Reason Foundation

http://reason.org
http://reason.org/news/show/critiquing-transit-and-the-job

Critiquing Transit and the Job Creation Claims of High-Speed Rail

Samuel Staley
August 9, 2009, 8:45am

The Illinois Policy Institute has published an article by policy analyst (and Chicago talk radio personality) Jerry Agar examining the job creation and economic development benefits of high-speed rail. The article features a dual interview with the Cato Institute's Randal O'Toole and me (Sam Staley).

Here's a quick sample:

> **IPI:** [Michigan] Gov. Granholm says that high-speed rail will create 59,000 permanent jobs in the Midwest. She is quoting the U.S. Department of Commerce which claims that, "every dollar spent on investments in our freight railroads — tracks, equipment, locomotives, bridges — yields $3 in economic output. In addition, each $1 billion of rail investment creates 20,000 jobs." Is she (and the Commerce Department) correct?
>
> **RO:** I do not believe so. They are freely adding all sorts of multipliers that are unlikely in the extreme. Besides, an investment in rail freight is not the same as an investment in passenger rail. Rail freight is highly efficient, pays for itself, and saves energy over highway freight. Passenger rail is highly inefficient, requires gargantuan subsidies, and saves no energy over highway travel (in fact, it is far less energy-efficient than intercity buses).
>
> **SS:** Virtually all regional economists recognize that *freight* rail provides important economic benefits because it (in a competitive environment) reduces transportation costs and improves productivity for industry and facilitates commerce.
>
> Passenger rail does not have similar benefits. Passenger rail riders typically spend more time traveling (not less) and travel greater distances than automobile travelers. Moreover, passenger rail is much more highly subsidized than either private freight rail or passenger automobiles. So, the net impact of public subsidies is to take money out of the productive economy, not add to it.
>
> Passenger rail's benefits are an assumption, not a fact, and the estimates for freight multipliers are not comparable to passenger rail. (Even assuming the freight rail multipliers are valid, which is an arguable point as well.)

I also took this opportunity to highlight a rarely discussed item: transit agency mismanagement and poorly aligned incentives.

> **IPI:** Gov. Granholm is proposing to cut Amtrak funding. Amtrak bleeds tax dollars. Why do they need more money when ridership is up? And why have they never made money?
>
> **SS:** The transit business model is fundamentally broken. This is self-evident if we look at transit operations objectively. No business can operate when every new customer represents a *net loss* to the

> operation. This is where transit ridership is. Since only 20-30% of costs are covered by fares, every new passenger represents costs 3-4 times greater than the revenue she/he generates. That's why transit agencies are even in worse trouble now. They don't have a business model that makes the customer valuable. Their success is based on chasing federal (and state) grant money, and spending dedicated local options sales taxes on capital projects (or expanded routes) that add little to the overall value of the transit systems or productivity of the agency.
>
> This is unsustainable. Rather than focusing on getting more money from Washington, DC, we should be using these events to broker a new discussion on the role of transit in our cities, and how we can fundamentally reform transit planning, operations, and management to make it a viable option again.
>
> This means moving toward a more traditional business model that puts the transit user at the center of the business model.

Transit could have a much bigger impact if management practices were fundamentally re-aligned to focus on the customer--the rider. This can't happen, however, as long as the fare box "recovery" ratio is a paltry 20-25 percent for most transit systems. Broad, institutional reform, including federal deregulation of labor practices, will be crucial for building a productive and sustainable transit industry in the U.S.

Samuel Staley is Director of Urban Growth and Land Use Policy