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Backgrounder
Executive Summary

No. 1179 May 18, 1998

CONGRESS SHOULD ACCEPT INDUSTRY OFFERS TO BUY AMTRAK

RONALD D. UTT, PH.D.

Since Amtrak's inception in 1971, Congress has appropriated $21 billion (or about $30 billion in 1998 dollars) to subsidize a mode of transportation that reached its peak in the 1930s and today carries only 0.3 percent of the country's intercity passengers—about the same number that travel through the Charlotte, North Carolina, airport each year. Despite three decades of substantial federal subsidies, Amtrak's financial condition is as bad as it has ever been. In recent years, Amtrak's annual losses have exceeded $750 million, and because its operating costs exceed its revenues and the federal subsidy, Amtrak has had to borrow increasingly larger amounts to stay in business. In a move that will undermine its future prospects further, Amtrak now is diverting significant portions of its capital budget—money that had been set aside for modernization and equipment upgrades—to cover expenditures for routine maintenance. As a result, Amtrak's debt and lease obligations soared from less than $50 million in 1988 to nearly $1 billion in 1996. Of course, Amtrak's interest expense has soared as well, adding to its escalating costs and diminishing further its prospects of achieving financial solvency.

As Amtrak's financial situation worsens, it becomes increasingly obvious that maintaining the status quo no longer is an option, and that it is time for Congress to give serious thought to privatization, an option that has been used with increasing frequency to revitalize passenger rail service in Europe, Asia, and Latin America. Officials at the U.S. Department of Transportation and members of the congressional transportation committees have received at least three serious inquiries or offers from major transportation businesses and investors to acquire Amtrak's intercity rail passenger service. By accepting these offers, the United States would join with the many other advanced countries that have privatized their rail passenger service successfully within the past several years.

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Despite this emerging interest in privatizing Amtrak rail service, in late 1997 Congress approved two pieces of legislation that together will amount to one of the most extraordinary bailouts in the history of the United States—

Table 1 B 1179

Federal Aid to Amtrak for Intercity Rail Passenger Service

	Subsidy in Millions of Dollars
1980	$1,210
1985	$772
1990	$588
1995	$1,004
1996	$780
1997	$875
1998	$1,774*
1999	$2,218*

Note: * = estimated.
Source: Stephen J. Thompson, "Amtrak and the 105th Congress, Updated May 1, 1998," Congressional Research Service, *CRS Issue Brief*, pp. CRS-5–CRS-6.

promising Amtrak more than $7 billion over the next five years. One of the acts contains numerous provisions that purport to improve Amtrak's management, but that in practice are likely to do nothing more than exacerbate the managerial confusion that hobbles the troubled organization.

Congress continues to pump money into Amtrak by the hundreds of millions of dollars as Amtrak teeters on the brink of insolvency and loses passengers to competitors because of service cutbacks, aging rolling stock, and fares that are too high. With increasing competition from intercity buslines and airlines, these problems have caused Amtrak's inflation-adjusted passenger revenues and passenger miles provided to fall since 1991. And despite some cost reductions and route closings, Amtrak's operating losses still average about $750 million dollars per year. According to the U.S. General Accounting Office,

> Amtrak's financial condition is still very precarious and heavily dependent on federal operating and capital funds.... It will be difficult for Amtrak to achieve operating self-sufficiency by 2002 given the environment within which it operates.

The most recent bailout is not likely to reverse Amtrak's financial deterioration or increase its passenger base. Congress has the opportunity—in light of the offers from the private sector and the success of passenger rail privatization efforts in Argentina, Great Britain, Japan, and New Zealand—to study the privatization option more seriously. Privatization has yielded significant improvements to passenger rail service in many other countries, and there is no reason that the same cannot occur in the United States.

—Ronald D. Utt, Ph.D., is Visiting Fellow in Economic Policy Studies at The Heritage Foundation.

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Despite 27 years of federal subsidies amounting to more than $30 billion (in 1998 dollars), Amtrak's financial condition today is as bad as it ever has been. Its track record is so poor that recent reports from the U.S. General Accounting Office (GAO) question whether Amtrak will be able to survive in the future without receiving substantially greater federal subsidies. Fortunately for U.S. taxpayers and rail passengers, innovative opportunities for fundamental reform of the Amtrak system are emerging. Several private investors and transportation companies are offering to acquire some or all of Amtrak's rail system and make its operation profitable, as other countries have done successfully around the world.

