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TIME TO TAKE AMTRAK SUBSIDIES OFF THE RAILS

INTRODUCTION

As have other Administrations before it, the Reagan White House has proposed to end Amtrak's costly federal subsidy. The huge federal budget deficit now makes the matter of Amtrak subsidies more urgent, and there is little reason why the federal government should be in the personal transportation business. To this, Amtrak management responds by equating the end of subsidies with the collapse of the nation's transportation system.

Since Amtrak's inception in 1971, its losses have grown. The average subsidy per passenger for each trip, including capital costs, has risen to \$60. And the market share of intercity train travel has dropped to a tiny 0.3 percent of passenger miles. Thus there is little hope for an Amtrak capable of surviving without a subsidy, projected at \$774 million for FY 1986.

Amtrak management tries to justify subsidization by arguing that all forms of transportation are subsidized. While there is some truth to this, Amtrak riders receive a subsidy of over 26 cents per mile of travel. This is more than 100 times larger than the subsidy to any other mode of intercity travel. Subsidies of any kind, moreover, breed inefficiencies and inequities; they should be eliminated wherever possible.

It is alleged that, even though Amtrak is an inefficient way of moving passengers, other national goals are advanced by its operation. Among the goals typically cited are energy conservation, reduction of environmental pollution, enhanced mobility for the poor, and job creation. Yet the evidence reveals that none of these goals is advanced significantly through Amtrak subsidies. Quite the contrary. Amtrak's diversion of riders from intercity buses increases energy consumption. Amtrak generates more pollution than any other form of intercity public transporta-

tion. Amtrak riders have higher incomes than the national average. Finally, the dissipation of billions of dollars in capital at the hands of Amtrak's management has reduced the private sector economy's ability to provide jobs for workers. It is time for Congress to cut the taxpayers' losses and move out of the business of running passenger trains.

THE RECORD

Amtrak management likes to paint gloomy pictures of the last passenger train in America sputtering to a halt on September 30, 1985, the end of this fiscal year. It warns that communities will be left stranded without public transportation and that \$2 billion in labor protection payments will come due. The reality is likely to be very different. Amtrak's operating data indicate that the Northeast Corridor train service could continue for some time, while no significant transportation needs would go unmet in the rest of the country.

President Reagan is not the first chief executive to question the value of a highly subsidized and federally oriented rail passenger service. Presidents Carter and Ford also sought reductions in Amtrak subsidies. It is Congress that has vigorously championed the cause of continued funding for Amtrak. Congress apparently is dazzled by Amtrak management's sales pitch that touts the "success" of Amtrak, despite the fact that it has never made a profit. Yet if Amtrak is such a success, why does its President and Chairman, W. Graham Claytor, admit that "there is absolutely nothing either a state or private business is going to take over or run"¹ of the Amtrak system. Apparently Amtrak's condition is not very appealing.

Amtrak officials claim that it would cost more to end service agreements Amtrak has with its employees. Claytor asserts that ending subsidies would force Amtrak to pay over \$2 billion to its laid-off workers.² Even if this were a federal obligation, which than to continue it. This claim is based on the labor protection is a matter of some dispute, it would be cheaper than continuing subsidies at current levels. The \$2 billion payment is a six-year total of sums amounting to \$350 million per year. This is about half the likely operating losses of the current Amtrak system over the same period. Furthermore, the \$2 billion figure assumes that none of Amtrak's laid-off workers could find other jobs. Yet if Amtrak's claim that the Northeast Corridor breaks even were correct, the labor protection payment liabilities would be reduced by the continued operation of this part of the system, either in public or private hands. Any placement of laid-off

¹ National Railroad Passenger Corporation Annual Report 1983, p. 8.

² Douglas Feaver, "To Amtrak Riders and Backers, Subsidized Wheels Give Best Ride," Washington Post, March 8, 1985, p. A4.

workers in other jobs--with either the government or private sector firms--would reduce labor protection liability.

Part of the argument on behalf of the continued subsidies for Amtrak is that it would be foolish to throw away over a decade of "investment" in Amtrak when progress at last is being made.

Falling Ridership

While there have been some marginal improvements in Amtrak's service (on-time performance, for instance, up to 82 percent and equipment availability up to 89 percent), the long-term record is not encouraging. Ridership peaked at 21 million during the years of fuel price controls and allocations and lines at the gas pumps but since has fallen to approximately 19 million (see Table 1).

