38. Transportation

Congress should

- close the Department of Transportation;
- eliminate the federal gasoline tax;
- end all federal transportation subsidies and entrust states and municipalities with maintaining infrastructure such as highways, roads, bridges, and subways;
- repeal the Urban Mass Transit Act of 1964;
- repeal the Railway Labor Act of 1926;
- privatize Amtrak;
- privatize the air traffic control system;
- remove all federal regulations that prevent airports from being privately owned or operated;
- lift the ban that prevents foreign airlines from flying domestic routes in the United States; and
- repeal the Jones Act.

Praise be to the conscientious members of Congress who last year removed federal speed limits and replaced the antiquated Interstate Commerce Commission with the Surface Transportation Board. A clear step toward less regulation, the Interstate Commerce Commission Termination Act required that at least one member of the new three-member board have private-sector business experience, limited terms of board members to five years, and limited the STB's ability to impose artificial labor protection when new railroads are formed. The STB already has allowed the merger of Union Pacific and Southern Pacific—a move that the Justice Department, staffed by a slew of trustbusters and regulation enthusiasts, would have thwarted. The 105th Congress should follow those exemplary actions with complete deregulation that will enable the transportation sector to meet commuter needs in the 21st century.

Competition in domestic transportation has put money back into the pockets of American consumers and producers since the most restrictive regulations were abolished in the 1970s and 1980s. The General Accounting Office reported in 1996 that the average airfare per passenger-mile had decreased 10 percent since deregulation. According to Clifford Winston and Steven Morrison of the Brookings Institution, deregulation has led to airfares 22 percent lower than they would have been had regulation continued. Other estimates of the savings are much higher. Deregulation of the trucking and railroad industries has achieved similar results—the combination of lower freight rates and reduced inventories has saved, by some estimates, as much as $100 billion annually. Deregulation has led to the opening of hundreds of innovative short-line railroads—most of them nonunion in an industry that was historically almost 100 percent unionized. Deregulation also has allowed open entry to the trucking business, which has resulted in thousands of start-up, nonunion, motor carrier companies that have broken the labor monopoly of the Teamsters Union. At the same time, the quantity and quality of transportation services have increased and accident rates have declined.

Despite deregulation's high returns, the government continues to meddle with transportation—shipping and urban mass transit, in particular, are both heavily subsidized and regulated at the federal level. While complete deregulation is a commendable goal, this chapter addresses only the most costly and inefficient regulations. Ultimately, however, Congress should completely deregulate transportation and return control to the private sector.

Infrastructure, Mass Transit, and Gasoline Taxes

The Department of Transportation should be abolished and public roads, national highways; and urban mass transit systems returned to the states and to the private sector. Whatever justification there may once have been for a national transportation department has disappeared; the goal of creating a national rail and road network was met long ago. Taxpayers currently send $14 billion a year to the DOT only to have their money returned with strings attached. People around the country should not have to send their money to Washington before it can be spent to construct local roads.

The Urban Mass Transit Act of 1964 should be repealed—its swamp of requirements fails to keep pace with urban change, preventing the efficient operation of urban mass transit systems. When the act was adopted, most commuters traveled from suburbs to cities; now, however, most trips are intrasuburban. Despite the shift in commuting patterns, the outdated transit act provides incentives to local governments to build urban rail and subway systems by providing up to 75 percent of construction funds, even though many cities need funds for suburban systems such as buses and car pool lanes. By subsidizing one form of transportation—in this case, the least needed and most inefficient form—the government encourages financially strapped localities to opt for subsidized systems despite their inability to meet commuter needs.

Safety and Savings: The Benefits of Deregulation

- Safer airways: Since deregulation in 1978, airline accidents have declined more than 50 percent.
- Safer roads: Airline deregulation has increased air travel 11.4 percent and reduced car travel 3.9 percent, resulting in 600,000 fewer automobile accidents annually.
- Passenger savings: Increased availability of airline flights has saved airline passengers $10.3 billion per year.
- Consumer savings: Deregulation of the tracking and railroad industries has saved as much as $100 billion annually. That represents $380 in savings for every person in America—an effective increase in disposable income of $1,500 for a family of four.