Numerous recommendations to privatize Amtrak have been proposed in the past. In fact, privatization proposals were a regular feature in President Ronald Reagan's budget submissions during the 1980s. The President's Commission on Privatization in 1988 endorsed the privatization of Amtrak in its published report one year after President Reagan successfully privatized Conrail, the government-owned freight rail system serving northeastern and mid-Atlantic states. Despite the government's success with Conrail, however, Congress rejected proposals to privatize Amtrak. In the late 1980s, proponents of the status quo correctly argued that passenger rail service was an unprofitable government monopoly throughout the world, and that no investors had expressed interest in acquiring the Amtrak rail system.

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In the past ten years, however, the passenger rail business has changed significantly both in the United States and abroad. Such countries as Argentina, Great Britain, Japan, and New Zealand have privatized passenger rail service successfully through a variety of creative mechanisms. There has been no shortage of investors and qualified businesses eager to acquire their failing systems and invest tens of billions of dollars to modernize them. Their successes have encouraged efforts to replicate them in a growing list of countries, which includes Australia, Germany, Sweden, and Taiwan, whose governments concluded that socialized rail service is a thing of the past.

Congress and the White House recently enacted a series of initiatives to improve Amtrak, but their plans rely on increased government spending and additional layers of bureaucracy. Their approaches represent nothing more than costly, but temporary, life support—not the fundamental reform that Amtrak needs in order to become financially self-sufficient. These recent legislated changes also will not make Amtrak competitive with more attractive forms of intercity transportation, such as private automobiles, or with buslines and airlines that have benefited from professional management and entrepreneurial zeal.

Despite the recent and rapid deterioration of every facet of Amtrak's business, including its financial integrity, several investors and transportation companies have contacted the U.S. Department of Transportation formally to request that discussions and negotiations to acquire the rail system be opened. To date, the government has not responded to these requests, and it continues to ignore the opportunity that these requests provide. Congress should use this opportunity to rectify nearly three decades of counterproductive policies by reopening the Amtrak issue and by giving the privatization option the same serious consideration now commonplace in other countries. Indeed, Members of the House already have introduced legislation to privatize Amtrak, and hearings on the Amtrak Privatization Act (H.R. 1666) offer Congress an excellent opportunity to evaluate the proposals of investors who hope to acquire some or all of Amtrak's system.

Congress should require the Clinton Administration to engage immediately in good-faith negotiations with these and any other prospective buyers, and to set a date by which the transaction should be completed. Accepting even one of the offers would allow the United States to join with countries like Argentina, Great Britain, Japan, and New Zealand that successfully privatized some or all of their passenger rail systems. Transferring ownership and management of the Amtrak rail system to private investors would bring an end to an era of poor service and costly subsidies that now exceed $1 billion per year.

Table 1 B 1179

Federal Aid to Amtrak for Intercity Rail Passenger Service

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1980	$1,210
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AMTRAK'S TARNISHED TRACK RECORD

The federal government created Amtrak in 1971 to take over and operate the once private intercity rail passenger service that had been unable to compete with highways or air transport and that had been losing money since as far back as the 1930s. Amtrak was "conceived as a two year, federally assisted experiment that would become profitable on its own thereafter."[1] Under the guidance and support of a federally directed rehabilitation effort, however, Amtrak instead became dependent on annual taxpayer subsidies that reached $1 billion under President Jimmy Carter ($1.210 billion in 1980). Reduced to almost half that amount by the end of the Reagan Administration ($646 million in 1988), which had

1. David Linowes, ed., *Privatization: Toward More Effective Government*, Report of the President's Commission on Privatization (Washington D.C.: U.S. Government Printing Office, 1988), p. 168.

Table 2 B 1179

Passenger Trips by Mode of Transportation, 1996

	Share of Intercity Travel
Automobile	80.8%
Commercial Airline	16.8%
Intercity Bus	1.1%
Private Aviation	0.6%
Amtrak	0.3%
All Other	0.4%

Source: Stephen J. Thompson, "Amtrak and the 105th Congress, Updated February 18, 1998," Congressional Research Service, *CRS Issue Brief*, p. CRS-2.

