

36. 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, 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 the 105th Congress and the Clinton administration 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; in 1997 the number reached approximately 600 million.

In spite of deregulation's incredible success, in response to complaints about "unfair" competition lodged by start-up, low-cost airlines, the

Department of Transportation has proposed new guidelines and Congress has considered its own actions to limit the number of seats that major airlines can offer customers and to prevent those airlines from cutting prices.

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, by some estimates, as much as \$100 billion 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 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—in the case of Union Pacific, five years. That merger already has been subject 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. The economic efficiencies created by the merger are being bled away.

The 105th Congress also missed the opportunity to get the federal government out of decisions concerning roads and other forms of surface transportation that should be left to the states and the private sector. It passed the Transportation Equity Act for the 21st Century, heir to the Intermodal Surface Transportation Efficiency Act of 1991. The new act is one of the largest single spending authorization bills in history, with \$216 billion earmarked for highways, mass transit, bike paths, and the like.

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 Department of Transportation should be abolished and public roads, national highways, and urban mass transit systems returned to the states, 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 in the 105th Congress 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 suit 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, the new transportation bill authorized record levels of federal spending, much of it pork-barrel handouts at their worst. Washington continues to collect taxes to which it attaches costly strings. 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.

But authorization is not appropriation. 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 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.

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 cut ticket prices in real terms by as much as 40 percent, on average, saved airline passengers \$12.4 billion per year, and allowed 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 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.

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, 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 each to contribute 7.8 percent of income

to a retirement fund. But employers also must contribute an additional 16.5 percent to a supplemental pension program. Many private employers do offer pensions to workers 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 *via-à-vis* trucking companies.

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 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 in operating subsidies and for other capital costs. Spending under that authority will be \$1.058 billion in FY99. Meanwhile, Amtrak lost \$760 million in FY96 and FY97. Much of Amtrak's subsidies 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 that privatization is a good idea, “provided we're permitted to wean ourselves off of operating subsidies.”

There was talk early in the 105th Congress of eliminating Amtrak's subsidies, but those subsidies continue to rise. The 106th 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 DOT will issue guidelines and Congress has considered its own ways of restricting the freedom of airlines to provide service to passengers. Smaller, start-up companies have complained that larger carriers add seating capacity and cut prices to prevent them from moving into markets dominated by those larger carriers. But such is the nature of competition. Further, the airline

industry has gone through several waves of small carriers, for example, Southwest Airlines, challenging and taking market share from large carriers; large carriers, for example, Pan Am and Eastern Airlines, going out of business and their assets being purchased by other airlines; and large carriers staging comebacks and smaller carriers, for example, New York Air and People's Express, folding.

In any case, 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 regulations keep 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. 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 air traffic system shutting down because of antiquated equipment.

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 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 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 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 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 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 restriction was some \$3.1 billion per year. Mayors, such as John Norquist of Milwaukee, complain that by raising shipping costs and thus reducing 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 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 have had to turn over some \$22 billion to enrich the Highway Trust Fund.
- Time lost because of traffic congestion costs commuters \$100 billion annually.
- Since 1964 inefficient, subsidized transit projects have cost taxpayers \$43 billion.
- Labor restrictions stemming from the Railway Labor Act cost railroads and shippers about \$4 billion annually.
- In 1995 American taxpayers shelled out some \$1 billion to cover Amtrak’s operation cost—half of which is consumed by salaries and benefits for overpaid employees.
- 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.

Suggested Readings

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—Prepared by Edward L. Hudgins