AMTRAK

Congress should

- privatize Amtrak and allow the passenger rail company to shed uneconomic routes and restructure its operations; and
- phase out subsidies to passenger rail and other modes of transportation.

Private passenger rail thrived in the United States between the mid-19th century and the early 20th century. By the late 1950s, however, passenger rail was struggling because of the rise of automobiles, buses, and airlines. Railroads also faced large tax, regulatory, and union burdens not faced by other modes of transportation. The Interstate Commerce Commission micromanaged the railroads and hindered their efforts to cut costs. Railroads paid heavy property taxes, and the federal government imposed a special excise tax on rail tickets from the 1940s until 1962.

After a number of railroads, including Penn Central, went bankrupt, Congress stepped in to take over passenger rail by creating Amtrak in 1970. Amtrak is structured like a corporation, but the federal government owns the company's stock. It was supposed to become self-supporting after a transition period, but it has never earned a profit and it consumed more than $50 billion in federal subsidies over five decades to 2020.

In fiscal year 2021, Amtrak had revenues of $2.1 billion, expenses of $4.1 billion, and a loss of $2.0 billion. It had been receiving about $2 billion a year in federal aid but then received $3.7 billion in pandemic-related aid in 2020 and 2021. Most recently, the federal Infrastructure Investment and Jobs Act of 2021 provided a huge $66 billion infusion of subsidies for rail, including direct funding of Amtrak and grants to the states for rail projects.

Amtrak's Failures

Amtrak has many woes. One problem is unreliable service, as only about three-quarters of its trains run on time. Another problem is unions' undermining Amtrak's efficiency. More than 83 percent of the company's 17,000 employees are covered by collective bargaining. Unions tend to protect poorly performing workers, resist innovation, and create rule-laden workplaces. Former Amtrak head David Gunn complained, for example, that at the company's maintenance facilities, workers from different unions were not allowed to perform work outside their narrow specialties.

Most of Amtrak's problems are created by Congress, which inhibits the company from cutting costs and making other rational business decisions. Congress insists on supporting an excessively large nationwide system of passenger rail. Many routes have low ridership and lose money, which does not make economic or environmental sense.

In his book *End of the Line*, rail expert and former Amtrak spokesperson Joseph Vranich argued: "Congressional requirements that Amtrak spend money on capital improvements to lightly used routes are outrageous. . . . Throughout Amtrak's history, it has devoted too much of its budget to where it is not needed, and not enough to where it is."

Amtrak operates more than 30 routes on 21,000 miles of track in 46 states. Amtrak owns the trains, but freight rail companies own about 95 percent of the track. An analysis by Randal O'Toole found that only four Amtrak routes earn an operational profit. Some Amtrak routes lose hundreds of dollars per passenger and fill fewer than 40 percent of their seats.

The few routes that earn a return are in the Northeast, while the biggest money losers are the long-distance routes. An analysis by Amtrak in 2018 titled "How Do Long Distance Trains Perform Financially?" found that 15 of its long-distance trains account for 20 percent of passenger revenues but 86 percent of Amtrak's operating losses. Revenues from the 15 long-distance trains cover just half their operating costs, let alone any capital costs. As one example of a money loser, the average per-passenger federal subsidy is $362 for the New Orleans–to–Los Angeles Sunset Limited.

Rail is slower than intercity buses on many routes outside the Northeast Corridor, based on comparing times posted on Amtrak's website and the websites of bus companies, such as Greyhound and Megabus. Charlotte to Atlanta is 5 hours, 48 minutes by rail, but 3 hours, 15 minutes by bus. Dallas to Austin is 6 hours, 32 minutes by rail, but 3 hours, 10 minutes by bus. It is not surprising that Amtrak accounts for only a small fraction of America's overall travel.

In sum, Amtrak spends a lot maintaining service on slow and money-losing routes instead of focusing on routes with heavier traffic that make more economic and environment sense. Unfortunately, part of the huge cash infusion to Amtrak in the 2021 infrastructure bill will likely be spent on expanding services to highly unprofitable and low-value routes. Amtrak proposes adding dozens of new routes across the country. Aside from being a waste of resources, new passenger routes threaten to interfere with existing freight services on those routes.

Advantages of Privatization

Congress should consider privatizing Amtrak as a way to improve performance, reduce costs, and spur innovation. A private company would have more incentive and flexibility to prune excess workers, to base worker pay on performance, and to end inflexible union rules.

A private Amtrak could also close the routes that lose the most money. Passenger rail makes sense in the Northeast Corridor between Boston and Washington, but that corridor accounts for fewer than 500 miles within the current 21,000-mile system. Other corridors may make sense within a lower-cost privatized system, but that would be for a private entrepreneurial Amtrak to find out. By closing the least successful routes, Amtrak could shift investment and maintenance spending to high-demand routes and improve service.