Table 3 B 1179

Energy Efficiency of the Modes of Transportation and Use by Upper-Income Travelers

	Riders Who Earn Over $40,000	BTUs per Passenger Mile	BTU Use Compared With Amtrak
Intercity Bus	20.1%	953	36%
Auto, over 75 miles	37.5	2,625	99
Amtrak	73.2	2,646	100
Commercial Aviation	51.4	4,482	169
General Aviation	N/A	8,582	324

Sources: Column 1 from Jean Love, Wendell Cox, and Stephen Moore, "Amtrak at Twenty-Five: End of the Line for Taxpayer Subsidies," Cato Institute, *Policy Analysis* No. 266, December 19, 1996, p. 5; columns 2 and 3 from Stephen J. Thompson, "Amtrak and Energy Conservation In Intercity Passenger Transportation," Congressional Research Service, *CRS Report for Congress*, May 24, 1996, p. CRS-2.

consistently called for Amtrak's privatization or termination, Amtrak's subsidy has crept back to the billion-dollar level under President Bill Clinton ($1.004 billion in 1995). Furthermore, Congress recently enacted legislation to provide Amtrak approximately $2 billion per year in 1998 and 1999. (See Table 1.)

Since 1971, Congress has provided a total of $21 billion in federal subsidies to Amtrak (or about $30 billion in 1998 dollars) to subsidize a mode of transportation that reached its peak well before World War II, and that today carries fewer than half of 1.0 percent (0.3 percent) of the country's intercity passengers—about the same number that travel through the Charlotte, North Carolina, airport each year[2] and about half the number that travel by private aircraft. (See Table 2.) That a federal program of such marginal significance can obtain substantial federal subsidies annually is a tribute to the political influence of train buffs, acrophobes, and unions, as well as upper-income travelers who account for a larger share of Amtrak passengers than any other form of transportation, including commercial airlines.[3]

In addition to its perverse income redistribution effects, Amtrak also does little to enhance environmental quality or save fuel; it yields levels of energy efficiency nearly identical to that of automobiles on trips exceeding 70 miles, and three times higher than intercity bus service.[4] Table 3 illustrates the relative energy efficiency of Amtrak compared with other forms of transportation, and also demonstrates the disproportionately higher incomes of Amtrak's clientele.

2. Joseph Vranich, "Derailing Myths About Why We Need Amtrak," *The Washington Times*, February 19, 1998, p. A18.
3. Jean Love, Wendell Cox, and Stephen Moore, "Amtrak at Twenty-Five: End of the Line for Taxpayer Subsidies," Cato Institute *Policy Analysis* No. 266, December 19, 1996, p. 5.

Table 4 B 1179

Amtrak Working Capital

	Millions of Dollars
1989	$84
1990	27
1991	-36
1992	-67
1993	-10
1994	-227
1995	-149
1996	-195
1997	-300

Source: U.S. General Accounting Office, "Intercity Passenger Rail: Outlook for Improving Amtrak's Financial Health," GAO/T-RCED-98-134, March 24, 1998, p. 5.

Amtrak's Deteriorating Condition

Despite the continuance of substantial federal financial support since 1971, Amtrak's financial integrity is deteriorating rapidly at a time in which every other long-haul passenger service is reporting soaring revenues and profits. As Amtrak's losses have deepened over the past several years, it has had to dip deeper into its cash reserves and working capital to cover day-to-day expenses. Although Amtrak's working capital—a measure of ready cash that is defined as the difference between current assets and current liabilities—totaled $84 million in 1988, it has declined steadily since and measured a *minus* (–) $300 million in 1997.[5] (See Table 4.)

To fill this widening financial gap and to cover operating costs in excess of revenues and federal subsidies, Amtrak has had to borrow increasingly larger amounts of money, and its debt and lease obligations soared from less than $50 million in 1988 to nearly $1 billion in 1996;[6] and they most recently were estimated to be as high as $2.2 billion in a 1998 GAO report on Amtrak's possible liquidation.[7] Amtrak's interest expense has soared as well, adding to its escalating costs and diminishing further its prospects of financial solvency.

Unable to become competitive through the types of workplace efficiencies and productivity improvements common to most private companies, Amtrak instead has had to resort to service cutbacks in order to preserve a politically popular route structure and costly union work rules. In response to congressional demands that it become self-sufficient by 2002, Amtrak promised, as part of a Strategic Business Plan developed in 1995, to renegotiate its union work rules. It did not succeed, and the effort subsequently was abandoned.