Section 13(c) of the Urban Mass Transit Act is particularly costly. To receive federal funding for local projects, local transit authorities must show that no transit workers will be adversely affected by the proposal; otherwise, the measure will not be implemented. Thus, proposals for improved efficiency, which often include recommendations for downsizing the workforce or cutting costs, are frequently thwarted in favor of protecting a costly but "job-saving" status quo.

In conjunction with abolishing the DOT and repealing the Urban Mass Transit Act, Congress should return the transportation tax base to the states by abolishing the federal gasoline tax—a primary source of funds for federally subsidized infrastructure projects. When states are allowed to assess and fund their own infrastructure needs, they will be able to select the transportation systems that best meet local demands and reintroduce gasoline taxes where appropriate.

Railroads

By loosening federal control of rail prices and services, the Staggers Rail Act of 1980 reduced real prices for most rail services 50 percent. The Railway Labor Act, however, continues to impede the development of high-quality, efficient rail service. The railroads have the most unionized workforce in the United States—union dues are compulsory and average wages for rail workers are in the top 1 percent of wages nationwide. The RLA effectively doubles labor costs and drives up freight rates 20 to 25 percent. In addition, rail unions are the only unions in the country that can use secondary boycotts to paralyze enterprises that are not direct parties to a labor dispute. The RLA should be repealed and labor issues resolved under the National Labor Relations Act, which regulates labor relations in the private sector.

For over 25 years Amtrak, the government's passenger rail service, has operated in the red at the expense of American taxpayers. Although its services are neither essential for social equity nor a result of market failures, nearly 40 percent of Amtrak's costs are taxpayer subsidized. In 1995 American taxpayers paid some $1 billion in taxes to cover Amtrak's operating cost—half of which is consumed by salaries and benefits for its overpaid employees. Amtrak's notoriously poor customer service, predictable tardiness, and clattery old coaches have caused it to lose its only legitimate source of funding—passengers. Since 1990 Amtrak has been losing passengers at a rate of 3 percent per year. Even Amtrak spokesman Clifford Black has said privatization is a good idea, "provided we're permitted to wean ourselves off of operating subsidies." Congress should give Amtrak a brief restructuring period and immediate regulatory relief, after which all subsidies should be terminated and the government's shares sold.

Air Travel

The competition unleashed by the Air Cargo Deregulation Act of 1977 and the Airline Deregulation Act of 1978 has led to substantially lower fares, better passenger service, and more flight options; yet the public has not been afforded the full benefits of complete deregulation. The federal government still owns, manages, or regulates the air traffic control system, airport facilities, and foreign carriers' access to U.S. routes.

The Federal Aviation Administration owns and operates the air traffic control system (ATC)—a high-tech operation that must operate reliably

24 hours a day, 365 days a year. The present ATC has proven consistently that it is not capable of keeping pace with the rapid advancements brought about by deregulation. First, civil service constraints bar the FAA from attracting and keeping the most experienced controllers. Second, ATC equipment is outdated and unreliable even though better equipment and technology have been available for years. According to the DOT, those systemic weaknesses result in flight delays that cost airlines and travelers $5 billion a year.

What is even less tolerable than the economic waste are the fatal airline accidents that have resulted from the ATC's ineptitude: a number of fatal collisions, including ground collisions at Detroit Metro and Los Angeles International airports, were caused by the ATC's malfunctioning ground radar system. The ATC must be freed from the bureaucratic constraints that make it both inefficient and dangerous. Privatizing the ATC would allow airlines to benefit from improved equipment thus enabling them to meet flight schedules (the majority of airline delays are due to ATC problems, not aircraft problems). The American public would benefit from improved arrival and departure times, as well as the increased safety that would result from better tracking and routing of planes.

A majority of airports are owned by local governments and operated by local administrators. Airport administrators are required to ration gate use to carriers according to strict federal regulations. If airports were privately owned, access to gates and flight frequency could be determined by market forces, which would result in a more efficient allocation of terminals and gates. For example, higher rates could be charged during rash hours and lower rates could be charged during lower use times. At the very least, if the government continues to own and operate airports, rights to gates should be auctioned off. That should only be an intermediate solution, however; the best solution would be to privatize the airports.

