39. Transportation

Congress should

- close the U.S. 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, the Interstate Commerce Act of 1887, and the Railroad Retirement Act of 1934;
- privatize Amtrak;
- privatize the air traffic control system;
- remove all federal regulations that prevent airports from being privately owned or operated;
- repeal cabotage laws that prevent foreign airlines from flying domestic routes in the United States; and
- repeal the Jones Act.

The contrast between the record of transportation deregulation over past decades and the actions of Congress and the Clinton administration in recent years could not be more stark. The Airline Deregulation Act of 1978 allowed air carriers to fly the routes demanded by consumers and to charge market prices. Northwestern University economist Steven Morrison finds that since then airfares have dropped by as much as 40 percent in real, inflation-adjusted terms. Morrison and Clifford Winston of the Brookings Institution place the savings to air travelers at around $12.4 billion annually. In 1978 some 275 million passengers flew on American carriers; today the number is over 600 million.

Airports are more crowded than ever. The summer of 2000 saw record levels of serious airline delays and customer frustration. Many of the problems were weather related, some were due to a union job action against United Airlines, and some were due to poor customer service by several but not all of the airlines themselves. But the most serious cause of delays is the antiquated, government-owned and government-operated air traffic control (ATC) system. Congress has chosen to throw money at the problem rather than privatize the failing system.

Further, instead of promoting privatization of airports, most of which are owned and operated by local or state governments, the 106th Congress initiated major new airport subsidies. Infrastructure no doubt needs to be improved at many airports if they are to keep up with the demands of airlines and passengers in a cost-effective manner. But subsidies only prevent the private sector from developing market-based financing that would more efficiently allocate resources.

Deregulation of the trucking and railroad industries has achieved results similar to those of airline deregulation: the combination of lower freight rates and reduced inventories has saved tens of billions of dollars annually. Deregulation has led to the opening of hundreds of innovative short-line railroads. Deregulation also has allowed open entry to the trucking business, which has resulted in thousands of start-up, nonunion, often minority-owned 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.

The 104th Congress voted to replace the antiquated Interstate Commerce Commission with the Surface Transportation Board (STB) in a move that promised less regulation. For example, the reorganization limited the STB's ability to impose artificial labor protection when new railroads are formed. The STB allowed the merger of Union Pacific and Southern Pacific—a move that the Justice Department trustbusters no doubt would have thwarted.

But business decisions made by companies whose mergers are approved by the STB are subject to oversight for a period of time determined by the board. Thus, for example, the Union Pacific merger already has been subjected to environmental reviews that have nothing to do with the economics of the merger and to which mergers overseen by the Justice Department are not subject. It is possible that the economic efficiencies created by mergers could be bled away by STB postmerger oversight.

The 105th Congress also missed the opportunity to get the federal government out of decisions, which should be left to the states and the private sector, concerning roads and other forms of surface transportation.

The 105th Congress passed the Transportation Equity Act for the 21st Century, heir to the Intermodal Surface Transportation Efficiency Act of 1991. The new act was one of the largest single spending authorization bills in history, with $218 billion earmarked for highways, mass transit, bike paths, and the like.

The 106th Congress let federal funds continue to flow wastefully to states even as local traffic problems continued in part because local governments were burdened by the costly federal strings attached to those funds and incentives to spend the funds for systems that do not best meet local transportation needs.

Rather than force on the economy the regulatory policies that in the past have proven costly to the transportation system, Congress should complete the job of deregulation that for decades has helped businesses and consumers alike.

Infrastructure, Mass Transit, and Gasoline Taxes

The U.S. Department of Transportation (DOT) should be abolished and public roads, national highways, and urban mass transit systems returned to the states and municipalities and 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 achieved long ago.

Rep. John Kasich of Ohio and Sen. Connie Mack of Florida introduced legislation that would have returned both the responsibility for most roads, bridges, and mass transit and the tax base to the states. That plan would have cut most of the 18.4-cent federal gasoline tax, keeping only a few cents for maintenance of the interstate highway system. If states were allowed to assess and fund their own infrastructure needs, they would be able to select the transportation systems that best suited local conditions. If necessary, they could reintroduce gasoline taxes at the current level, or at higher or lower levels, to pay for their systems.

Instead, Congress is spending record amounts of money on roads, much of it as pork-barrel handouts at their worst. Washington continues to collect taxes to which it attaches costly strings. For example, the Davis-Bacon Act requires that workers on projects receiving federal funds must be paid the so-called prevailing wage, which usually means a wage far above the wages that local workers normally are paid. The dough is then doled out according to formulas that, for example, encourage localities to build light-rail systems that are 10 to 100 times more costly than are new bus or high-occupancy-vehicle lanes. Such rail systems induce few commuters to abandon their cars and leave less money for local governments to spend on infrastructure that would ease congestion.