A number of countries have privatized, or partly privatized, their passenger rail systems. Vranich found that privatized systems generally provide improved service, increased ridership, and more efficient operations. Regarding the United Kingdom, for example, he argued that "private operators have demonstrated more initiative, imagination, and visionary planning than state-run British Rail did in its prime or Amtrak does today."

As a state-owned business, British Rail was heavily subsidized, and it faced a steady decline in ridership from the 1950s to the 1980s. In 1994, the UK government split up the company and privatized the track infrastructure separately from passenger service operating companies. This ending of vertical integration created problems, and track infrastructure was later renationalized. The operating companies had franchise agreements with the government, typically for seven-year periods.

UK passenger rail continues to be heavily subsidized, but the partly privatized system has succeeded on many dimensions. UK rail ridership soared from 735 million passenger trips in 1995 to 1.8 billion by 2019, according to the UK Office of Rail and Road. Before the pandemic, UK rail ridership was hitting levels not seen since the early 1920s, and ridership growth in recent years has far surpassed growth elsewhere in Europe.

The UK system is one of the safest in Europe, and surveys have found high levels of customer satisfaction over the past decade. The on-time performance of UK passenger rail improved after privatization and today appears to be much higher than Amtrak's. Whereas Amtrak says that 75 percent of its trains are on time, 85 percent or more of UK trains are on time within three minutes of schedule, according to the UK Office of Rail and Road. In a 2013 study, the European Commission found that the UK's railways were the "most improved" in Europe since the 1990s.

Nonetheless, the pandemic and a number of recent rail problems led the UK government to reassess the industry's structure. Based on a major review (the Williams Report), the government decided in 2021 to end the franchise model and create a new government entity, Great British Railways, which will contract with private companies to operate trains on timetables and fares set by the government. The review said, "Private sector innovation has helped deliver the spectacular growth the railways have seen in the last quarter-century," but the government is nonetheless taking steps to increase central control.

Japan restructured and privatized its rail system in the 1980s and 1990s. Japanese National Railways (JNR) had been stagnating as a result of bloated labor costs, labor strife, and political manipulation. The government broke up JNR into six regional and vertically integrated passenger rail companies in 1987 and then started privatizing them in the 1990s.

The JNR companies reformed their rigid union rules and slashed their workforces by roughly one-third following the reforms. A National Bureau of Economic Research study found that labor productivity in the Japanese passenger rail companies increased, on average, by about 50 percent with the restructuring and privatization of the 1990s. Accident rates were cut in half.

The three largest privatized companies (JR East, JR Central, and JR West) have been profitable, but the smaller companies continue to rely on government subsidies. One of the strategies of the three large and profitable firms has been to diversify into complementary real estate development. All in all, Vranich called the improvements from JNR's privatization "stunning."

The United States has its own positive experience with rail privatization—freight rail privatization. When Penn Central collapsed in 1970, it was the largest business failure in American history to date. Other railroads followed it into bankruptcy. Congress created Conrail in the mid-1970s to replace the failed railroads. That government-owned company consumed $8 billion in subsidies and floundered until Congress deregulated freight rail under the Staggers Rail Act of 1980. Deregulation allowed Conrail to become profitable, and it was privatized in 1987. Since then, U.S. freight railroads have been a dramatic success.

Amtrak supporters argue that since other modes of transportation receive subsidies, so should passenger rail. But Amtrak receives substantially more subsidies per passenger-mile than other modes of transportation, including automobiles, buses, and aircraft. Automobiles used to receive relatively little in net subsidies because government highway spending was mainly covered by fuel taxes. Unfortunately, federal highway spending in recent years is being increasingly covered by general tax revenues. Policymakers should work toward phasing out subsidies to all modes of transportation.

The problem for passenger rail is not that it needs more subsidies but that competitors to rail have become more efficient. For consumers, real (inflation-adjusted) rail prices have risen in recent decades, while real airline prices have fallen because of the deregulated and competitive airline environment. Real intercity bus prices have also fallen with the rise of low-cost firms such as Megabus. Recent spikes in fuel prices may change the competitive landscape somewhat.

It seems unlikely that passenger rail will play a large role in America's transportation future. Rail carries few people compared with automobiles and planes, and in many U.S. corridors, rail makes no economic or environmental sense. In the near term, Congress and Amtrak should end the routes that are the biggest money losers, particularly the long-distance routes, and it should focus on investment in the Northeast Corridor. In the longer term, Congress should take steps to free passenger rail from the government. Let's allow entrepreneurs to bring efficiencies and innovation to rail and to make the industry more competitive with other modes of transportation.

Suggested Readings

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