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Amtrak Profitability: An Analysis of Congressional Expectations at Amtrak's Creation

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Summary

Most discussions of Amtrak refer to Amtrak's status as a for-profit company, and have noted that Amtrak was intended by Congress to be a profit-making enterprise. Despite these references, Amtrak is not now a for-profit company; it was originally created as such, but that status was changed by the Amtrak Improvement Act of 1978 (P.L. 95-421); the Conference report noted that the bill removed Amtrak's for-profit status but required that the corporation be "operated and managed as" a for-profit corporation (H.C.R. 95-1478).

Amtrak was created by the Rail Passenger Service Act of 1970 (P.L. 91-518), which was implemented by the Department of Transportation. John Volpe, then-Secretary of Transportation, asserted during Amtrak's creation that it could eventually be profitable; on some occasions, he said it could achieve profitability after three years.[1] However, in these statements he attached two conditions to that prediction: that the Federal government provide significant capital funding to produce high-speed trains in short-haul corridors where profitability was possible, as well as providing other improvements in service; and that the size of the passenger network would be cut back to the point that the profits from the successful corridors would be sufficient to subsidize the remaining routes.

Intercity passenger rail service was running a deficit before Amtrak was created, and there were doubts expressed in Congress (and elsewhere) that Amtrak would ever be profitable. The Rail Passenger Service Act of 1970 created Amtrak as a for-profit corporation, but in Section 101, the Congressional Findings and Statement of Purpose, it found "... that Federal financial assistance as well as investment capital from the private sector of the economy is needed [to provide modern, efficient intercity rail passenger service] ...". In their floor statements about this legislation, several Members of Congress either expressed skepticism that Amtrak would ever be profitable, or echoed Volpe's conditions: that Amtrak would have to provide high-speed trains, or cut back its route mileage significantly, to achieve profitability. Otherwise, one Member, all Congress would have accomplished by creating Amtrak would be to change the name on the annual debt incurred by providing passenger rail service (and make the federal government responsible for it).

Amtrak's fastest train in 2002, the Acela, averages 85 mph between Washington, D.C. and New York City, compared to the Metroliner which averaged 80 mph over the same route before Amtrak was created. Amtrak's route mileage in 2000 was 23,000 miles; its route mileage in 1971 was 23,000 miles. Thus, neither of the two conditions specified by those who initially predicted profitability for Amtrak has been achieved.

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[1]Volpe: Amtrak will break even in 3 years and be profitable thereafter (*Railway Age*, February 8, 1971, p. 12.

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Most discussions of Amtrak refer to Amtrak's status as a for-profit company, and have noted that Amtrak was intended by Congress to be a profit-making enterprise. In fact, Amtrak is not now a for-profit company. It was originally created as such, but in the Amtrak Improvement Act of 1978 (P.L 95-421), Amtrak's authorizing statute was amended to read "Amtrak shall be operated and managed as a for-profit company" (49 U.S.C. 24301(a)(2)). The Conference report noted that the bill removed Amtrak's for-profit status but required that the corporation be "operated and managed as" a for-profit corporation (H.C.R. 95-1478). Nevertheless, Amtrak's continuing need for Federal financial assistance is seen by some as evidence that Amtrak has failed to live up to Congress' expectations for the organization. This report examines the statements of Congressional and Nixon administration leaders at the time of Amtrak's creation regarding the financial prospects of Amtrak.

Amtrak (originally called the National Railroad Passenger Corporation) was created by the Rail Passenger Service Act of 1970 (P.L. 91-518) and began operation on May 1, 1971. It was created because the railroad companies, which had long subsidized their money-losing passenger service with profits from their freight service, were now losing money overall and wanted to be free of the responsibility (and cost) to provide passenger service. At that time, railroads were required to provide passenger service in return for the opportunity to haul freight, although they could petition the Interstate Commerce Commission (ICC) to drop individual money-losing passenger routes. Congress had noted the financial difficulties of private sector passenger rail service since at least 1958, when it had passed legislation allowing railroads to petition the ICC to discontinue individual routes. Each year after that, the ICC heard appeals from railroad companies petitioning to discontinue passenger routes, and was granting these requests, resulting in a rapid decline of the availability of passenger rail service. The impending failure in 1970 of the Penn Central Railroad, the largest railroad in the country and the largest single provider of passenger rail service, focused Congress' attention on the immediate threat to passenger rail service. Congress believed that, if something were not done, passenger rail service would disappear as railroad companies either went bankrupt or divested all of their passenger service.

