



Amtrak's big lie

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Recent articles in respected business journals report that Amtrak lost only \$29.8 million in 2019 (out of \$3.3 billion in total revenues) and that it expects to make a profit in 2020. This is a remarkable turnaround for a company that cost taxpayers more than \$100 billion in its first 49 years of existence. Amtrak accomplished this using a simple yet apparently effective technique: It's called lying.

Amtrak's accounting system is so full of lies that even the pro-passenger train Rail Passengers Association calls it "fatally flawed, misleading, and wrong."

The first lie is that Amtrak counts taxpayer subsidies from the states as "passenger revenues." According to Amtrak's unaudited report, 17 state legislatures gave Amtrak a total of \$234 million in 2019. The taxpayers in those states were never allowed to vote on these subsidies, and the vast majority don't ride Amtrak. These subsidies are no more "passenger revenues" than the subsidies given to Amtrak by Congress. Deducting these subsidies from revenues immediately increases Amtrak's 2019 losses to \$264 million.

An even bigger lie is Amtrak's failure to report depreciation in its operating costs. Ignoring depreciation is an old railroad accounting trick aimed at misleading investors by boosting apparent profits.

A classic example was the Rock Island Railroad, which ran many fast passenger trains throughout the Midwest in the 1950s. Then Rock Island proposed to merge with another railroad, and to improve the merger terms it began deferring maintenance. By the time the federal government approved the merger, Rock Island's tracks were so decrepit that its passenger trains ran as slow as 10 miles per hour. The other railroad backed out, and Rock Island shocked the nation by going out of business.

The Interstate Commerce Commission responded by requiring railroads to include depreciation among their operating costs. This represents the amount of money railroads have to spend or save to keep their infrastructure and equipment in good shape, ensuring that investors would never again be misled by deferred maintenance.

Amtrak dutifully includes depreciation in its audited financial statements, but it never mentions it in its press releases about its finances. In 2019, depreciation amounted to \$868 million, increasing total losses to \$1.13 billion — 38 times as much as claimed.

Even with federal capital subsidies, Amtrak is deferring maintenance like crazy. Amtrak passenger cars have expected lifespans of 25 years, yet the average car in its fleet is well over 30

years old. The Boston-to-Washington corridor, which Amtrak has often claimed to be profitable, has a \$38 billion maintenance backlog.

Fixing just these two line items in Amtrak's accounting shows that Amtrak did not come close to earning a profit in 2019, it won't earn a profit in 2020, and it never will earn a profit. This is because, after counting all subsidies, Amtrak spends four times as much to move a passenger one mile as the airlines. The difference between Amtrak and intercity buses is even greater, which means Amtrak can't compete in any market without heavy subsidies.

Of course, airlines and highways are also subsidized, and we should end those subsidies as well. But federal, state, and local subsidies to air and highway travel average around a penny per passenger mile, whereas Amtrak subsidies were 34 cents per passenger mile in 2019.

Amtrak's biggest lie is that passenger trains are somehow vital to the nation's economy. Last year, Americans traveled an average of 15,000 miles by automobile, 2,100 miles by plane, and 1,100 miles by bus. Amtrak's contribution was less than 20 miles per person. Even in the Northeast Corridor, Amtrak reluctantly admits that it carries only 6% of intercity travelers.

According to the best available estimates, Americans bicycle 8.5 billion passenger miles a year compared with 6.5 billion passenger miles on Amtrak. Being less important than bicycles, Amtrak certainly doesn't deserve the \$2 billion in annual subsidies that it requires to run a supposedly almost-profitable operation.

Rather than give Amtrak billions of dollars to restore or build infrastructure that it can't afford to maintain, Congress should simply agree to pay Amtrak a given amount for every passenger mile it carries. This will give Amtrak an incentive to focus on passengers, not politics.

Over time, Congress should reduce that amount until Amtrak receives no more per passenger mile than airlines or highways. Any trains that can truly be profitable will survive, but if they do, it will be because Amtrak has found ways to efficiently transport people, not because of lies in its accounting system.

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