



AMERICANS FOR TAX REFORM

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Taxpayers Shouldn't be Amtrak's Gravy Train

By: Robert Fike

On November 9, 2001 the Amtrak Reform Council voted six to five in favor of compelling Amtrak to develop plans for liquidation as it will not meet the deadline for self-sufficiency set for the end of next year. Congress will then render its verdict on the future of Amtrak and, implicitly, America's approach to rail services in general. **It's far past time that Amtrak was finally weaned off of the subsidies that have allowed it to keep running so poorly, and Congress must decide whether or not to end this expensive fiasco.**

Demands on the rail system, especially the passenger segment, have been in steady decline since before the Second World War, though it did spike upwards shortly after the war due to gasoline shortages. Amtrak was established in 1971 to reverse this downward trend and turn passenger services profitable. However, over the past 30 years it has consistently lost money, and Amtrak has done little to counter the problem. (Which is scarcely surprising: Amtrak has been given an essentially blank check signed by the taxpayers, and as history has shown, more money does not enable reform – it delays its implementation.)

But despite Amtrak's consistently disappointing performance record, there are now calls for an intercity high-speed rail network to be built across parts of the United States [High Speed Rail Act of 2001 (S.250) & (H.R. 2329)]. These bills would give Amtrak \$1.2 billion of taxpayers' money per year for the next 10 years¹ to make this unnecessary project possible. And the price tag would ultimately be much higher than expected due to maintenance and upgrade costs. Even though there are already a few high speed services set up to run at 100mph+, the infrastructure cannot sustain the speeds for long due its general state of disrepair. One need look no further than the *Acela* that runs in the Northeast Corridor, (which, it should be noted, takes around the same amount of time to get from New York to Boston as it would to drive). Amtrak themselves admit that to merely upgrade this portion of the system (the Northeast Corridor) would cost \$30 billion alone.

Intercity high-speed rail proponents tend to be driven in large part by a sincere but misguided belief that the railways could attract new passengers – especially those traveling under 500 miles. However, only 4% of those who travel by airlines do so in the “3 hour or less” rail markets², and are not likely to change their preferred mode of transportation. The advent of widely available commercial flight has made long distance travel all the more accessible and affordable. Indeed, it has thoroughly (and irreversibly) changed the travel habits of nearly all Americans. For instance, airline ridership reached 1,714 passenger miles per capita in 1998, more than ten times that of rail during the 1930's and 1950's.³ This highly mobile populace is now inclined to regard the airplane as their first (and perhaps only) option for getting from Point A to a relatively distant Point B, whereas past generations looked upon the airplane as an expensive luxury, and the passenger rail system as an economical and familiar substitute for the all too lofty skies.

The recent \$15 billion airline bailout triggered many companies to come to Washington with their hands stretched out begging for federal assistance (though the airlines had a reasonable grievance: the federal

¹ Heritage Report, October 2nd 2001, *Proposed Amtrak Bailout Would Bust the Budget*, Ronald D. Utt

² Demographia & Public Purpose September 27th 2001, *Passenger Rail Unlikely to Substitute For Airline Use*, Wendell Cox

³ *ibid*

government grounded their planes and deprived them of revenue). Amtrak was first in line, even though over the past 30 years it has received federal money as if it were going out of fashion, totaling over \$13 billion and receiving over \$1 billion in 1995 alone.¹ Nevertheless, they still asked for \$3 billion following the terrorist attacks as compensation for expenses incurred from September 11th.

And Amtrak shouldn't get one thin dime.

By the end of 2002 Amtrak is supposed to be financially viable and weaned off the subsidies it receives from Congress. Amtrak certainly needs to get slapped by economic reality: it is currently running at 5% above the losses of last year, potentially ending this year as much as \$985 million in the red – almost twice this year's federal subsidy of \$521 million.² It's no mystery why Amtrak doesn't trim its costs to balance its books: it doesn't have to, that's been the taxpayers' job all along. But it doesn't have to be that way much longer, and it shouldn't.

It's painfully obvious that Amtrak is not used by the vast majority that subsidizes it, and we are witnessing a classic example of the "Concentrated Benefits/Diffused Costs" phenomenon. Those who receive the Concentrated Benefits will be more inclined to actively preserve their benefits than those who pay the Diffused Costs are inclined to actively terminate their costs.

In other words, it's a terrifically stealthy rip-off. And it must be stopped.

A new plan of action for the rail industry needs to be drawn up, for Amtrak must be allowed to finally enter into its inevitable final hours—it must not be given another chance at life, whether it's through more and more subsidies or the creation of a rather dubious (to put it charitably) intercity high-speed rail network. Amtrak has consistently proven that it fails despite the amount of money showered upon it, **and the only feasible solution is competition: the federal government must end its counterproductive interference and the industry as a whole needs to be opened completely to the private sector.**

Funding that would have gone to Amtrak could be used instead to bolster the infrastructure and make the entire system more attractive to private bidders. And those private companies should determine where and at what times passenger rails are to operate. It couldn't possibly make matters any worse than they already are. Without a doubt, it would only make things immensely better, and most of all, it would save America's taxpayers from coughing up serious money for a not-so-serious project.

¹ Cato Policy Analysis, December 19th 1996, *Amtrak at Twenty Five: End of the Line for Subsidies*, Jean Love, Wendell Cox and Stephen Moore

² Heritage Report, October 2nd 2001, *Proposed Amtrak Bailout Would Bust the Budget*, Ronald D. Utt