Congress should also lift the ban that prevents foreign airlines from flying domestic routes in the United States. Many foreign airlines have achieved a level of safety and service exceeding that of U.S. carriers, and the U.S. traveler should be afforded this option. Like domestic deregulation, enabling foreign airlines to compete with domestic airlines will lower prices, improve safety, and increase the quantity and quality of airline services.

Shipping

A hodgepodge of conflicting policies—subsidization, protectionism, regulation, and taxation—unnecessarily burdens the U.S.-flag fleet, forces

U.S. customers to pay inflated prices, and curbs domestic and international trade. The 1995 fiscal budget obligated $503 million for cargo preference programs alone. That figure excluded administrative costs, overhead, and an additional $214 million set aside for the Operating Differential Subsidy. And the passage of the Maritime Security Act of 1996 extended those subsidies for another 10 years. The list of rules and regulations governing shipping is too exhaustive to catalogue here, but one thing is clear: shipping policies must be thoroughly reviewed and revamped. Congress should pay particular attention to deregulation of ocean shipping and other trade- and consumer-oriented reforms.

In particular, the 105th Congress should repeal the Jones Act (section 27 of the Merchant Marine Act of 1920). The Jones Act prohibits shipping merchandise between U.S. ports "in any other vessel than a vessel built in and documented under the laws of the United States and owned by persons who are citizens of the United States." The act essentially bars foreign shipping companies from competing with American companies. A 1993 International Trade Commission study showed that the loss of economic welfare attributable to America's cabotage (the exclusive right of a country to operate traffic within its territory) amounts to $3.1 billion per year.

Because the Jones Act inflates prices, many businesses are encouraged to import goods rather than buy domestic products. For those reasons, Sen. Jesse Helms (R-N.C.) introduced legislation that would open domestic shipping to foreign-flag vessels. Helms called the Jones Act "a harmful anachronism that enables a few waterborne carriers to cling to a monopoly on shipping." He noted that the Jones Act has forced many North Carolina pork and poultry farmers to import grain from Canada rather than the Midwest, because certified shipping vessels are unavailable and rail is an inefficient alternative.

The primary argument made in support of the Jones Act is that we need an all-American fleet on which to call in time of war. But during the Persian Gulf War, only 6 older vessels of the 460 that shipped military supplies came from America's subsidized merchant fleet. Rob Quartel, then a commissioner at the Federal Maritime Commission, wrote, "In short, the success of the military sealift—a brilliant feat of logistics—occurred despite [rather than because of] 75 years of government subsidies, protectionism, regulation, and energy and management controls." Since the Jones Act requires American sailors to staff domestic vessels, it also has significant support from organized labor.

The Top Nine Costs of Transportation Regulation

- Mass transit operating costs have increased at five times the rate at which they did before federal subsidies, while costs in the private bus industry have declined.
- Taxpayers currently send $14 billion a year to the DOT.
- Time lost because of traffic congestion costs commuters $100 billion annually.
- Since 1964 inefficient, taxpayer-subsidized transit projects have cost taxpayers $43 billion.
- Labor restrictions stemming from the Railway Labor Act cost railroads and shippers $4 billion annually.
- In 1995 American taxpayers paid some $1 billion in taxes to cover Amtrak's operation cost—half of which is consumed by salaries and benefits for overpaid employees.
- Airline delays cost travelers $5 billion per year.
- The Jones Act costs America $3.1 billion per year.
- Taxpayers pay $100,000 annually to protect each U.S. seaman's job.

Repealing the Jones Act would allow the domestic maritime industry to be more competitive and would enable U.S. producers to take advantage of lower prices resulting from competition among domestic and foreign suppliers. Ships used in domestic commerce could be built in one country, manned by another, and flagged by still another. That would result in decreased shipping costs, with savings passed on to U.S. consumers and the U.S. shipping industry. The price of shipping services now restricted by the act would decline by an estimated 25 percent.

Suggested Readings

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