The unions' lack of cooperation undermines Amtrak's efforts to contain costs. A threatened strike for higher wages in mid-1997 by Amtrak's track employees was settled after a Clinton-appointed emergency board recommended a pay increase, including retroactive increases back to 1995. If the wage increase granted to the track employees were extended to Amtrak's other bargaining units, the settlement would add $400 million annually to Amtrak's costs at a time in which its financial condition is the worst in its history.[8]

4. Stephen J. Thompson, "Amtrak and Energy Conservation in Intercity Passenger Transportation," Congressional Research Service *CRS Report for Congress*, May 24, 1996, p. CRS–2.
5. U.S. General Accounting Office, "Intercity Passenger Rail: The Financial Viability of Amtrak Continues to be Threatened," Statement of Phyllis Scheinberg, Associate Director, GAO/T–RCED–97–94, March 13, 1997, p. 16.
6. *Ibid.*
7. U.S. General Accounting Office, "Intercity Passenger Rail: Issues Associated with a Possible Amtrak Liquidation," GAO/T–RCED–98–60, March 1998, p. 2.
8. Stephen J. Thompson, "Amtrak and the 105th Congress," Congressional Research Service *CRS Issue Brief*, February 18, 1998, p. CRS–12. Amtrak's 1997 Annual Report states that the majority of its labor contracts have been open since 1995 and that it now is in mediation with all but two of its unions.

WASHINGTON'S FAILURE TO ADDRESS THE PROBLEM

Amtrak's management problems worsened in late 1997 when its chief executive officer resigned in response to the White House–engineered wage capitulation to the unions, and when Congress legislated an attempt to replace Amtrak's existing board of directors with a new board and a parallel "reform council." Considering Amtrak's immediate problems and precarious financial condition, these recent efforts by the White House and Congress have been counterproductive, costly, and cosmetic—including the creation of multiple and overlapping boards and councils with which the President may or may not have to comply.

Although Congress, in principle, has argued for work rule changes and wage restraint and Amtrak, in principle, has agreed to such requests, in practice labor and management have no incentive to cooperate. They are certain that Congress and the Clinton Administration will be willing to bail them out regardless of how irresponsible their actions are. Just a month after the unions preserved their privileges and raised their wages by threatening to strike, Congress approved both the Amtrak Reform and Accountability Act of 1997 and the Taxpayers Relief Act of 1997. Together, these two pieces of legislation will amount to one of the most extraordinary business bailouts in the history of the United States—promising Amtrak more than $7 billion over the next five years.

Even though two congressional committees authorized these expenditures and Congress enacted them, the congressional appropriations committees agreed to provide just $770 million for fiscal year (FY) 1998, compared with the authorized amount of $1.138 billion. Seeing an opportunity to take advantage of a conflict in Congress and Amtrak's troubles, President Clinton has recommended just $621 million for FY 1999, compared with the $1.058 billion authorized by Congress, and suggested that the money come from the highway trust fund rather than general revenues, the practice in the past.[9]

Congress continues to pump money into Amtrak by the hundreds of millions of dollars, yet Amtrak continues to teeter on the brink of insolvency and lose passengers to competitors because of service cutbacks, aging rolling stock, and fares that are too high. These factors and increasing competition from intercity buses and airlines caused Amtrak's inflation-adjusted passenger revenues to peak in 1991 and fall ever since, as have the passenger miles traveled, which declined by 18 percent over the same period. Despite some cost reductions and route closings, Amtrak's operating losses continue, and now average about $750 million per year. According to the GAO,

> Amtrak's financial condition is still very precarious and heavily dependent on federal operating and capital funds.... It will be difficult for Amtrak to achieve operating self-sufficiency by 2002 given the environment within which it operates.[10]

CONGRESS EMBRACES BUREAUCRATIC SOLUTIONS

The most recent series of federal bailouts began in 1994 when Congress required Amtrak to achieve financial self-sufficiency by 2002. Amtrak responded by developing and implementing a Strategic Business Plan in 1995 to achieve this objective. To help develop recommendations for Amtrak's future, Representative Bud Shuster (R–PA), chairman of the House Committee on Transportation and Infrastructure, established a Working Group of 13 members in 1996. On June 23, 1997, the Working Group recommended a

9. See *Budget of the United States Government, Fiscal Year 1999,* 1998, p. 195; Appendix, Budget of the United States Government, Fiscal Year 1999, 1998, pp. 710–711; and Stephen J. Thompson, "Amtrak Reform and Accountability Act of 1997: A Summary of Selected Provisions, Updated January 15, 1998," Congressional Research Service *CRS Report for Congress,* p. CRS–2.

