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END OF THE LINE FOR AMTRAK

INTRODUCTION

The ten year existence of Amtrak has cost the U.S. economy over $12 billion and more than 125,000 jobs. It is very likely that these losses will be exceeded in coming years. Amtrak has yet to experience a year of reducing its losses. To make matters worse, Amtrak is planning a "second wave" of capital investment in the mid-1980s. This upcoming re-revitalization, according to Amtrak, is needed to rehabilitate or replace equipment revitalized in the "first wave."

Amtrak management has become so emboldened, perhaps by congressional resistance to the Reagan Administration's proposed modest funding cuts, that it is prepared to ask for even more taxpayer subsidy. The failure to achieve the original objective of turning Amtrak into a "for profit" corporation now serves as the justification for a "second wave" of capital outlays. If the "first" mandates a "second", won't a "second" call for a "third"? Will the assaults on the taxpayers ever end so long as Amtrak has access to public funds?

In making its assaults on the taxpayers, Amtrak and its advocates spare no rhetoric. For example, despite a decade of unrelenting financial disaster, of which 1981 was the worst year, Amtrak's 1981 Annual Report is filled with self-congratulation. As the management of Amtrak sees it, 1981 was the corporation's "finest hour." This despite losing nearly $900 million. Amtrak's published statements constitute a propaganda blitz bearing little resemblance to truth.

The true financial profile has to be pried out of the Annual Reports. Unusual terminology, strange classifications, and frequent reshuffling of methodologies are used to conceal unpleasant data and trends. According to the Annual Report, for example,

the taxpayers are not subsidizing Amtrak losses, but purchasing services. With this logic, if enough money could be extracted from the taxpayers, there would never be any reported losses.

Despite receiving subsidies over 100 times larger than any other mode of passenger transportation, Amtrak only manages to attract a tiny fraction of the intercity passenger trips. After a decade of operation, Amtrak has shrunk rail's market share from a tiny 1/2 percent to an even tinier 3/10 percent. Other means of transportation are cheaper, faster, and more convenient.

Undaunted by the financial disaster and demonstrable lack of need for subsidized rail passenger service, apologists for Amtrak insist that there are "other factors" to consider. Most frequently cited are the "other factors" of energy, environment, safety, and welfare. Under close examination, however, these provide no argument on behalf of Amtrak. Instead, there is persuasive evidence that the total economic impact of Amtrak is negative. Relieved from the discipline of the marketplace, Amtrak wastes scarce capital which could have been productively employed elsewhere. The social opportunity cost of this waste is a reduction in human living standards. Unless the taxpayer is willing to subsidize Amtrak endlessly at ever greater amounts, it is time to subject the Agency to cold, tough scrutiny. If Amtrak cannot succeed in a decade, perhaps it cannot succeed at all.

PROMOTIONAL PROPAGANDA

If a person were to rely upon Amtrak's own evaluation of its performance, he might well conclude that it is one of the most successful business operations in America. Amtrak's admiration for itself is boundless.

In the 1980 Annual Report, for example, Amtrak called itself "a sound business"--no matter that it had never made a profit in any year. In fact, the rail passenger operations have never covered their marginal cost of operation. The firm today shows a negative net worth on its balance sheet. Is this "a sound business"?

After another year of even larger deficits, the 1981 Annual Report proudly announced that Amtrak was "the business surprise of the year." Surprise, of course, is an ambiguous word. Some might be surprised that Amtrak was still receiving taxpayer subsidies after ten years of failure. Amtrak, however, boasts of being the sixth largest transportation company in the United States--a position attained, according to former President Alan Boyd, "without extensive recognition and against great odds." The trouble is that Amtrak has attained such size only because of its access to the public treasury. Despite the $8 billion in subsidies since 1971, Amtrak's 1981 Annual Report shows a net worth of minus $599 million. In short, Amtrak appears to be one of the all-time business fiascos. After years of "investment" of

public funds, it has succeeded in accumulating liabilities, not assets.

Exaggeration and distortions also abound when it comes to Amtrak's assertions of growth and improved relative performance. The 1981 Annual Report proclaims that Amtrak is "operating at increasingly high efficiency levels," that 1981 was a year of "superior" performance, "demonstrating consistency and vitality," justifying "aspirations for the future."

