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Federal Transit Programs: Spending More and More for Less and Less

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Both the majority in the new Congress and the members of the Republican Study Committee recognize that federal transit programs have become a costly extravagance that provides minimal benefits in comparison to costs incurred. In turn, both have proposed that federal transit spending and government subsidies be cut back substantially in the last seven months of the fiscal year 2011 budget that must be enacted this month.

Members of the new Congress are to be commended for this effort. The federal transit program and the transit systems that it subsidizes are among the most wasteful enterprises in the American economy, and reforming them should be among Congress's top priorities.

A System Full of Waste. Just how bad America's transit program is has been the focus of a stinging indictment by Brookings Institution economist Clifford Winston. Winston's new book, *Last Exit: Privatization and Deregulation of the U.S. Transportation System*, published by the Brookings Institution Press,[1] suggests that transit subsidies are largely the result of labor productivity losses, inefficient operations, and counterproductive federal regulations.

Winston finds that transit service is so underutilized that load factors (occupancy rates) were at 18 percent for rail and 14 percent for buses in the 1990s before the Federal Transit Administration stopped requiring transit agencies to report that information. A car carrying a single driver has as high a load factor as the average American transit system.

Rail Systems: Extravagance Extraordinaire. Winston singles out the nation's urban rail systems, which have consumed so much of transit tax funding in recent decades, for special criticism.

Winston reminds readers of the considerable literature showing that "the cost of building rail systems are notorious for exceeding expectations, while ridership levels tend to be much lower than anticipated" and that "continuing capital investments are swelling the deficit." At the same time, he questions high subsidy levels for rail transit, noting, for example, that the average income of rail transit riders is approximately double that of bus transit riders.

Winston criticizes in particular the now-under-construction Dulles Airport rail line that will become a part of the Washington, D.C.–area transit system, noting that the route is not cost-effective. He characterizes cost overruns on the Dulles rail line and the soon-to-be-under-construction Honolulu rail line as "inevitable" (this despite the fact that both lines have already experienced substantial cost escalation). Indeed, he notes that government subsidies exceed the benefits on all U.S. rail systems except for San Francisco's BART system.

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Winston's analysis can be supplemented by information from the latest Federal Transit Administration "New Starts Report."[2] The annual capital and operating cost per new round trip weekday rider on the Dulles Airport rail line will be at least $40,000. That is about as much as the annual cost to lease each new rider a Rolls Royce—though only a bottom-of-the-line $245,000 "Ghost" model.

The reality is that virtually every federally funded new rail system costs as much as leasing a car for every new rider on an annual basis, and, of course the rider would be able to use that car 24/7, in contrast to transit's limited availability. Admittedly, sometimes it is only an economy car that equates to the cost per new rider, but just as often it has been a much more expensive car. Added to transit's financial woes is the nearly $80 billion in deferred maintenance to restore transit systems to a state of "good repair," according to Federal Transit Administrator Peter Rogoff.[3]

Paying Hundreds of Billions and Losing Ground. The problems with transit extend well beyond costly rail projects. Since 1982 (the last year before the nation's motorists began paying for transit with their gasoline taxes), federal, state, and local taxpayers spent more than $750 billion (in 2009 dollars) in subsidies.[4] Yet transit's market share dropped by more than one-third during that period.

Part of the problem is a labor cost structure driven by perverse incentives for cost maximization rather than cost effectiveness. Winston cites the fact that dismissed transit employees may be eligible for up to six years of severance pay under requirements of federal law. Transferring services to less costly private contractors could trigger these six-year severance payments for the displaced public employees. Besides the fact that virtually no other workers in the nation have such benefits, the prospect of such payments is enough to discourage even the most courageous transit manager from seeking operating efficiencies.

Winston offers an ominous conclusion: "Social desirability is hardly a demanding standard for a public enterprise to meet." He indicates that it is rare to find a public service that does not meet that vague standard. However, with respect to transit, Winston concludes that "the fact that transit's performance is questionable…is indicative of the extent that transit and bus rail services have been mismanaged in the public sector and been compromised by public policy."

None of this is to suggest that transit does not have a valuable role to play in urban transportation. Transit costs should be no higher than necessary, and transit improvements should cost no more than necessary. Yet the record over at least the past 40 years has been one of expenditures rising much faster than ridership.

Competition as an Answer. *Last Exit* indicates that transit can produce beneficial results, but it makes a compelling case for reform. Winston suggests that transit could be improved by greater involvement of the private sector, following models such as the competitive tendering (i.e., competitive contracting) that now accounts for approximately one-half of Denver's bus system.

The international evidence, which Winston does not cite, is even more substantial. This includes London, the world's largest bus transit system, the entire Copenhagen bus system, and the entire subway, commuter rail, and bus systems of Stockholm.[5] However, the ultimate in privatization is Tokyo, the world's largest urban area, where transit ridership is 1.5 times that of the *entire* United States. More than

1. Clifford Winston, *Last Exit: Privatization and Deregulation of the U.S. Transportation System* (Washington, D.C.: Brookings Institution Press, 2010).
2. U.S. Department of Transportation, Federal Transit Administration, *Proposed Allocation of Funds for Fiscal Year 2012*, at *http://www.fta.dot.gov/publications/reports/reports_to_congress/publications_12354.html* (March 1, 2011). Estimated from data in report, using OMB recommended discount rate of 4.2 percent.
3. U.S. Department of Transportation, Federal Transit Administration, "Administrator Rogoff Remarks: 'Next Stop: A National Summit on the Future of Transit' at the Federal Reserve Bank of Boston," May 18, 2010, at *http://www.fta.dot.gov/news/speeches/news_events_11682.html* (March 1, 2011).
4. Demographia, "United States Mass Transit Expenditures and Subsidies from 1960," at *http://www.publicpurpose.com/ut-ussby.pdf* (March 1, 2011).
5. Wendell Cox, "Competitive Tendering of Public Transport," Centre Jacques Cartier, October 7, 2004, at *http://www.publicpurpose.com/ut-ct-mon2004.pdf* (March 1, 2011).

two-thirds of all transit ridership in Tokyo–Yokohama is carried by *unsubsidized* private rail and bus operators.[6]

The Need for Reform. As the nation faces the imperative need to reduce spending and borrowing, attention must be focused on the programs that have been more effective in spending money than in delivering service. It is no longer enough to spend more and more to get less and less.

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6. Demographia, "Urban Transportation by Mode Tokyo–Yokohama," at *http://www.publicpurpose.com/ut-tokmkt.pdf* (March 1, 2011).