10. U.S. General Accounting Office, "Intercity Passenger Rail: Amtrak's Financial Viability Continues to Be Threatened," GAO/T–RCED 97–80, pp. 1, 2.

restructuring of Amtrak that resembles the model used to restructure and privatize the British rail system in 1995 and 1996, but without the privatization. Under this plan, Amtrak would be split into two inefficient government monopolies—one owning the tracks, the other operating the trains—instead of the inefficient monopoly that operates the system today. In its concluding recommendations, the Working Group did allow that "eventually, provision would be made for other operators to compete with Amtrak on particular routes or in particular regions."[11]

Recognizing that the Working Group's proposal was not likely to solve Amtrak's deteriorating finances or its unions' resistance to the wage restraint and work rule changes that were part of the initial strategic plan, Congress in late 1997 enacted the Amtrak Reform and Accountability Act and the Taxpayers Relief Act. The staggering $7.5 billion in federal funds to prop up Amtrak that these bills authorize will not solve Amtrak's problems, nor will the numerous provisions of the Amtrak Reform and Accountability Act by themselves improve Amtrak's management. Relying on additional layers of bureaucracy and greater government planning, the proposed changes are likely to do nothing more than exacerbate the managerial confusion that already hobbles the organization.

The Amtrak Reform and Accountability Act calls for establishing a Reform Board of directors appointed by the President to replace the existing presidentially appointed board of directors by March 31, 1998. As of mid-May 1998, President Clinton had yet to appoint a new board. If he fails to appoint the board by July 1, 1998, the $5.2 billion authorized by the Amtrak Reform and Accountability Act (but not the $2.3 billion authorized by the Tax Relief Act) "shall cease to be effective." Because Congress regularly appropriates and spends money without authorization (to the sum of $115 billion alone in FY 1998), however, and the last budget showdown between Congress and President Clinton did not turn out well for Congress, Congress's incentive to get rid of the current board might not be great.

Perhaps anticipating that the Clinton Administration might ignore the requirement to appoint a new Reform Board, the Amtrak Reform and Accountability Act includes a provision for the creation of another level of bureaucracy—the Amtrak Reform Council—whose members were to be appointed by January 2, 1998. Of its 11 members, the 8 to be appointed by the majority and minority leaders of both houses of Congress have been selected, but the 3 to be appointed by the President have yet to be named. Among the Reform Council's limited duties is a requirement to submit an annual report to Congress assessing Amtrak's resolution of productivity issues and recommendations for improvement. Section 204 of the act requires the Reform Council to notify Congress and the President if Amtrak is failing to meet its financial goals, and, if not, to "submit to the Congress an action plan for a restructured and rationalized national intercity passenger system." With the Amtrak Reform and Accountability Act calling for more plans and additional recommendations as substitutes for action, performance, accountability, and privatization, the new Reform Council is not likely to foster the reinvention of an Amtrak that is more efficient than the one in operation today.

In fairness to Congress, the Amtrak Reform and Accountability Act recognizes that it will take more than new levels of bureaucracy, additional action plans, and redundant channels of reporting to help Amtrak. In this regard, it makes some very important cosmetic changes in Amtrak's relations with its unions. The federal law that created Amtrak included numerous provisions and prohibitions that limited management's ability to deploy its workforce in the most productive manner, such as requirements for generous severance packages and prohibitions on contracting out. The Amtrak Reform and Accountability Act nullifies several

11. From "Restructuring Proposal" in *A New Vision for America's Passenger Rail,* Report of the Working Group on Intercity Passenger Rail to the Committee on Transportation and Infrastructure, U.S. House of Representatives, 105th Cong., June 1997, at *http://www.house.gov/transportation.*

such provisions in the law, except where those provisions are included in existing collective bargaining agreements between Amtrak and its unions. Because most of these nullified provisions also can be found in existing Amtrak labor contracts, the act changes little beyond how it may relate to some future bargaining success by Amtrak's management. But considering Amtrak's past lack of success in bargaining over wages and work rules and the White House's propensity to intervene in favor of labor, these provisions are likely to last so long as Amtrak survives.