TABLE 1

Amtrak Ridership

| <u>Year</u> | <u>Millions of Passengers</u> | <u>Subsidy Per Passenger</u> |
|-------------|-----------------------------------|----------------------------------|
| 1972 | 16.2 | \$14 |
| 1973 | 17.1 | 3 |
| 1974 | 17.9 | 25 |
| 1975 | 17.3 | 39 |
| 1976 | 18.2 | 36 |
| 1977 | 19.2 | 42 |
| 1978 | 18.9 | 58 |
| 1979 | 21.4 | 58 |
| 1980 | 21.2 | 59 |
| 1981 | 20.6 | 67 |
| 1982 | 19.0 | 68 |
| 1983 | 19.0 | 60 |

Sources: Amtrak annual reports and Amtrak reports to the Interstate Commerce Commission.

\$60 Per Passenger Subsidy

There is no significant long-term fall in the subsidy per passenger. This rose steadily during the 1970s and is currently around \$60 per passenger, comprised of a \$35 operating subsidy plus capital subsidies. Nominally, capital subsidies are secured by notes payable and preferred stock. As the railroad's president points out, however, there are not sufficient assets to discharge all liabilities.³ As such, these notes and stocks are essentially worthless.

³ "Panel's Plan to Trim Amtrak Funds Would Kill System, Train's Chief Says," Arizona Republic, March 15, 1985.

Plummeting Market Share

While Amtrak's ridership has been declining, travel in America has been rising. As a result, rail's already miniscule share of the intercity travel market has shrunk even more. In 1970, the year before Amtrak was formed, rail carried about 0.53 percent of all traffic. This tiny share was blamed on railroads' decrepit equipment. Expensive modernization was supposed to attract passengers. By 1983, however, rail's market share had fallen to 0.33 percent of the traffic (see Table 2).

TABLE 2
ESTIMATED MARKET SHARES OF INTERCITY PASSENGER MILES
(All Modes)

| | <u>1970</u> | <u>1980</u> | <u>1983</u> |
|------|-------------|-------------|-------------|
| Auto | 88.3% | 84.4% | 84.2% |
| Air | 9.0 | 13.4 | 13.9 |
| Bus | 2.2 | 1.8 | 1.6 |
| Rail | .53 | .43 | .33 |

Sources: Air Transport 1984 and Air Transport 1981.

Amtrak is quick to argue that market share calculations should exclude the private automobile. Why this should be done is not clear. But even with the exclusion of the automobile, rail's market share of commercial passenger travel is boosted only to 2 percent of the total. When all modes are considered, rail's market share has dropped by 38 percent since 1970. When only public carriers are considered, rail's share has fallen even faster, by 53 percent (see Table 3).

TABLE 3
ESTIMATED MARKET SHARES OF INTERCITY MILES
(Public Carriers Only)

| | <u>1970</u> | <u>1980</u> | <u>1983</u> |
|------|-------------|-------------|-------------|
| Air | 76.8% | 85.7% | 88.0% |
| Bus | 18.7 | 11.5 | 9.9 |
| Rail | 4.5 | 2.7 | 2.1 |

Sources: Air Transport 1984 and Air Transport 1981.

No matter how it is viewed, the long-term record does not support a contention of substantial progress or improvement. Concludes the Reagan Administration's Office of Management and Budget, Amtrak will suffer continued and substantial deficits into the indefinite future.

THE SUBSIDY ISSUE

Amtrak management asserts that all modes of transportation are recipients of taxpayers' dollars. Autos and buses drive on public roads built at public expense, goes the argument, while airlines land at publicly owned airports, guided by government-employed air traffic controllers. This raises two legitimate questions: (1) whether other modes are subsidized and to what degree and (2) whether the subsidies are justified.

Certainly there are public roads and public airports, but this alone does not settle the question of subsidies. The users of roads and airports pay user taxes that support these facilities. Highway users pay gasoline, license, and registration taxes. Airline passengers pay a ticket tax. Amtrak riders, however, pay no user taxes. When these user taxes are included in the calculation, the magnitude of the subsidy per passenger mile of travel on Amtrak is far larger than for any other method of travel. Three different estimates of subsidy per passenger mile show the cost to be over 100 times larger on Amtrak than on other modes (see Table 4).

