AMTRAK PRIVATIZATION

The Route to Failure

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Executive summary

Once again, criticism of Amtrak is gathering steam. The passenger rail service is blamed for failing to show a profit. Advocates of privatization propose to break the system into separate, private companies, theorizing that under such arrangements, worthwhile passenger rail routes would be sustained and unnecessary ones would properly wither away. Routes that serve less-populated rural areas and provide service over long distances could be eliminated. To some extent, Amtrak privatization could shift the capital and operating costs of intercity rail services onto state and local governments.

The unexamined assumption underlying such attacks is that passenger rail service is a private good. In other words, the service ought to be able to defray its expenses and show a profit by charging customers. This assumption makes an adverse judgment on Amtrak automatic. Amtrak is "failing" only because it is assumed it ought to pay for itself.

The fact is that no transportation mode in the United States pays for itself. All modes have always been subsidized. Highways do not pay for themselves; they are financed by excise taxes on motor fuels, taxes not necessarily related to use of highways. Air travel is subsidized as well. Hence the decision to reject subsidies for intercity passenger trains is arbitrary and inconsistent with public policy.

The insistence on Amtrak showing a profit is an effort to impose a highly selective business model on what is really a public service. This study explains why such a business model is inapplicable.

In general, a business model applies to goods and services for which prices can be charged. This is difficult in the case of streets and roads, less so in the case of rail and air travel. But the overriding point is that the benefits of rail services are not limited to those who directly patronize them. This study highlights the ancillary benefits of rail service in terms of economic growth, environmental protection, and national security.

A key economic benefit of passenger rail accrues to workers in the high value-added service sector, which is concentrated in urban centers. Modern technology notwithstanding, business travel remains fundamental to the economy. Passenger rail also offers value in linking disparate parts of our ever-widening metropolitan regions to their urban cores.

On the environmental front, rail travel compares favorably to auto and air in terms of energy efficiency, implying benefits in pollution abatement and energy conservation.

And in the realm of national security, rail provides redundancy that can be important when other transportation modes are threatened. Reducing dependence on imported fossil fuels is increasingly seen as a security issue.

The privatization campaign entails solutions that have no relation to the purported problem. The proposed solution is to de-federalize Amtrak and break the service into vaguely specified parts. But no matter how the service is reorganized, failure to subsidize it will mean failing to support the "external" benefits for which travelers cannot be charged. The system would remain underbuilt, underutilized, and potentially still unable to turn a profit.

The disastrous privatization experience of British Rail provides an important precedent. There the breakup of the system was followed by serious accidents, financial insolvency, and further public subsidies (even while private investors were provided returns on their participation). Here privatization yielded the worst of both worlds—chronic service failures, no effective market discipline, and wasted public revenues.

A notable failure of Amtrak critics is their reluctance to generalize their charges to include other transportation modes. The likely explanation for this inconsistency is a political fear that ceasing to subsidize highways and air travel would so disrupt travel plans as to cause a public uproar. Yet passenger rail has been slowly strangled by depriving it of desperately needed capital investment.

Politics, not efficiency considerations, are the basis for the chronic underinvestment in rail, with the result that service falls well below the potential realizable using contemporary technology. Apolitical analysis points to a completely contrary approach: unify and extend the system, rather than fragment it; invest sufficiently so that passengers can enjoy the full benefits of advanced technology; and expand the system to advance broader economic development.

Introduction

Is Amtrak a business or a public service? Congress will shortly make that determination. The difference is far from trivial. It reflects fundamentally different approaches to preparing America's transportation system for the 21st century. If the provision of intercity passenger rail service—Amtrak's principal mission—is essentially a business, there is little justification for the federal government to invest millions of dollars in operational support and billions of dollars in the infrastructure and rolling stock upgrades required for high-speed trains. But if Congress determines Amtrak to be a business, it will renege on a commitment as old as the republic: forward-looking investment in the nation's transportation infrastructure.

Alternatively, if Congress abides by its historical policy and deems intercity passenger rail service to be a vital public interest, then there is strong reason to provide badly needed capital and operating funds—immediately.

This study makes the case that passenger rail service is crucial to the nation for economic, environmental, and national security reasons, and that the core of our national passenger rail policy should be to facilitate investment in advanced technologies that will improve passenger rail performance and enhance its appeal as a transportation option.

The current preoccupation with operating deficits and the impulse to cut spending on Amtrak are misplaced. Proposals to privatize Amtrak rest on hopes that its deficits can be eliminated. But privatization will not cut the operating deficit unless it shrinks passenger rail service. And far from yielding more efficient operation, privatization will make Amtrak more cumbersome. That is the primary lesson of Great Britain's recent experience with privatization and reorganization.

In short, this is not the time to withdraw public investment in the nation's passenger rail service. This is the time to begin formulating a forward-looking national passenger rail policy, building on the strengths of Amtrak to improve the performance of the U.S. economy.