It is true that 1981 passenger revenues were the highest ever. It is also true that between 1972, the first full year of operation, and 1981, passenger revenue increased by over 200 percent. Unfortunately, the costs for Amtrak have grown faster than revenues. During the decade, operating expenses were rising by 300 percent and deficits by 400 percent. From 1972 to 1981, the operating loss went from $150 to $750 million. On a per passenger basis, the loss has soared from $9.48 in 1972 to $38.30 in 1981. The percentage loss has grown from 50 percent per year to 62 percent per year. Amtrak's performance has grown progressively worse. This may demonstrate "consistency," but it hardly adds up to "vitality," much less justifying future "aspirations."

Amtrak's aspirations for the future are not paltry. Former President Boyd saw "great promise for the future of a national railroad passenger system." What this means is another massive infusion of taxpayer supplied "investment capital" in the next few years.

When Amtrak was created, private railroads were criticized for trying to kill the passenger train. Private rail firms were alleged to be downgrading passenger service deliberately in order to drive away riders. Passenger cars were in poor shape.

Amtrak was going to reverse these policies and revitalize rail passenger operations. Amtrak poured billions into new equipment. Yet after a decade of equipment upgrading, rail's share of the intercity passenger travel has declined. When Amtrak started, five of every thousand intercity passenger trips were made by train; Amtrak now provides three of every thousand trips.

If the market share of the rail mode declined during the "first wave" of Amtrak investment, what reason is there to believe that there will be sufficient ridership growth to justify a "second wave" of investment? There is no evidence or logic to support a contention that future ridership demand merits additional investment.

FINANCIAL FINAGLING

Interpreting Amtrak's financial statements requires substantial effort. In the 1981 Annual Report's "Statement of Operations

and Changes in Accumulated Deficit" (the equivalent of an income statement in most annual reports prepared by private businesses), we find a net loss figure of only $179 million for fiscal year 1981. This net loss figure seems strangely understated. We know that passenger revenues cover less than 40 percent of operating costs. Since passenger revenues are just under $500 million for 1981, the actual net loss must be in the vicinity of $750 million.

Consulting the footnotes to the financial statement, we discover that Amtrak has reported federal and state subsidies prior to calculating the net results. The net loss figure of $179 million reported by Amtrak is the loss in excess of the subsidies received during the year. The footnotes also disclose that, beginning next year, the method of accounting for these subsidies will change. The effect of the change, if applied to this year's statement, would be to increase the net loss by over $700 million. After studying the small print, it becomes apparent that Amtrak's real net loss for 1981 was close to $900 million.

Another disturbing Amtrak financial reporting practice is the frequent changing of accounting methodology. The Congressional Budget Office complained that these changes make year-to-year comparisons difficult. The CBO concluded that some of the apparent performance improvements on selected routes were due to changes in the method of cost allocation.[1]

Another unusual procedure to be changed in fiscal 1982, has been the method of accounting for the federal subsidies used to purchase equipment. As the equipment depreciates, a portion of the capital assistance is recorded as income. In the private sector, depreciation is a cost of doing business, not a source of income. From Amtrak's perspective, however, the capital assistance apparently is revenue--a payment by a grateful government for the benefit of having passenger trains.

Bowing to congressional demands, capital provided by the government as of 1982 will be considered an "investment." Shares of stock will be issued to reflect this investment.

The issue of stock certificates may enable Amtrak to cloud its financial condition even more than it has been. Amtrak claims, for example, that it will enjoy a return-on-investment yield of 28.6 percent on a $2.3 million capital outlay on the Washington section of the Broadway Limited (New York-Chicago) route. Amtrak provides no hint as to how the 28.6 percent return-on-investment is derived. What is known is that the route in which the capital outlay was invested lost over $30 million in 1981. This route has never covered its cost. There is no reasonable prospect that it ever will.

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[1] See CBO's Federal Subsidies for Rail Passenger Service (July 1982), p. 46.

Of course, the investment in the New York-Chicago Broadway Limited is just one example. The 1981 Annual Report implies that there are many more such examples, yet there is not a single route on the Amtrak system producing revenues in excess of costs. None of the routes yields any kind of return-on-investment.

Amtrak's management and other advocates of subsidized rail passenger service complain that the firm should not be judged on the basis of full costs. Instead, it is asserted that only avoidable costs are relevant. Boyd claimed that if Amtrak can cover short-term avoidable costs from passenger revenues, it will be operating on a par with all other forms of public transportation. This assertion is puzzling because the norm for other forms of public transportation is to cover full cost. If private transportation companies do not cover their full cost, they run the risk of bankruptcy.