Passenger Rail Service Deficits Prior to Amtrak

Passenger rail service had been unprofitable for many years before 1970. Just how long and how unprofitable depended on how one measured the costs of providing passenger service. Passenger trains and freight trains were operated by the same companies, ran over the same rail networks, and were guided, serviced and repaired by many of the same employees; this made the task of separating the costs of passenger service from freight service difficult. There were two basic ways of measuring the cost: (1) assuming that a railroad company would continue to operate freight trains even in the absence of passenger service, so attribute most of the company's overhead costs to freight and measure only the additional costs incurred by the company to operate passenger trains, or (2) dividing all the costs of the company proportionally between passenger and freight service. The first approach, known as "solely related passenger costs," was considered by the ICC as the more realistic measure of the cost of providing passenger service, and was used in evaluating requests to discontinue money-losing passenger trains; it produced a lower expense figure for passenger service. The second approach, known as "full passenger cost," was used by the railroads in protesting the costs imposed on them by having to provide passenger service; it produced a higher expense figure for passenger service.

The differences produced by these two methods can be seen in Table 1. In 1941 and 1950, railroads made a profit on passenger service according to the solely related cost measure, while they lost hundreds of millions of dollars according to the full cost measure. During WWII, with gasoline rationing, passenger railroad ridership was artificially increased to its highest level since 1929; in 1945 even the full cost measure produced a profit. But by 1955, even the solely related cost measure showed passenger service to be a money-losing operation. The railroad companies reduced this deficit by discontinuing many passenger routes after 1958, but it rose again toward the end of the 1960s.

Table 1: Passenger Deficits of U.S. Class 1 Railroads
($millions)

Year	Solely related passenger profit/(deficit)	Full cost passenger profit/(deficit)
1941	74	(226)
1945	942	230
1950	73	(409)
1955	(85)	(637)
1960	(10)	(485)
1965	(44)	(421)
1970	(252)	(477)

Source: Exhibit IV-E(3), *Intercity Domestic Transportation System for Passengers and Freight*, study prepared for the Senate Committee on Commerce, Science and Transportation, GPO, 1977, p. 311.

By 1970 it was generally accepted that railroad companies were losing money on passenger service. Why this was so was a subject of debate; opinion divided generally into two camps. The discouragement hypothesis held that the railroad companies wanted to drop passenger service in favor of the more profitable freight service, so they deliberately undermined their passenger business by offering poor service, little marketing, and decrepit trains. According to this view, if the railroad companies had truly been committed to making passenger rail service a success, it would have been profitable. The other hypothesis, which might be called the transportation efficiency view, argued that passenger rail service had gotten a fair market test and failed: that as a greater proportion of the population was able to afford private cars, people preferred the convenience of their cars for shorter trips; and for longer trips, the airplane was so much faster than the train that it attracted those who could afford to pay high rates for travel. In this view, passenger rail service was a state-of-the-art transportation technology in the early 20th century, but it had been superseded by the superior speed of aviation and the superior flexibility of the automobile.

There was a subgroup of the economic efficiency group who argued that passenger service had not gotten a fair test economically, because the market was tilted against passenger rail service by the federal government, which subsidized the building of highways throughout the nation (which made the car more attractive for would-be passengers, and also gave a boost to the trucking firms which competed with the railroads for freight service) and subsidized the construction of airports and air traffic control systems, as well as aviation research.[2] Some in this group argued that if the federal government assisted passenger rail service, as it did auto travel and aviation, the passenger rail market would be healthy.

Original Expectations for Amtrak: Administration

In a speech in December 1970, Secretary of Transportation Volpe, asserted that Amtrak would be profitable.[3] In February of 1971, he elaborated on that assertion, saying that Amtrak would break even within three years and be profitable thereafter.[4] However, this expectation was based on two assumptions: (1) that Amtrak would provide better service; and (2) that it would operate a reduced number of routes. Volpe claimed that "fast, clean, economical and safe trains" could attract enough riders to make a profit[5]; at the same time, he was drawing up a route system for Amtrak that was a great reduction from the extent of service being provided by railroad companies. But when he declared that Amtrak's profitability would depend in part on a reduced number of routes, he did not mean simply Amtrak's original route network; he said that, after Amtrak had been in operation for a few years, the unprofitable routes would be cut back to the point that their losses could be covered by the money earned on the profitable routes.

