Texas has been underinvesting in roads and highways and spending too small a share of its funds on projects in urban areas, according to a recent study by David Luskin, Erin Mallard and Isabel Victoria-Jaramillo in the *Annals of Regional Science*. The authors determine efficient spending levels by using the Highway Economic Requirements System, a Federal Highway Administration model based on cost–benefit analysis. The model considers three types of benefits: highway users’ gains valued according to the average hourly wage across all occupations, the highway managing agency’s cost savings and decreases in vehicle emissions. All are given monetary values.

The model finds Texas’ optimal investment would average $38 billion during 2000–04—$25 billion more than what the Texas Department of Transportation actually spent on roads and highways.

In addition, the model recommends allocating 70 to 80 percent of all Texas highway funds to urban roads. But the state’s metros received only 56 percent of state highway funds in 2000–04.

Some of the funding shortage is attributed to the decreasing real value of available funds. Most of Texas’ highway funding comes from motor fuel taxes, which haven’t risen since the early 1990s. While tax revenues have increased with the population, they haven’t kept up with the rising cost of highway construction.

—Michelle Hahn

The global economic slowdown has taken a toll on energy prices. West Texas Intermediate recently dropped under $41 per barrel, well below the all-time high of $147 set in early July. Despite the drastic decline, oil prices will average $100 per barrel for 2008.

World oil consumption is expected to decrease for the first time since 1982, according to the U.S. Energy Information Administration (EIA). With demand subdued, oil prices are expected to remain low. The EIA’s recently revised forecast calls for an average of $51 per barrel in 2009.

Gasoline prices have tracked oil’s decline. The national average recently fell below $1.70 a gallon, with the year’s average at $3.27. U.S. gasoline consumption has declined 3.4 percent in 2008. The EIA predicts an average price of $2.03 a gallon for 2009. At that price, consumers will save $172 billion at the pump, or about $1,500 per household.

While motorists rejoice over plunging oil prices, another supply crunch could be down the road. Current prices are high enough to maintain production but won’t spur capacity expansion. Today’s low prices threaten investment in unconventional resources like the Canadian oil sands. New production capacity will grow more slowly, leading to upward pressure on prices when demand rebounds.

—Jackson Thies