Overall, the most likely impact of the Amtrak Reform and Accountability Act is to further lighten the pocketbooks of the taxpayers who must subsidize Congress's fading dream of socialized rail service.

PRIVATIZATION SOLUTIONS ON THE HORIZON

As bleak as Amtrak's prospects now appear, growing private investor interest and recent experience from abroad show that U.S. rail passenger service can be saved and probably expanded, although not by the government departments that own and manage the system today. Congressional and White House stewardship over Amtrak for the past 27 years has been nothing short of disastrous. Congress should concede that the federal government cannot run a railroad and take the steps necessary to extract itself from the failing system before many more tax dollars are wasted. An attractive alternative to the current system exists if Congress relinquishes federal ownership to a better-qualified buyer/operator and applies the proceeds toward deficit reduction or tax cuts. The U.S. Department of Transportation has received several inquiries and offers from investors and railroads interested in acquiring some or all of Amtrak. For example, Secretary of Transportation Rodney Slater received an offer from the president of Guilford Transportation Industries on May 26, 1997, that requested a meeting to

> immediately begin negotiations with your department as the lienholder, for the sale or lease of the Northeast Corridor. Our company is prepared to purchase or lease the rail line and operate private passenger services throughout the Corridor.[12]

Guilford Transportation Industries owns the Boston and Maine Corporation, Maine Central Railroad Company, and Springfield Terminal Railway Company. It is the winner of the 1995 Harriman Safety Award, and in May 1998 made an offer to acquire the bankrupt Pan American World Airways. Guilford officials still are waiting for an answer to this request.

Privatization Successes in Transportation

As it becomes clear that the most recent bailout is not likely to reverse Amtrak's financial deterioration or increase its passenger base, policymakers should study the privatization option more closely. Members of Congress should come to realize that privatization has yielded significant improvements to passenger rail service in many other countries.

After experiencing years of decline and resistance that were similar to the experience of the U.S. government in passenger rail service, the governments of Argentina, Japan, New Zealand, and Great Britain were among those who embarked on major rail reform initiatives in the mid-1980s. By the mid-1990s, they had begun to privatize some of or all their nationalized rail passenger service, and met with considerable success. Often with the involvement of U.S. rail operators, these governments have been able to eliminate or reduce costly subsidies and at the same time encourage the new private owners to make substantial investment, rehabilitation, and service upgrades in the lines.

Great Britain, for example, implemented a comprehensive privatization program for its rail system in 1995. The new Labour government has endorsed the effort and is facilitating the process. As a result, new investment in Great Britain's roadbed infrastructure alone reached $2.8 billion

12. David A. Fink, President, Guilford Transportation Industries, Letter to Rodney E. Slater, Secretary of Transportation, U.S. Department of Transportation, May 26, 1997.

for the fiscal year ending last March,[13] and each of the 25 privately owned operating franchises is making substantial investments in new and advanced rolling stock, including high-speed trains.

Although the Reagan Administration's privatization of Conrail in 1987 marked the world's first privatization of rail freight service, the first privatization of an entire nationalized system, including passenger service, began with Argentina's rail system. The government of Argentina used a concept called the concession approach to transfer the system from the government to private-sector owners and operators. Under this approach, the rolling stock, the roadbed, and the right to operate rail service over some portion of the line are divided into separate corporate entities. Private-sector bidders compete to acquire the rights to the franchises or concessions that serve a particular route, which usually connects two or more cities. Where the service can be expected to operate at a profit, the bidder offering the highest price acquires the rights to the concession. Where the service is not expected to be profitable over the near term, bidders compete by offering to provide the service at the lowest subsidy. The roadbed, which includes the tracks, signals, and permanent structures, is either sold separately (as in Great Britain) or retained by the government (as in Argentina). Bidders compete to acquire the rights to provide service over a particular line, often in accordance to minimum standards determined by the government before the bidding process begins.