[2]Since the beginning of the Interstate Highway Program in 1956, a significant portion of federal spending on highways has come from the Federal excise tax on gasoline; in light of this, many argue that Federal highway spending should not be viewed as subsidizing highways, but rather as a self-financed program based on user fees.

[3]*Traffic World*, December 14, 1970, p. 77.

[4]*Railway Age*, February 8, 1971, p. 12.

[5]*Traffic World*, December 14, 1970, p. 77.

Some have asserted that there was another perspective in the Nixon Administration's expectations for Amtrak: while some sincerely wanted Amtrak to succeed, others in the Administration expected Amtrak to disappear after a few years. *The New York Times* quoted an unnamed high official in the Department of Transportation:

> The purpose of this bill [creating Amtrak] is to get passenger service off the backs of the railroads, run the wheels off the existing equipment, and then put an end to passenger trains in this country.[6]

Original Expectations for Amtrak: Congressional

A. Daniel O'Neal, majority counsel for the Senate Transportation Subcommittee during the time that the Amtrak legislation was drafted, recalled

> We added the for-profit clause because we thought this new entity should have high aspirations. It would be wonderful if such service could be self-sustaining, but nowhere in the world has any nation been able to avoid subsidizing rail passengers.[7]

Remarks on the Rail Passenger Service Act of 1970 in the *Congressional Record* and newspaper accounts during its consideration shed light on the view that Amtrak was expected to be a profit-making enterprise. The remarks in the *Congressional Record* indicate hope that Amtrak might be profitable; this hope was based on Secretary Volpe's predictions of how passenger rail service would change under Amtrak's leadership: that there would be significant (government) investment in improving service, including the development of high-speed rail lines, and that unprofitable routes would be pruned. For example, the comments of Representative Harley Staggers (West Virginia), chairman of the Committee on Interstate and Foreign Commerce (which was the authorizing committee for railroads), reflect the "improved service" assumption:

> The bill will create a corporation which will be a private for-profit corporation, and we hope that it will be a profitable organization, and I believe that it will in the long run ... We know that in starting off they are going to have some trouble, but I expect that after a very few years it will be a prosperous organization, because we have begun to develop high speed trains, better railroad cars, with more commodious service that people will use, as has been exemplified by the Metroliner that runs between Washington and New York now.[8]

Representative J. J. Pickle, of Florida, a member of the Subcommittee on Transportation and Aeronautics (the authorizing subcommittee), reiterated the promise of new high-speed train technologies, citing experiments with linear

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[6]"Sunset for Railpax,"*New York Times*, January 26, 1971, p. A32.

[7]Cited in Frank Wilner, *The Amtrak Story*, Simmons-Boardman Books: Omaha,Nebraska, 1994, p. 43.

[8]*Congressional Record*, v. 116 (1970), October 13, p. 36594.

induction motors, magnetic levitation, and jet turbine engines; he argued that the legislation was necessary to preserve the rights-of-way now until these new technologies could be implemented.[9] He was followed by Representative Dan Kuykendall of Tennessee, another member of the Subcommittee on Transportation and Aeronautics:

> ... if anyone asks, "Do you think that with the present equipment can this passenger corporation be profitable?" the answer is "absolutely not." It cannot be profitable with the present equipment. But by starting with equipment like the Metroliner and going rapidly ahead into the really sophisticated equipment of the future, it can be and will be a profitable operation.[10]

Representative Richard Ottinger of New York summed things up:

> [the corporation] will hopefully make a profit through its operations. Nevertheless, the corporation will be required to run passenger trains over some unprofitable routes when necessary in the public interest, so it is possible that this new program will have to be funded by the Congress on an annual basis ... Hopefully new developments in high speed rail technology will enable the National Railroad Passenger Corporation to eventually become solvent ... [11]

The "pruned service" assumption was reflected in the remarks of Representative William Springer of Illinois, the ranking member of the Committee on Interstate and Foreign Commerce:

> It has become apparent that saving the entire nationwide network of passenger trains ... is impossible. Federal subsidies of astronomical proportions would be necessary to keep all those empty, long-haul trains operating ... There do remain areas of the country where rail service should be useful and economically sound at the same time. The example which usually comes to mind is the Northeast Corridor, but it is not the only place ... This will not, as I have already intimated, be a nationwide network as we have known it in the past. It will necessarily concentrate upon corridors of high density travel ... Although it is intended to be a corporation run for profit, the harsh realities indicate a massive infusion of money from the Government to make it go.[12]

Early Returns on Amtrak's Progress Toward Profitability

Amtrak's initial funding was $40 million for operations, with a $100 million loan guarantee for new equipment and improved roadbeds. It also received about $195 million in cash or equipment from the railroads who turned over their passenger service responsibilities to Amtrak. Congressional leaders objected that this would not be enough money to sustain Amtrak, but Administration officials declined to ask

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[9]Ibid, October 13, 36596.

[10]Ibid, October 13, 36597.

[11]Ibid, October 14, 36658.

[12]Ibid, October 13, 35695.

for more – at first. But after six months of operation, with Amtrak running much larger deficits than the Administration had predicted, Administration officials were forced to return to Congress to ask for more money.

A *New York Times* article noted that

> Key Congressional figures are disappointed but not greatly surprised by Amtrak's request for a $170-million operating subsidy for the next two years. Hearings on Amtrak's unexpectedly large deficit will give House and Senate members a forum for their questions and complaints about service to their districts. But even those who have been complaining the loudest ... have long considered Amtrak's losses inevitable and expect to approve the new appropriation.[13]

By the one-year mark, the optimists' hopes for Amtrak's profitability were dimming:

> In its first year, Amtrak lost [50 percent more money] than its founders predicted ... the vision of its fathers in the Nixon administration of Amtrak operating as a "for-profit" company has all but evaporated. Many people close to Amtrak believe that it has little chance of survival without huge, and probably endless and ever increasing Federal subsidies–or, as an alternative, a radical cutback ... in the amount of service it provides.[14]

That article quoted a Senate Commerce Committee staffer who noted that Amtrak was getting "killed" because its corridor trains were too slow to compete with cars and planes. "The Metroliner[15] – the fastest train we've got – only averages 80 [mph], and it was built to do 150. Until we get the equipment and the roadbed to compete with buses, cars and planes in the corridors, we won't know if Amtrak can compete."[16] Thirty years later, Amtrak's new Acela trains, built to do 165, still only average 85 miles per hour over the same route, because the roadbed still cannot support high speeds over its entire length, and no other corridors have ever been upgraded even to the level of the Northeast Corridor.

The remarks of Senator Lowell Weicker of Connecticut, at the opening of the Senate Subcommittee on Surface Transportation's hearing on the Administration's first request for additional funding for Amtrak (October 26, 1971), highlighted many of the themes which have run through Congressional debate over Amtrak since its creation. He excoriated the Department of Transportation for understating how much money Amtrak needed to improve passenger rail service, and requested that the Committee either greatly increase the authorization for Amtrak beyond what the

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[13]"Amtrak Plea is No Surprise," *New York Times*, October 24, 1971, p. S27.

[14]Robert Lindsey, *New York Times*, April 30, 1972, p. 1, 64

[15] The Metroliner was running between New York City and Washington, D.C., the southern portion of the Northeast Corridor.

[16]Ibid, p. 64.

Administration was requesting, or cut off support altogether. Otherwise, he said, Amtrak would not have enough money to make the significant improvements needed to make passenger rail service economically viable, all that would have been accomplished would be to have changed the name on the passenger rail deficit, and "Congress will take on the role of making up the difference [between Amtrak's revenues and expenditures] as an annual exercise."[17]

Have the Original Pre-Conditions for Amtrak Profitability Been Met?

At the time of its creation, those Congressional and Administration leaders who forecasted Amtrak achieving profitability based that forecast on two pre-conditions: Federal investment to produce fast, safe trains and a cutback of the rail network so that the losses from unprofitable routes would be covered by the profits of profitable routes. Those arguing that these pre-conditions were never met point out that Amtrak's train speeds and route mileage are virtually the same now as when it was created.

Amtrak has received $24.2 billion in support from the Federal government since its creation in 1971.[18] This is a significant sum of money; it is also, to put it in one perspective, less than the Federal government spent on highways in FY2001. Should Amtrak have been able to develop fast, safe trains with that amount of funding? To determine that, one would need to know how much Amtrak would require just to maintain its overall status quo, since making significant improvements would require enough money to first maintain its existing capital and then finance improvements.