The only other transportation entities to which Boyd could have been referring are government subsidized municipal transit systems. Goals of covering avoidable costs are typical only in government funded undertakings.

The goals set by the Reagan Administration and Congress call for Amtrak to cover avoidable costs out of passenger revenues by 1985. Amtrak is still quite far from attaining this objective. One way that Amtrak seems intent on reaching this goal is by redefining "avoidable costs."

An example of how a redefinition of avoidable costs can show an apparent improvement in performance is illustrated in the treatment of costs on the so-called "Montrealer" route. Based on the coverage of avoidable costs, this route showed improvement between 1980 and 1981. In 1980, all costs of running the entire route were allocated to the "Montrealer." In 1981, the costs of the portion of the route between Western Washington and Boston was redefined as "unavoidable." Only the incremental costs of service between Boston and Montreal were classified as "avoidable." Thus, performance improvement was achieved by means of redefining "avoidable" vs. "unavoidable" costs.

HIGH COST/LOW QUALITY

In a free enterprise economy, every product or service must find a niche in which to survive. Some products are budget items. The quality may not be the highest, but the price is right. Other products offer top quality, but at a price. But, Amtrak occupies a strange niche--providing low quality service at a high price. Perhaps this is why its market share is a paltry 0.3 percent of the intercity passenger travel.

Consider the alternatives to travelling by train. Intercity buses offer a comparable travel time and are less costly to the passenger. Private automobiles also offer a comparable travel

time, comparable costs per passenger, and the maximum flexibility in departures, arrivals, and routes. Commercial airlines offer much faster travel times at fares that range from comparable to much higher than rail fares. All these other modes serve more origins and destinations than Amtrak. All these other modes have more frequent departures and arrivals than Amtrak.

What these modes also have, insist Amtrak supporters, are favors from the federal treasury exceeding those enjoyed by rail. How valid is this assertion? In viewing the distribution of federal outlays for various transportation purposes, rail passenger proponents appear to have a case. In fiscal year 1980, for example, rail received less than 10 percent of the federal outlays for passenger transportation. The problem with this statistic is that federal outlays for other modes of transportation are financed, in part, by users' fees. These fees are more similar to passenger revenues than to subsidies. Taking these users' fees into account, rail's share of the net outlays grows to nearly 31 percent. Rail passengers are the only travellers who do not pay users' fees.

Total expenditures by mode of transport do not give a complete picture of the relative favoritism shown to the rail passenger mode. When the actual transportation provided is considered, Amtrak riders are, by far, the favored few. Estimates of government subsidies per passenger mile are subject to some variations. Honest analyses of cost allocations can reach various conclusions, depending upon how common costs are assigned among users. For example, how much of the common cost of the air controller system should be assigned to commercial aviation and how much to general aviation? Different decisions on these cost assignments result in variations in estimated subsidies per passenger mile. Nonetheless, an order of magnitude comparison shows that, on a per passenger mile basis, Amtrak receives more than one hundred times the subsidy of the next closest alternative means of passenger travel.

ESTIMATED SUBSIDIES BY MODE
(In Cents Per Passenger Mile)

	CBO Estimate[2]	ADOT Estimate[3]
Amtrak	23.6	27.91
Commercial Airline	.2	.26
Private Auto	.1	.21
Intercity Bus	.1	.15

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2 CBO, op. cit., p. 12.

3 See, Arizona Department of Transportation, Tucson/Los Angeles Rail Study (February 1982), p. 47.

As the above table reveals, Amtrak is the most favored means of passenger transportation when it comes to dishing out federal monies. On a trip from Phoenix, Arizona, to Los Angeles, California, for instance, the Amtrak fare is about $60. Amtrak's cost of providing the service is approximately $280. The taxpayer bill for each person carried is $220, or nearly 80 percent of the cost. In contrast, a flight between the same two points costs the passenger about $40 in fare and user taxes. The government subsidy would amount to less than a dollar per passenger. If the airline makes a profit, it will also pay an income tax. There is no hope that Amtrak would ever make a profit, much less pay tax on it.

That rail passenger service should perform so poorly and consume so much in subsidies is nothing new. A study published for the Interstate Commerce Commission in 1958 characterized the passenger train as a hopeless enterprise. Ridership had been declining since the end of the World War II as alternate means of transport, such as the auto and airplane, became economical and convenient. Yet a little more than a decade after the publication of the 1958 report, the federal government decided to revitalize rail passenger service.