Argentina. Argentina divided its rail freight system into six concessions and began the bidding process in early 1991. By October 1993, five of the six concessions were in private hands. At about the same time, a similar approach was established for the Buenos Aires commuter rail system, which serves a metropolitan area of over 12 million people, or 38 percent of the country's population. It was divided into seven concessions, and bids were received in early 1992. The rights to all seven systems were awarded before the year was out, and all continue to operate successfully today. Passenger use of the service has soared since 1994. Important for the taxpayers, government subsidies to rail operators for all services, both passenger and freight, are only about one-fourth of what they were in 1989.[14]

An effort to privatize Argentina's intercity passenger service was attempted at the same time as well, but the absence of well-traveled routes and dense corridors in places other than Buenos Aires precluded the likelihood of any profit from such service in competition with automobiles and planes. The government abandoned the effort in August 1992 and turned the responsibility for intercity passenger rail service over to provincial governments, many of which allowed the service to lapse. Although a few lines have continued with local subsidies, privately owned intercity bus service has picked up most of the passenger service from the abandoned intercity lines.

Although Argentina did not privatize its intercity passenger service, the successful concessioning of the Buenos Aires commuter lines provides valuable lessons for U.S. rail policy because Amtrak operates a number of metropolitan area commuter lines under contract with regional transportation authorities. At present, Amtrak provides approximately 48 million commuter trips each year under contract with urban transit systems.

New Zealand. The first successful intercity passenger rail privatization began in 1982 with the restructuring of New Zealand Rail into a government-owned corporation. It was expected to operate like a business. The restructuring came in response to growing concerns about the railroad's ability to provide quality service to New Zealand's industrial sector. Following a decade of restructuring and downsizing, the entire system—passenger and freight lines, roadbed, and rolling

13. "Rail Track Investment Up," *Railway Gazette International*, July 1997, p. 432.

14. Ron Kopicki and Louis S. Thompson, Best Methods of Rail Restructuring and Privatization, 2nd ed. (Washington, D.C.: World Bank, December 1997), p. 164.

stock—was sold in July 1993 as a single unit to a consortium of private investors, which included the U.S.-based Wisconsin Central Transportation Corporation and Berkshire Partners III LP.

Japan. The Japanese National Railroad (JNR) began the privatization process in 1987 when it was divided into a series of regional, government-owned, profit-making, and taxpaying corporations. As a result of restructuring and the management improvements, government subsidies fell dramatically.

By the early 1980s, the highly regarded JNR had required subsidies in excess of the combined subsidies for all European railroads and carried a debt of $300 billion.[15] In 1982 alone, the JNR required an annual net subsidy of $6.3 billion. After the restructuring and reform, by 1991 the combined components of the JNR paid over $3 billion to the government in taxes and other contributions. Shares in the first of the systems to be privatized (JR East) were sold in September 1993, just two months after the sale of New Zealand Rail. Today, all three passenger lines on the main island (Honshu) have sold a majority of their shares to private investors. Passenger systems on the other island remain in government hands, as does the entire freight system. Competition from trucks and boats, however, have prevented rail freight from becoming profitable, at least under the current public management.

Great Britain. The success of each of these initiatives and the lessons learned from them paved the way for the ambitious and far-reaching restructuring and privatization of British Rail. Borrowing techniques and approaches from these countries, British Rail was "unbundled" into a series of separate entities performing four broad functions. The many components of the unbundled system then were sold separately during 1996 and 1997. One functional grouping included 25 separate rail passenger "franchises," which were similar to the concessions created and sold in Argentina. Each franchise was defined by a particular route connecting a series of two or more cities. Other functional groupings included two freight operators, three equipment companies (called Roscos) to own and operate the rolling stock, and a fourth entity (called Railtrack) to own and maintain the infrastructure, including the roadbed and tracks throughout Great Britain. The sale of Railtrack, the two freight systems, and the three Roscos yielded roughly $8 billion for the government. Wisconsin Central, a successful bidder in the New Zealand privatization, was also a successful bidder for one of the freight companies.

The 25 franchises were auctioned in packages to bidders who offered the highest premium or required the lowest subsidy over the term of the franchise, depending on the nature of the particular franchise route. The heavily traveled Gatwick Express, for example, which runs from London to Gatwick Airport, went for an initial premium that will double by 2004, while ScotRail, serving several distant cities in Scotland, sold for a substantial subsidy that will fall nearly 30 percent by 2004. Once the bidding was completed, 13 separate groups owned the 25 franchises; 1 investment group acquired 5 of the franchises. Some analysts believe the creation of 25 separate franchises "unbundled" the system into too many parts, and they predict that some consolidation of the routes and franchises will occur over the next several years.

