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45. Amtrak

Congress should

- privatize Amtrak and allow the passenger rail company to shed uneconomic routes and restructure its operations and labor force; 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 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 at cutting 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 virtually all the company's stock. It was supposed to become self-supporting after a transition period, but it has never earned a profit and has consumed more than \$40 billion in federal subsidies over four decades. In 2015, Amtrak had revenues of \$3.2 billion and expenses of \$4.3 billion, and it received federal subsidies of \$1.4 billion.

Amtrak's Failures

Amtrak has many woes. Only about three-quarters of its trains run on time. The entire Amtrak system accounts for only a tiny fraction of

America's passenger travel. And the company's operations are so inefficient that it even loses tens of millions of dollars a year on its food service.

Amtrak has an expensive and inflexible workforce. It has about 20,000 employees, who earned an average \$105,000 a year in wages and benefits in 2014, according to company financial statements. Amtrak pays a huge amount of overtime, a substantial amount of which appears to be unnecessary. More than a dozen collective bargaining agreements cover 86 percent of Amtrak's workforce. Unions undermine efficiency by protecting poorly performing workers, resisting innovation, and creating a rule-laden workplace. Former Amtrak head David Gunn complained that at Amtrak's maintenance facilities, workers from different unions were not allowed to share work on projects outside of their narrowly designated specialties.

Most of Amtrak's problems are created by Congress, which prevents the company from making 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 2004 book, *End of the Line*, rail expert and former Amtrak spokesman 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 44 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. A 2012 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 less than 40 percent of the seats.

The few routes that earn a positive return are in the Northeast, while the biggest money losers are the long-distance routes, such as New Orleans to Los Angeles. The Government Accountability Office found that the long-distance routes account for 15 percent of Amtrak riders but 80 percent of its financial losses. In sum, Amtrak spends a lot of money maintaining high-loss routes at the expense of routes with heavier traffic.

Advantages of Privatization

Privatization of passenger rail would improve rail performance and reduce costs. A private company would have more flexibility to prune excess workers, base worker pay on performance, and end harmful union rules. It would be able to close routes that continued to lose money.

Passenger rail makes sense in the Northeast corridor between Boston and Washington, D.C., but that corridor accounts for fewer than 500 miles within the current 21,000-mile system. Other routes may also make sense within a lower-cost privatized system. A privatized Amtrak could close the least successful routes and shift investment and maintenance spending to the high-demand routes to improve service quality.

Reforms abroad show that privatizing passenger rail works. Vranich found that privatized rail systems generally provide improved service, increased ridership, and more efficient operations. In 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.”

When it was state owned, British Rail consumed a large amount of subsidies and faced a long-term decline in UK transportation market share. In 1994, the government split up the company and privatized the track infrastructure separately from passenger service operating companies. The ending of vertical integration in the industry created problems, and track infrastructure has been essentially renationalized. Some experts argue that vertical integration should be reintroduced.

However, passenger services have flourished since privatization. Rail ridership has more than doubled in the past two decades, from 740.0 million passenger trips to 1.5 billion, according to the UK Department of Trade and Investment. UK rail ridership is hitting levels not seen since the early 1920s, and ridership growth has far surpassed the growth elsewhere in Europe.

Despite the large increase in passengers, the on-time performance of British passenger rail improved after privatization, and surveys find solid levels of customer satisfaction today. In a 2013 study, the European Commission found that the United Kingdom’s railways were the “most improved” in Europe since the 1990s.

Japan’s rail privatization was also a success. In the 1980s, Japanese National Railways (JNR) was 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. Vranich called the results of 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 that 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 receive relatively little in net subsidies because government highway spending is mainly covered by fuel taxes. That said, subsidies to all modes of transportation should be phased out.

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. To tackle air and bus competition, rail needs to be moved to a similar private and deregulated environment.

It seems unlikely that passenger rail will play a large role in America's transportation future. Rail carries few people compared with automobiles and airplanes, and in many U.S. corridors, rail makes little economic sense. However, entrepreneurs could bring enough cost cutting and innovation to passenger rail to make it more competitive and financially viable. With that goal in mind, we should free passenger rail from the government and give it the flexibility it needs to compete against other modes of transportation.

Suggested Readings

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