TABLE 4
ESTIMATED SUBSIDIES BY MODE
(In Cents Per Passenger Mile)

| | Congressional Budget Office (1982) | Arizona Department of Transportation (1982) | Semmens (1985) |
|---------------------|--|--|-------------------|
| Amtrak | 23.6 | 27.91 | 26.70 |
| Commercial Aviation | .2 | .26 | .16 |
| Private Auto | .1 | .21 | .25 |
| Intercity Bus | .1 | .15 | .17 |

Sources: Federal Subsidies for Rail Passenger Service: An Assessment of Amtrak (Congressional Budget Office, July 1982); Tucson/ Los Angeles Rail Study (Arizona Department of Transportation, February 1982); National Railroad Passenger Corporation Annual Report 1983; Final Report on the Federal Highway Cost Allocation Study (U.S. Department of Transportation, May 1982); Selected Highway Statistics and Charts 1983 (U.S. Department of Transportation); FAA Statistical Handbook of Aviation (U.S. Department of Transportation, 1983); Air Transport 1984 (Air Transport Association).

Amtrak proponents are quick to cite government subsidies for passenger trains in Japan and Europe. Yet the fact that foreign taxpayers underwrite marginal rail transport does not mean that Americans also should do so.

⁴ Annual Report 1983, op. cit., p. 25.

DOES AMTRAK SERVE A PUBLIC PURPOSE?

Some supporters of Amtrak, who concede that the railroad lacks economic justification, insist that other important national purposes are served by Amtrak subsidies. The list includes energy conservation, environmental protection, the enhanced mobility of the poor, and job creation.

Energy Conservation

A comparison of the energy efficiency of various modes of passenger transportation reveals that an intercity bus is America's most energy efficient means of transportation.⁵ Amtrak's passenger miles per gallon of fuel burned is about equal to that of the private automobile. To the extent that Amtrak might divert riders from taking the bus--and there is evidence that this has happened⁶--energy conservation efforts are undermined.

Environmental Protection

The environmental value of Amtrak is also questionable. Amtrak supporters assert that shifting travelers from automobiles to public carriers reduces air pollution. This may be true regarding carbon monoxide and particulates. But it does not take into account that trains increase the output of nitrous oxide, hydrocarbons, and sulfur dioxide.⁷ The Environmental Protection Agency has compiled an index of projected pollutants for 1990, shown in Table 5.

TABLE 5
FORECAST OF POLLUTANTS FOR PASSENGER MILE BY MODE IN 1990
(Indexed to Rail Emissions)

| <u>Mode</u> | <u>Carbon Monoxide</u> | <u>Hydrocarbons</u> | <u>Nitrous Oxide</u> | <u>Sulfur Dioxide</u> | <u>Particulates</u> |
|-------------|------------------------|---------------------|----------------------|-----------------------|---------------------|
| Rail | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Air | .32 | .16 | .19 | .35 | .58 |
| Bus | .82 | .24 | .52 | .46 | .50 |
| Auto | 3.65 | .84 | .16 | .54 | 3.17 |

Sources: Francis Mulvey, A Taxpayer's Perspective on Amtrak, 1981, p. 61; and Tucson/Los Angeles Rail Study (Arizona Department of Transportation, February 1982), p. 43.

⁵ Francis Mulvey, A Taxpayer's Perspective on Amtrak, 1981, p. 35.

⁶ Amtrak's Economic Impact on the Intercity Bus Industry, Report to the Congress by the Comptroller General of the United States, January 13, 1979, p. 1.

⁷ Mulvey, op. cit., p. 56.

Helping the Poor

Some defenders of Amtrak cite its low cost as an important means of enhancing the mobility for the poor. Few poor, of course, could afford the full cost of a ride on Amtrak. But even at a heavily subsidized discount, Amtrak fares are almost always higher than bus fares. Predictably, therefore, low-income travelers take the bus. Those Americans who take the train generally have incomes higher than the average taxpayer.⁸ Subsidizing Amtrak, therefore, transfers resources from the poor to those enjoying above average incomes. Even if Amtrak did carry mainly lower income passengers, it would be a very inefficient way of providing them with transportation. In many instances, the cost to the taxpayer would actually be lower if Amtrak passengers were given free air tickets instead, courtesy of Uncle Sam.