Most franchises have an eight-year term, at the end of which they will go out for new bids, while a few were extended for a longer period in return for commitments that substantial investments in new equipment be made within the first few years of operation. The Gatwick Express franchise, for example, has 17-year term, on the condition that all its rolling stock be replaced by early 1999.

Virgin Rail, part of Richard Branson's Virgin Group that owns Virgin Air, acquired the rights to the London/Glasgow line, equivalent in population density, passenger traffic, and distance to a Washington, D.C.-to-Boston line. The franchise

15. Louis S. Thompson and Helene Stephan, "Infrastructure Separation: What Have We Learned So Far?" *Business Rail Report*, 1998, p. 14.

lasts until 2011. Virgin Rail and the roadbed owner, Railtrack, are in the process of improving the track and acquiring new rolling stock so that train speeds on the line can reach 225 kilometers (135 miles) per hour. Virgin Rail is spending an estimated $3.05 billion on high-speed locomotives and cars, and Railtrack is investing hundreds of millions of dollars in roadbed improvements; the company is expected to compete for passengers on the airlines that now dominate the London-to-Glasgow service route.[16]

Other Countries. The successful privatization of passenger rail service in these four countries encouraged similar privatization initiatives and restructuring efforts in Australia, Germany, Mexico, Sweden, and Taiwan. Many of these privatization initiatives will lead to the creation of modern, high-speed lines at no cost to taxpayers.

WHAT CONGRESS SHOULD DO

Rather than stumbling from one contrived bureaucratic "solution" to another, Congress should seek agreement with the Clinton Administration to pursue a privatization plan for the Amtrak passenger rail system. Precedents exist for such a bipartisan privatization plan. For example, in 1987 a Democrat-led Congress cooperated with a Republican President to bring about the world's first successful rail privatization. That year, Conrail, an eastern rail freight system created in 1976 from several bankrupt railroads, was sold to the public in a share offering worth $1.6 billion, which at the time was the largest initial public share offering in U.S. history.[17] If the federal government could come to a bipartisan agreement in that instance and accomplish a feat that had not been accomplished before, then surely it has the capability to do so again in an effort that is becoming increasingly commonplace around the world.

To stimulate the privatization process, Congress should schedule hearings on the offers from the private sector for Amtrak, and it should act on the legislation that has already been introduced. Representative Joel Hefley (R–CO) is sponsoring the Amtrak Privatization Act, which would allow Amtrak to be sold and encourage that outcome by reducing its federal subsidy to zero by 2002, compared with $955 million in current legislation. Congress should give such legislation closer consideration. To date, and notwithstanding the successful privatizations that occurred abroad while Amtrak was sinking below a sea of red ink, Congress has not held hearings on this bill or on any other approach to passenger rail privatization.

That neither the U.S. Department of Transportation, which has received the offers from private interests, nor Congress have moved on this matter reflects the emergence of a growing resistance to reform at the federal level that spans a wide range of issues. This resistance stands in stark contrast to the exuberant vitality and innovation that is occurring in the commercial sector of the United States. Although it is tempting to attribute this disparity in performance to inherent differences between public and private institutions, the "do-nothing" attitude of federal officials stands in contrast with the ideas and innovative reforms being implemented by state and local governments today. Moreover, the federal government's resistance to change also is at odds with a wide range of dramatic policy innovations that are being introduced in Europe and other countries.

In fact, whether it is in retirement programs, energy deregulation, competition policy, privatization, commercialization, or deregulation, much of the more innovative thinking and implementation occurs abroad. The United States is little more than a distant spectator, content to establish commissions, councils, working groups, and studies in lieu of legislation and action. Amtrak's plight, which now is at its most serious, necessitates action. The 105th Congress has the opportunity to show the country it can be as innovative as the 100th Congress was when it privatized Conrail,

16. Charles Goldsmith, "Virgin Group Plans to Buy Trains in an Effort to Speed Up Its Lines," *The Wall Street Journal*, March 4, 1998.

17. Linowes, *Privatization: Toward More Effective Government*, p. 163.

and to demonstrate that it has as much confidence in private-sector solutions as have the governments of many foreign countries.

—*Ronald D. Utt, Ph.D., is Visiting Fellow in Economic Policy Studies at The Heritage Foundation.*