The past few years have also seen both local and federal officials taking up the New Urbanist ideology that wants governments to discourage "suburban sprawl" and promote "smart-growth" policies that limit the use of property by suburban landowners. That ideology sees the automobile as the enemy.

If state or local governments want to experiment with such unsound policies, they may do so under the Constitution. Unfortunately, the federal government already promotes aspects of this ideology through its transportation programs and likely will be more intrusive in local transportation questions in the future. That is even greater reason for Congress to reevaluate transportation policy.

Even though record funds have been authorized, they have not been appropriated. Congress could resist the urge to spend up to approved limits. That, of course, would mean that revenues from the gasoline tax would remain unspent in DOT accounts—which would give Congress an incentive to cut the gasoline tax.

Further, 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. Yet the outdated transit act provides incentives for 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 bus and car-pool lanes.

Safety and Savings: The Benefits of Deregulation

- Safer airways: Since deregulation in 1978, airline accidents have declined more than 50 percent.
- Passenger savings: Increased availability of airline flights has cut ticket prices in real terms by as much as 40 percent, on average; saved airline passengers $12.4 billion per year; and allowed more than 600 million Americans—more than twice as many as two decades ago—to fly each year.
- Consumer savings: Deregulation of the trucking and railroad industries has saved tens of billions of dollars annually. One estimate is that these savings represent $380 in savings for every person in America—an effective increase in disposable income of $1,500 for a family of four.

Railroads

By loosening federal control of rail prices and services, the Staggers Rail Act of 1980 reduced real prices for most rail services by 50 percent. The Railway Labor Act (RLA), 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 as much as 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.

Further, Congress should repeal the Interstate Commerce Act of 1887. That act created the regime that now allows the STB to override private contracts—such as the Union Pacific–Southern Pacific merger. It might be better if the railroads were subject to the antitrust laws, as bad as they are, that govern other businesses. At the very least, the STB's postmerger powers over a company should be eliminated.

The Railroad Retirement Act of 1934 should also be repealed. Railroad workers are not covered by Social Security retirement. Their own regime requires employers and workers both to contribute 7.8 percent of employee income to a retirement fund. Employers also must contribute an additional 16.5 percent to a supplemental pension program, with employees adding another 4.6 percent. Many private employers offer workers pensions in addition to Social Security, but the generosity of those programs is subject to the economic health of the companies. Often workers must negotiate such pensions and their amounts. The additional 16.5 percent required of railroads, not subject to the laws of the market, is a costly mandate that puts them at a competitive disadvantage vis-à-vis trucking companies.

Unfortunately, the 106th Congress threatened to make a bad system worse. Normally, the congressionally appointed Railroad Retirement Board (RRB) manages the supplemental fund, investing it in government bonds. In recent years the fund has run large surpluses. Congress wants to allow the RRB to reduce the retirement age for railroad workers and give them other benefits worth about $300 million annually. But it also wants to allow the RRB to invest $300 million in private stocks. Congress voted earlier to bar the Clinton administration from using Social Security funds to purchase stock. But now, on a smaller scale, it is considering just such a step toward socialism. Of course, if employees were given funds directly for 401(k) accounts, which they would own, those funds could be invested privately, a good argument for privatizing this pension system.

For more than 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 1997 Congress approved $2.2 billion to be spent over a two-year period for Amtrak capital improvements. It also authorized $5.16 billion between fiscal years 1998 and 2002 for operating subsidies and for other capital costs. Meanwhile, Amtrak lost $760 million in FY96 and FY97. Salaries and benefits for its overpaid employees consume much of Amtrak's subsidies.

As if its usual subsidies were not enough, the 106th Congress tried to give Amtrak authority to sell $10 billion in new bonds over the next decade. Amtrak would be required to pay back only the principal on those bonds, not the interest. Bondholders, instead of receiving interest, would receive reductions in their taxes.

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 the rate of 3 percent per year. Even Amtrak spokesman Clifford Black has said that privatization is a good idea, "provided we're permitted to wean ourselves off of operating subsidies." Congress in recent years has set tentative deadlines for ending Amtrak subsidies, but it keeps extending those deadlines.