Amtrak has received, on average, $760 million a year in Federal assistance. Of that amount, $330 million a year was for capital improvements (a total of $9.9 billion over Amtrak's life). That average conceals some wide swings in actual annual funding, swings which complicated the implementation of capital improvement programs, which by their nature are dependent on predictable levels of funding over a period of several years.

In 2001, Amtrak estimated that it would need about $750 million a year in capital spending just to maintain its current services.[19] That is over twice the $330 million average annual funding Amtrak has received for capital investment. Amtrak had to borrow money to finance the purchase of its Acela trains, and thus increased its long-term debt, because it did not have enough capital funding to purchase them outright.

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[17]U.S. Congress. Senate. *Administration's Request for Additional Funding for Amtrak. Subcommittee on Surface Transportation of the Committee on Commerce*. Hearings. 92nd Congress, 1st Session. October 26, 1971. (92-29). Statement of Senator Lowell P. Weicker, Jr.(CT), p. 3-4.

[18]*The Budget of the United States Government, Fiscal Year 2003*, GPO: 2002, p. 260.

[19]Amtrak, *2001 Strategic Business Plan*, p. 35, Figure III-4.

Estimates of the cost of developing high-speed rail corridors in the U.S. range from $70-$100 billion. That is 7-10 times greater than the total amount of capital funding Amtrak has been provided since its inception. It may also seem an unrealistic amount. For perspective, one can look at Western Europe, which over the past three decades has significantly upgraded its level of train service by creating true high-speed trains on dedicated tracks. In just the 10-year period of 1980-1989, Western European governments provided $101 billion in assistance to their railways–four times the amount that the Federal government provided to Amtrak between 1971-2002.[20] For comparison, Western Europe has about 90 million more people than the U.S. (380 million to 287 million in the U.S.) on much less than half the land area (1.4 million square miles to 3.7 million square miles in the U.S.). Passenger train ridership in Europe, while higher than in the U.S., has also been declining in recent decades, except where high-speed routes have been created.

As for the second pre-condition, that Amtrak's route mileage would be cut back to the level that could be supported by Amtrak's profitable trains, it has been argued that since Amtrak did not receive the investment to produce faster, more profitable trains, it would not have been fair to passengers to cut back the mileage to what could be supported by the system as it existed at Amtrak's creation. Since Amtrak had a statutory mandate to provide a national network of passenger service from its founding until the Amtrak Reform and Accountability Act of 1997, Amtrak supporters assert that it was virtually required to operate a number of routes around the nation which are not profitable. Moreover, it is not clear how the Department of Transportation or Amtrak would have responded to the idea of eliminating a significant number of routes. Amtrak has been dependent on the Federal government for its survival since its creation. Congress, which provides the appropriations to maintain Amtrak's existence, has Members who have argued since Amtrak's founding that their constituents deserve rail service, even if they are in areas where demand for rail service is relatively low, and that if Amtrak did not provide service to their constituents they did not see how they could support funding for Amtrak. Since its inception, Amtrak has cut some routes and added others, but its overall route mileage has not varied a great deal; it was 23,000 miles in 1971 and 23,000 miles in 2000.[21]

Critics of Amtrak's performance assert that Amtrak was intended by Congress to be a profit-making enterprise, and therefore its need for Federal assistance each year is evidence of its failure to meet the expectations Congress had of it. But there is little evidence to support that contention in the legislative history of Amtrak's creation. Expectations of Amtrak profitability, such as they were, appear to have been premised on significant Federal support for the development of faster trains and

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[20]Report from the International Railway Association, presented to U.S. Congress, House Subcommittee on Railroads of the Committee on Transportation and Infrastructure, *Amtrak's Current Situation*, 104th Congress, 1st Session, February 13, 1995, p. 218-222 (104-10). Some of that assistance probably went to freight service.

[21]1971 route mileage figure in Frank N. Wilner's *Amtrak Story (*Omaha, NE: Simmons-Boardman Books), p. 43; 2000 route mileage figure from Amtrak's *FY2000 Annual Report*, p. 24.

cutbacks in the route mileage served. Since neither of those conditions were met, Amtrak supporters argue that Amtrak's lack of profitability is no surprise.