving, as the *price* of driving went up. This would mean fewer cars on the roads — and a lot less air pollution.

And there would be other benefits from the environmentalist's perspective. With the price of using the roads rising, more and more road-consumers would turn to alternative, that is, more affordable, means of transportation, e.g., buses, trains, and carpools, to get about. Isn't that exactly what environmentalists claim they want?

Nobody wants to breathe bad air, and everyone wants to create the cleanest possible environment for himself and his children. Environmentalists, like many other people, are tired of breathing carbon monoxide fumes, but they have mistakenly embraced government as the solution. Unfortunately, it is government ownership that allows drivers to avoid paying the real price for their roads, and socializes the costs they do have to bear. The predictable result is overuse.

Let's make roads a market-based commodity and start paying the full market price for all of our driving resources.

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