Amtrak has planned to open a high-speed rail service between Washington, D.C., New York, and Boston. This corridor is one of the few in which Amtrak actually might have a chance of competing effectively with airlines. With travel to and from airports, and time spent waiting to board flights and to take off on crowded runways, travel time by train from Washington to New York can be the same as or, in cases of flight delays, less than travel time by air, and the fares are lower. But Amtrak is more than a year behind its schedule for introducing this service. Delays, high costs, and decades of losing money suggest that high-speed train service will not be able to cover its development costs and may not cover its operating costs.

The 107th Congress should give no more new subsidies to Amtrak. Further, Congress has established that at the end of FY02 Amtrak will receive no new operating subsidies. Yet Amtrak has a habit of using capital funds for operating expenses and likely will engage in such behavior as it reaches the 2002 deadline. Congress should bar such subsidy shifting and resist any temptation to push back the deadline.

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 and more flight options. But low ticket prices and more flights also have produced crowded airports. In 1999 the airlines, under threat of more congressional regulation, agreed to voluntary guidelines for improving service. But flight delays and passenger frustration in the summer of 2000 were worse than the year before. Congress no doubt will be looking again at placing new regulations on the airline industry.

Yet the fact is that the airlines are not principally to blame for these problems. The public has not been afforded the full benefits of complete deregulation. The federal government still owns, manages, or regulates the ATC system, airport facilities, and foreign carriers' access to U.S. routes.

The Federal Aviation Administration (FAA) owns and operates the ATC system—a high-tech operation that must operate reliably 24 hours a day, 365 days a year. The present ATC system has proven consistently that it is not capable of keeping pace with the rapid advancements brought about by deregulation. First, civil service regulations keep the FAA from attracting and keeping the most experienced controllers. Second, the equipment used by the present ATC system 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 ineptitude of the ATC system: a number of fatal collisions, including ground collisions at Detroit Metro and Los Angeles International Airports, were caused by the ATC system's malfunctioning ground radar system. Reagan National Airport in Washington, D.C., recently completed major construction of a new terminal. Yet interspersed with news stories about the beautiful new facilities and their capacity to handle more passengers were stories of that airport's ATC system shutting down because of antiquated equipment. Even the modernization being carried out is not without problems. On October 19, 2000, new computer software for the ATC system at Los Angeles International Airport shut down the system and thus the airport for half a day.

The ATC system must be freed from the bureaucratic constraints that make it both inefficient and dangerous. Privatizing the ATC system would allow airlines to benefit from improved equipment and thus enable 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 privatized system, for example, might have begun incorporating in aircraft the kind of global positioning satellite technology that currently allows drivers of sports utility vehicles to find their way through crowded city streets or along country back roads.

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 rush hours and lower rates during times of lower use. At the very least, if the government continues to own and operate airports, rights to gates should be auctioned off. That should be only 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 levels of safety and service that exceed those of U.S. carriers. Yet cabotage restrictions prevent them from offering their services to American travelers within the United States. 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 and costly 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 net 1997 budget outlays for ship construction, operating differential subsidies, and other components of the Maritime

Administration support programs were $251 million. Net outlays for cargo preference programs were $337 million. Rather than remove those subsidies, the Maritime Security Act of 1996 extended them for another 10 years. The list of rules and regulations governing shipping is too exhaustive to catalog here, but one thing is clear: shipping policies must be thoroughly reviewed and revamped. Congress should pay special attention to deregulation of ocean shipping and other trade- and consumer-oriented reforms.

In particular, the 107th 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 restriction was some $3.1 billion per year. Mayors, such as John Norquist of Milwaukee, complain that, because it raises shipping costs and thus reduces shipping, the Jones Act is responsible for underused port facilities and lost revenues for municipalities.

Because the Jones Act inflates prices, many businesses are encouraged to import goods rather than buy domestic products. For that reason, Sen. Jesse Helms of North Carolina 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 buy 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 Eight 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.
- The Transportation Equity Act for the 21st Century will pass out some $218 billion between 1998 and 2003 in highway and transit subsidies.
- Time lost because of traffic congestion costs commuters $100 billion annually.
- Labor restrictions stemming from the Railway Labor Act cost railroads and shippers about $4 billion annually.
- Congress instructed the Internal Revenue Service to give a $1.09 billion "tax refund" to Amtrak for 1998 and 1999, even though Amtrak has never paid any income tax.
- Airline delays cost travelers, on average, $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 American 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 citizens of another, and flagged by still another. That would result in decreased shipping costs, with savings passed on to American consumers and the U.S. shipping industry. The price of shipping services, now restricted by the act, would decline by an estimated 25 percent.

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