Job Creation

Amtrak employs over 20,000 men and women. Its purchases of equipment and supplies create jobs for many more. What would become of these jobs if Amtrak went out of business? According to Amtrak's management, its employees would suffer at least six years of unemployment.⁹

Admittedly, ending federal subsidies to Amtrak would reduce some employment at Amtrak and its suppliers. But whether the economy as a whole would suffer a net gain or loss of employment is another matter. If Amtrak were no longer in business, the money spent on the railroad would be spent on something else. This would employ Americans. Whether Amtrak or "something else" generates more employment depends upon which of them produces the best return-on-investment. If an activity generates positive return, capital is increased. As capital increases, more employment can be generated. If an activity generates negative return-on-investment, capital is consumed. And as capital is consumed, employment opportunities shrink.

Amtrak has never generated a positive return-on-investment. There have been no profits and no dividends. The \$10 billion in capital that has been poured into Amtrak not only has yielded no new capital, it has been largely dissipated. By consuming capital in this way, Amtrak actually prevents the creation of jobs. Had the \$10 billion consumed by Amtrak been available for private sector uses, many new jobs would have been created.

⁸ Federal Subsidies for Rail Passenger Service: An Assessment of Amtrak (Congressional Budget Office, July 1982), p. 21..

⁹ This is the scenario necessary to support Claytor's insistence that \$2 billion in labor protection payments would have to be made if subsidies ended.

ANOTHER SCENARIO

Amtrak management insists that the end of government subsidy means the end of all rail passenger service. But if subsidies end, the equipment and facilities of Amtrak will not simply evaporate on October 1, 1985. Amtrak itself has claimed that, even under present operating conditions, trains in the Northeast Corridor can more than cover short-term operating costs. If this were true, it would make economic sense to continue running these trains (if the funds already sunk into that part of the system cannot be recovered) as long as the favorable revenue-to-cost relationship persists.

If an Amtrak bureaucracy can break even in the Northeast Corridor, a leaner private sector operator certainly could do even better. The assets of bankrupt firms are almost always bought by someone prepared to use them. If the Northeast Corridor is only just breaking even or running in the red, it makes sense for the government to sell that part of the system at a tiny fraction of its book value--or even to give it away to its employees, the National Association of Railroad Passengers, or any other group that thought it could cover the operating costs. With a management in place that had the incentive to concentrate on meeting consumer demands while improving efficiency, rail passenger service might be made more competitive.

The situation for most of the rest of the Amtrak system is quite different from that in the Northeast Corridor. Cost-effective daily train service cannot be operated over the vast expanses of the American continent. Amtrak claims that 21 communities now served by rail passenger service would be left without any public carrier transportation if long distance trains were ended. The main reason buses do not serve these communities, however, is that they cannot compete with subsidized trains.

The loss of daily long distance rail passenger service will not result in substantial transportation deprivation, since some 99.7 percent of the intercity passenger traffic goes by modes other than rail. If it were deemed essential to provide subsidized transportation, giving away free bus or airline tickets would cost the government less than operating Amtrak. For instance, the total cost per passenger mile on domestic airlines is about 12 cents,¹⁰ while on Amtrak, the subsidy per passenger mile is over 26 cents (see Table 4).

CONCLUSION

By forcing taxpayers to supply rail passenger service, Congress is merely providing subsidized train rides for the small

¹⁰ Air Transport 1984, p. 7.

segment of the population that prefers this mode of travel. Yet there is no good reason why those who prefer train travel should force part of the cost onto their fellow citizens. The unwillingness of Amtrak riders to pay the full cost of the service demonstrates that, in the judgment of these people, the service is not worth the resources necessary to provide it.

It used to be that all travel between Europe and America was by boat. There was no alternative. Progress in aviation has changed all this, and now very few people travel between the continents by boat. This change did not result in the creation of an "Amboat" to consume billions of dollars in public funds.

Now that the federal government is running such huge deficits, can the nation really afford the luxury of providing a few of its citizens with an expensive and outmoded train service? Those who want to enjoy the "grandeur" and "gracious service"¹¹ of riding the rails should pay the full cost. If it is worth it, the market will provide the type of service needed or wanted.

The equipment and facilities that have generated only financial losses for Amtrak could, in other hands, produce better results. One of the great benefits of the free enterprise economy stems from its ability to change with the times. Congress should put this dynamism to work for the improvement of rail passenger service by transferring to the private sector those elements of the system that can be operated profitably and eliminating all support for the remaining segments.

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¹¹ Annual Report 1983, op. cit., pp. 15 and 17.

*The views expressed are those of the author and should not be considered to represent the views of the Arizona Department of Transportation.