OTHER FACTORS

When advocates of subsidized rail passenger service concede, as did the California Department of Transportation and the Federal Railroad Administration in a 1978 report, that Amtrak cannot be justified on financial grounds, they counter by insisting that other factors justify continued subsidies. Topping the list of these "other factors" are considerations of energy conservation, environmental impact, and safety.

Energy Conservation

The American economy was hit with enormous energy price jumps in 1974 and again in 1979. The advocates of subsidized rail passenger service claim that Amtrak can make an important contribution to energy efficiency. But the impact of Amtrak operations on the U.S. energy supply has been negligible. In its Northeast Corridor operations, Amtrak saves about 544 BTU's (British Thermal Units) per passenger mile. If Amtrak's service were restricted to this corridor and certain technology improvements made, trains running 100 percent filled would be able to reduce U.S. energy consumption by less than 1/100 of one percent.

Under normal operating conditions, Amtrak yields a net loss of energy; that is, more energy is consumed than if all the passengers were to travel by other means. The actual fuel efficiency of Amtrak is about the same as the private automobile. Each achieves between 40 and 50 passenger miles per gallon of gasoline or diesel consumed.

In theory, rail ought to move more people more miles at greater energy efficiency. To attain efficiency, however, would require transporting passengers in a manner similar to the way railroads handle freight. Trains would have to be very long. Passengers would have to be prepared to wait for hours, or days in some cases, on rail sidings while these long trains were formed. Arrivals would be considered "on time" if the destination were reached within 24 hours of the scheduled time. Not many passengers would be attracted by this kind of service.

Between the energy crises of 1974 and 1979, Amtrak's energy efficiency, measured in passenger miles per gallon of fuel, did not improve. During this same period, the private automobile made some progress toward efficiency. Commercial airlines, meanwhile, made a fairly substantial improvement. (See the table below.)

ENERGY EFFICIENCY OVER TIME
(In Passenger Miles Per Gallon of Fuel)

	1974	1975	1976	1977	1978	1979
Intercity Bus	145	140	137	140	141	144
Amtrak	46	39	44	41	38	47
Private Auto	40	41	41	41	42	44
Commercial Air	17	18	19	20	22	24

Auto fuel efficiency is expected to continue to improve as older gas guzzlers are replaced by newer, more fuel efficient cars. Commercial airline fuel efficiency is expected to increase as the Boeing 757 and 767 jets are brought into service during this decade. At the same time, Amtrak is expected to remain "relatively inefficient in its use of energy."[4]

Environment

Moving people out of cars and into Amtrak trains is not an unmixed environmental blessing. It is true that autos produce more carbon monoxide and hydrocarbons per passenger mile than does Amtrak. It is also true, however, that Amtrak produces more nitrous oxide, sulphur oxide, and particulates per passenger mile. If those who ride on Amtrak are diverted from other public carriers rather than from autos, pollution would get worse, not better. Amtrak emits more pollutants in every category than either intercity buses or commercial airlines. If the objective is to reduce air pollution, Washington should be encouraging Americans to get off the train and onto a bus or plane.

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[4] CBO, op. cit., p. 15.

Safety

Travel by rail is safe--so is travel by any other public carrier. The most impressive travel safety statistic compares the private automobile with all public carriers, whether trains, planes, or buses. Fatalities per passenger mile for autos are about 50 times more risky than for public carriers. In recent years, auto travel has averaged around 140 deaths per 10 billion passenger miles; buses, trains, and planes have averaged about two or three deaths per 10 billion passenger miles. Rail passenger transport, however, enjoys no obvious safety advantage over other public carriers. Resources expended on Amtrak might do more to promote safety if they were available for other uses. For example, a billion dollars spent on removing drunk drivers from the roads surely would save more lives than the same sum spent on subsidizing rail passenger service.

Social Opportunity Cost

The magnitude of the economic cost makes the National Railroad Passenger Corporation's performance a major social disaster. The reason for the uniformly poor results of enterprises like Amtrak is the exemption from market discipline afforded the government. Because capital is provided via congressional appropriation, the government corporation is denied the opportunity to benefit from the judgment of holders of capital resources. Private firms are often deterred from infeasible projects by the inability to obtain funding in the financial markets. Given the diversity of sources of capital and the voluntary nature of investment transactions in the private sector, failure to secure financing is generally a good indication that a project lacks promise. Unwillingness of the private sector to finance the schemes that are devised by government is simply a resounding vote of no confidence. Government funding of programs like Amtrak, because no investors will accept the risk, is a virtual guarantee of enormous losses. Some of Amtrak's losses are hidden social costs. The net result is that the general welfare suffers.

