

# Forbes

Timothy B. Lee  
6/03/2012 @ 3:15PM | 694 views

## Infrastructure Socialism and the New York Subway

In my continuing quest to become more knowledgeable about infrastructure policy, I just finished reading *722 Miles*, a book about the origins of the New York subways. In no particular order, here are some things I learned.

- Over the years, I've heard a number of people say that New York subways were originally a competitive, private industry and was only later taken over by the government. This claim has a grain of truth but it's misleading. The first two subway networks were indeed constructed by private companies, the [Interborough Rapid Transit](#) and [Brooklyn Rapid Transit](#) companies. However, describing New York circa 1920 as a free market in transit is deeply misleading. Government agencies were not only deeply involved in planning the routes of the subways and securing the necessary rights of way on behalf of these companies, they also provided extensive public subsidies: \$36.5 million for the building of the IRT in 1900, and another \$123 million in 1911 for the expansion of the IRT lines and the creation of the BRT subways lines. Notably, the elevated railways that largely preceded the subways largely *were* built with private funds, although obviously these firms needed the government's permission to build above government-owned city streets.
- In the early 20th century, there was widespread skepticism of government subsidies for transit projects. But city planners found they couldn't convince private firms to create subways without sweetening the pot. For example, when the government sought bids for private firms to construct a subway line without subsidies in 1892, they didn't receive a single serious proposal. This despite the fact that the 1892 franchise would have offered the winning bidder favorable terms, with minimal regulatory oversight, and run for 999 years.
- The dangers of private monopoly were a central theme of the subway debates of the early 20th Century. For example, in 1905 the Rapid Transit Commission, which was the regulatory body overseeing subways at the time, was working on plans for a second subway to compete with the just-opened IRT. The IRT was happy with the large profits it was enjoying as the city's only subway system, and showed little interest in either expanding its own lines or having new firms enter the market. Because subway construction is an expensive and technical process, serious bids tended to come from firms that were already running related infrastructure in the city. A leading candidate, therefore, was the Metropolitan Street Railway, which operated many of the city's streetcars. When the IRT learned that the RTC was courting the Metropolitan to bid a new subway line, it acquired the company. This forced the RTC to go back to square one and likely delaying the introduction of new subway lines by several years.
- Contractually-imposed price controls were a significant impediment to profitability. The IRT was profitable for its first decade after its construction. But its franchise agreement prohibited it from raising its fares. And what had been a reasonable fare before World War I became ruinously low as a result of wartime inflation. The IRT and BRT struggled to break even during the roaring 1920s and were tottering on the brink of bankruptcy by the 1930s. They were ultimately saved by a government buy-out that unified the city's transit infrastructure under city management.
- The subways were crucially important to the growth and geographic expansion of New York City. The ends of the subway lines were initially run through bucolic farmland in Harlem, the Bronx, Brooklyn and Queens. A few years later the land around these stations had been transformed into dense urban

neighborhoods. Today the population of New York could be smaller by millions of people if not for the ambitious subway building projects undertaken a century ago.

- Subway construction stopped after World War II. As the story is told in *722 Miles*, this was largely because city planners became enamored with the automobile and began pouring resources that might otherwise have been spent on the construction of subways into the construction of highways, bridges, tunnels, and other infrastructure for car traffic. “Hundreds of millions of dollars were poured into the George Washington Bridge, Lincoln Tunnel, Holland Tunnel, Bronx-Whitestone Bridge, Triborough Bridge, Queens Midtown Tunnel, Interborough Parkway, Grand Central Parkway, and other projects.”

I’m still thinking about the policy lessons of this story. The author of *722 Miles* is not a libertarian, so it’s certainly possible he’s omitting details that a more libertarian historian would have emphasized. But it’s hard to imagine anything like the modern New York subway system being created in a strict *laissez faire* regime. At a minimum, government assistance was required to get permission to tunnel under thousands of peoples’ property and/or under city streets. But beyond that, significant government subsidies were evidently needed to induce private companies to enter the market. One possible libertarian response is: so much the worse for subways. Maybe the government’s inability to attract developers without subsidies was a market signal that the subways weren’t worth the costs. Maybe transportation in a *laissez faire* New York City would have evolved in a different direction, with the continued use of elevated trains in Manhattan, even higher density in downtown, and a smaller metropolitan population. It would also have lower taxes, which might spur greater economic growth.

But I’m not sure that’s right. The New York metropolitan area has generated massive quantities of wealth over the last century, and the city’s wealth-creation capacity is enhanced by the network effects created by having a large number of smart people living and working in close proximity. A subway-less New York would not only have a smaller population, it would likely be poorer *per capita*, as each New Yorker would have fewer potential employers, employees business partners, customers, and so forth. Maybe over the long run, those subsidies paid for themselves through the expansion of the city’s tax base.

In any event, I’d like to see more libertarian exploration of the tricky questions raised by this kind of infrastructure project. As far as I know, no libertarian has written a history of subways or a white paper describing an optimal regulatory scheme for subways. That seems like a significant omission.