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Toward Creating Sustainable Transit

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Many of the nation's transit agencies are raising fares and cutting service, ostensibly in response to escalating costs and falling ridership. While all American transit systems are heavily subsidized by taxpayers, the recent acceleration in their deterioration has gone beyond the ability of state and local governments to cover the widening deficits, thereby forcing frequent fare increases and service cutbacks.

This need not be the case: Introducing competition and competitive contracting into a system now dominated by union and operating monopolies, combined with a shift in reliance from rail to buses, would go a long way toward curbing costs and increasing productivity. The potential for improved cost-effectiveness has been proved by the contracting of the entire London bus system as well as the bus and rail systems of Stockholm. Until such reforms are adopted in America, transit systems will continue to be financially unsustainable.

Unsustainable Transit. In response to these increased operating deficits, transit advocates have called for larger government subsidies and higher taxes to fund them. Alarmingly, some in Congress are now urging the federal government to take this unprecedented step and subsidize transit operating costs. A notable example of such efforts is a recent proposal by Senators Charles Schumer (D–NY) and Kirsten Gillibrand (D–NY) (S. 3412) to spend $2 billion per year more on transit subsidies.

Despite transit's popular, though undeserved, association with environmental and energy "sustainability," transit is not financially sustainable in its current form. Typical is the recent *New York Times* report that a local transit conductor in New York was paid $240,000 last year (not including benefits), while 8,000 other non-management transit workers were paid more than $100,000.[1] Subsidizing these wages and benefits were a bevy of taxes on workers earning only a fraction of these wages, most of whom do not even use transit.

From day-to-day operating costs to major capital expenditures, transit's basic problem is that it adheres to a management system that maximizes spending per passenger. As a result, transit serves far fewer passengers than it could if appropriate stewardship had been exercised over its spending choices.

The Decline of Public Transit. In 1982, Congress imposed a federal tax for transit on every gallon of gasoline (2.87 cents) used by car and other light truck owners. A principal justification was the belief that more transit would attract people out of their cars and reduce traffic congestion and fuel consumption. But it never happened: In those three decades, transit's share of urban travel had dropped one-third and now stands at only 1.7 percent[2] of all passengers (and less than 1 percent outside of New York[3]).

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And traffic congestion has only gotten worse. According to the Texas Transportation Institute's *Annual Mobility Report*, annual traffic delay rose more than five times in the nation's largest metropolitan areas between 2002 and 2007 (latest data available).[4]

Even with substantial capital expenditures paid for by federal taxpayers, there has been little or no progress in reversing transit's long-term decline. For example, Portland, Oregon, built four new light-rail lines and was rewarded with a *drop* in the share of commuters riding transit in 2008 compared to 1980—before the first light-rail line was opened.

Between 1982 and 2007 (latest complete data available), U.S. transit spending increased by $24 billion, an increase of 100 percent (adjusted for inflation). At the same time, ridership increased by 37 percent. The result is a cost increase of 46 percent per passenger mile compared to inflation. This is considerably more than the 3 percent inflation-adjusted increase in housing costs, the 1 percent reduction in food costs, and the 10 percent reduction in transportation costs over the same period, as measured by the consumer price index.

This means that every additional dollar of transit spending (inflation-adjusted) produced only 37 cents in value. It also means that the annual cost for each *new* transit commuter was more than the least cost of leasing each *new* rider a Toyota Prius, whose per-passenger energy efficiency exceeds that of U.S. transit systems.[5]

Perverse Incentives. Transit's chief problem is perverse incentives that have allowed its operating costs to rise faster than those of any other similar industry. Transit unions are emboldened to seek super-inflationary wage and benefit packages from officials who often (directly or indirectly) depend on the same unions themselves for political support.

Unions are right, of course, to seek better pay and working conditions for their members. However, their political access, combined with a federal requirement that most operate as monopolies in their service areas, conveys excessive power unavailable to union colleagues at, say, United Airlines or United Parcel Service, which operate in a competitive environment.

Perhaps even worse is transit's recent tilt toward large capital projects devoted to new and costly rail systems, a predilection driven by the Euro-envy of urban planners and lobbying by the for-profit construction and consulting firms who build and design them. As a result, hugely expensive rail systems have routinely been selected over far more cost-effective rapid bus systems. For every passenger carried by a new rail system, five or more would have been carried by more cost-effective approaches. Service to more of the city would have been improved and more people would have been able to get to jobs.

How to Fix Public Transit. Transit systems do not need more money but more competition. If Target or Apple were to respond to fiscal challenges by raising prices and cutting service, they would disappear. Transit, however, has been the object of a 40-year bailout program that has preserved a costly shell of its former self.

Making transit sustainable will not be easy. Transit must move from maximizing to minimizing expenditures per passenger. To do this, it needs to be subject to competition, and capital expenditures should be chosen that maximize passengers. A good place to start is a rewrite of the federal laws that dis-

1. Michael M. Grynbaum, "$239,000 Conductor Among M.T.A.'s 8,000 Six-Figure Workers," The New York Times, June 2, 2010, at http://www.nytimes.com/2010/06/03/nyregion/03mta.html (June 14, 2010).
2. Demographia, "U.S. Urban Personal Vehicle and Public Transport Market Share from 1900," at *http://www.publicpurpose.com/ut-usptshare45.pdf* (June 14, 2010).
3. Demographia, "USA Public Transportation Market Share 2007: Comparison: New York and the Nation," at *http://www.publicpurpose.com/ut-usptny2007.pdf* (June 14, 2010).
4. David Schrank and Tim Lomax, "2009 Urban Mobility Report," Texas Transportation Institute, July 2009, at *http://tti.tamu.edu/documents/mobility_report_2009.pdf* (June 15, 2010).
5. Randal O'Toole, "Does Rail Transit Save Energy of Reduce Greenhouse Gas Emissions?," Cato Institute, April 14, 2008, at *http://www.cato.org/pubs/pas/pa-615.pdf* (June 14, 2010).

courage or prohibit communities from relying on the competitive forces to improve their foundering transit systems and federal rules that no longer allow wasteful rail systems where other alternatives would carry more passengers for less.

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