Amtrak asserts that it stimulates the U.S. economy to the tune of at least $4.5 billion per year and that 125,000 jobs owe their existence to Amtrak. The implication is that Amtrak creates this economic activity. This is true in only the most superficial sense. Various suppliers are employed by Amtrak. While these specific suppliers might not enjoy the equivalent amount of business were Amtrak to close, someone else would. The reality is that Amtrak is a consumer of resources, not a producer of value. Since rail passenger service generates no return on investment, it subtracts from economic activity. The magnitude of this subtraction is clear in the following table.

If the nearly $8 billion that has been "invested" in Amtrak had been invested in businesses like those comprising the Dow Jones Industrials, the capital stock of the nation would be larger by about $12.5 billion. Because it requires capital to

OPPORTUNITY COST OF THE AMTRAK PROGRAM

YEAR	AMT. EXPENDED[a] ON AMTRAK (IN MILLIONS)	OPPORTUNITY COST R.O.I.[c]	CAPITAL LOST TO PRODUCTIVE USE (IN MILLIONS)
1971	$ 40.0	9.6%	$ 43.8
1972	170.0[b]	11.0	237.4
1973		13.4	269.2
1974	140.0	14.3	467.7
1975	276.5	10.1	819.3
1976	601.2	12.3	1595.3
1977	750.7	11.1	2606.4
1978	1160.0	13.4	4271.1
1979	1269.0	14.0	6315.7
1980	1279.4	14.2[d]	8673.6
1981	2273.1	15.1[d]	12599.7

a - Does not include value of contributed equipment.
b - Amt. for 1973 rescinded in 1974.
c - Based on Dow Jones Industrial Average after tax return on equity. (R.O.I. = Return-on-Investment)
d - Estimate.

provide employment opportunities, the net employment effect of the Amtrak program thus far has been a permanent loss of over 125,000 jobs. This contrasts with Amtrak's obviously empty claim that it creates 125,000 jobs.

The $12.5 billion capital loss is based on the modest alternative of the returns possible from mature, nongrowth industries. The opportunity cost of the alternative employment of resources in more dynamic industries would have produced even greater returns.

CONCLUSION

Like all business enterprises of a similar size and scope, Amtrak issues annual reports providing insight into the operation. By selectively dealing with the events of the year for which the report was issued, Amtrak management can reveal or conceal a great deal. These distortions are the lifeblood of the notion that this government operated railroad is a success. By any reasonable standard, the government's claimed achievements for its passenger service operation are false. In ten years of trying, Amtrak has never made a profit. It cannot even cover its out-of-pocket costs. Far from "yielding a substantial return on the investment," Amtrak has been depleting the capital poured into it. This amounts nearly eight billion dollars between 1971 and 1981. Creditor claims and outstanding liabilties total more than the assets, leaving the "corporation" with a negative net worth.

Amtrak's assertion that "there is great promise for the future of a national railroad passenger system" is, at best, naive. Amtrak will never be self-sustaining. The grand scheme of 1971 to establish a government railroad system as a "for profit corporation" has staggered from an inauspicious beginning to an unbroken series of widening deficits. Congressional "realists" have addressed this flood of red ink by modifying Amtrak's mission to have it run "as if it were a for-profit corporation." Redefinition of objectives, however, cannot mask Amtrak's failure.

The plain truth is that Amtrak--or any government enterprise--lacks the incentives to succeed in the difficult task of discerning and serving consumer demand. Government businesses can go through the motions, mimicking economic processes that it can neither experience nor understand. They imagine that incorporating, issuing stock, and appointing a board of directors will make the government corporation just like any other business.

A public policy of support and subsidy for profitless ventures endangers American future prosperity and ultimately survival. Essential and necessary services and products will be provided by the marketplace. If a service is essential, it will be profitable for someone to provide it. If a product is necessary, supplying it will produce a return on investment. The absence of profitability is a signal to investors to reallocate resources to better meet consumer needs. Public subsidy for unprofitable enterprises ignores market signals to the detriment of the general welfare.

Congress has an annual opportunity to take constructive action for the betterment of the nation. Ending the waste of resources by eliminating Amtrak from the budget would be an encouraging sign that Congress does take seriously its Constitutional obligation to promote the general welfare.

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