Federal Transit Funding Burdens Taxpayers

Federal transportation aid programs often create perverse incentives for states and metropolitan areas. As Randal O'Toole, a Cato senior fellow, and Michelangelo Landgrave of California State University write in **"Rails and Reauthorization: The Inequity of Federal Transit Funding"** (Policy Analysis no. 772), "the worst incentives are created by discretionary funds that encourage state and local governments to adopt wasteful programs in order to get the largest possible share of those funds." For example, instead of encouraging cities and transit agencies to spend funds efficiently, the New Starts capital grants program encourages them to build the most expensive projects. By building a wildly expensive rail transit system, for example, Salt Lake City has collected $2.17 in federal funds per transit rider over the last 22 years. In comparison, by focusing exclusively on buses,

Milwaukee has collected only 26 cents per transit rider. Nearly all of this variation is due to the New Starts and other discretionary funds, while formula funds are more equitably distributed. Such expensive projects not only waste federal transportation dollars, they impose huge burdens on local taxpayers. As a result, far from promoting urban growth, regions that build rail transit end up growing slower than ones that don't. To fix these problems, Congress should convert the New Starts and other discretionary funds to formula funds. To encourage states and regions to build transportation systems that respond to user needs, Congress should incorporate user fees into the formulas.

NO QUICK FIX IN HIGH-FREQUENCY TRADING

High-frequency trading (HFT) involves the use of computer programs to automatically trade securities in financial markets. This is a problem, critics say, because it creates unfair informational asymmetries between different types of market participants and because it increases the risk of a "flash crash"—a sudden market downturn driven by computer-automated trading. They add that more regulation should be introduced to level the playing field. However, according to Holly A. Bell, an associate professor of business at the University of Alaska Anchorage, this approach neglects the fact that problems

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with market fragmentation, price synchronization, information dissemination, and market technology long predate the advent of HFT. In **"Beyond Regulation: A Cooperative Approach to High-Frequency Trading and Financial Market Monitoring"** (Policy Analysis no. 771), she notes that these problems have persisted for at least 40 years—despite repeated good-faith efforts to find regulatory solutions. What's more, there is evidence to suggest that HFT has led to increased liquidity, lower spreads and transaction costs, more efficient price discovery, and wider participation in financial markets. Instead of further regulation, a cooperative solution should be pursued: firms could confidentially report human/automation interface errors to a neutral third party, which would anonymize, aggregate, and analyze such incidents in order to identify patterns that could help prevent a major market-disrupting event. In fact, as Bell highlights, a successful model for such an approach already exists in the airline industry.

TINKERING WITH THE WELFARE STATE

There is a growing consensus across the political spectrum that our current welfare system is not working as intended. Although federal, state, and local governments spend nearly $1 trillion annually on at least 126 antipoverty programs, we are doing little to help the poor become self-sufficient. Among the alternatives that have been gaining traction recently are proposals for some form of a guaranteed national income. Those proposals can take a variety of forms, including a universal grant, a negative income tax, or a wage supplement. In **"The Pros and Cons of a Guaranteed National Income"** (Policy Analysis no. 773), Michael D. Tanner, senior fellow at the Cato Institute, acknowledges that the case for replacing the current welfare system with a guaranteed national income seems intriguing. "But what sounds good in

theory tends to break down when one looks at implementation," he writes. The idea appears to involve serious trade-offs among cost, simplicity, and incentive structure, and attempts to solve problems in one area would raise questions in others. Tanner details these trade-offs in full. "As strong as the argument in favor of a guaranteed income may be," he writes, "there are simply too many unanswered questions to rush forward with any such plan." Instead the country should pursue incremental steps: consolidate existing welfare programs, move from in-kind to cash benefits, increase transparency, and gather additional data. "This would allow us to reap some of the gains from a universal income without the costs or risks," Tanner concludes.

REDUCING HARM FROM SYNTHETIC DRUGS

News media accounts abound regarding the proliferation of synthetic drugs that produce physical and psychological effects similar to those of traditional mind-altering substances such as marijuana, cocaine, and heroin. There is a bewildering variety of new drugs, most of which until recently were not covered by existing laws. As Ted Galen Carpenter argues in **"Designer Drugs: A New, Futile Front in the War on Illegal Drugs"** (Policy Analysis no. 774), the wide array often seems limited only by the creativity of enterprising chemists. "The daunting task of trying to outlaw substances that can sometimes regain legal status with a modest change in chemical makeup has caused consternation among officials in the United States and other countries determined to stamp out drug abuse," writes Carpenter, a senior fellow at the Cato Institute. Policymakers have scrambled to come up with legal rationales to contain an ever-changing situation. They have experienced limited success—and even then only by using strained, dangerously expansive interpretations of criminal statutes. The multiple problems associated with suppressing the use of designer drugs underscore the inherent futility of the broader War on Drugs. Even as officials devote billions of dollars each year to enforcing laws against marijuana, cocaine, and other drugs, the market for synthetic equivalents or variations has soared. Instead of persisting in the failed strategy, policymakers should examine ways to accommodate legal markets in mind-altering substances while requiring strict production standards to prevent contamination or mislabeling. "Those are beneficial and attainable objectives, unlike the utopian goals of crusades against illegal drugs," Carpenter concludes. ■