



## Amtrak and the Railroads

Amtrak and its lobbyists at the National Association of Railroad Passengers (NARP) recently invited us to commemorate the third annual National Train Day on May 8. Supposedly celebrating “America’s love for trains,” the day could not boast a more ironic host than the railroad nobody rides. Worse, Amtrak’s sponsorship was as shameless as Dracula’s funding a fashion show concentrating on décolletage: The government that owns Amtrak has sabotaged, subsidized, and sucked the life from American railroads since the industry’s inception.



You might suppose this lurid history of interventionism would enrage and repel the NARP, which professes to be “the largest citizen-based advocacy organization for train and rail transit passengers” and which clearly appreciates the past, given that its “National Train Day marks 141 years ... [since] the first transcontinental railroad was created.” Instead, it dines at Congress to tax us on Amtrak’s behalf.

You might also think railroading’s sad saga provides ample warning against subsidizing industries into nationalization. And it does, as we’ll see. But so far, too many Americans ignore the lesson: They clamor for rulers to give them something for nothing — or at least for far less than it costs — whether it’s medical care or transportation. Yet after nationalizing industries, politicians incompetently manage them at stunning expense to us and infuriating benefit to themselves.

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Established in 1971, Amtrak actually brags that it “carried 27.2 million passengers” in fiscal 2009, “making it the second-best year in the company’s history.” If we preposterously presume no repeat customers among those millions, barely 9 percent of the U.S. population patronized this outmoded, nostalgic mass transit. We can continue throwing statistics around — “In 2000 [Americans] made 22.5 million trips by Amtrak, compared to some 700 million trips by air,” Edward Hudgins wrote in the *Atlanta Journal-Constitution*. “Amtrak accounted for only three-tenths of 1 percent of all trips taken in 2000; twice as many people took trips by small private planes” — but all the facts confirm that Amtrak’s riders are about as scarce as honest politicians. Somehow, supporters of socialized railroads interpret this as reason for ever larger incursions on our pocketbooks, not for stripping the feds of their unconstitutional ownership and management.

Indeed, NARP dismisses as a “myth” the idea that if we “shut down Amtrak ... the private sector will operate passenger rail.” It counters with what it calls a “fact”: “Rail passenger service was in private hands from its inception in the 1830s until 1970, when Congress and the Nixon Administration made a policy decision to create Amtrak because the private sector could not make a profit.” But that’s neither true nor even a tenth of the tale, let alone the whole story. Nonetheless, most historians echo this fiction when discussing American railroads.

### Motion and Money



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Transporting men and materials easily and cheaply has challenged humanity since its earliest days, but the American continent offered a unique problem: the Appalachian Mountains. This chain slices the eastern seaboard from the rest of the country, rendering virtually impossible commerce or even communication between the two sections without modern technology. Many 18th-century Americans proposed schemes for linking the waterways on each side so inland grain could reach the populous Atlantic seaboard; even George Washington bent his considerable influence toward that end. His Potomack Company hoped to construct a canal that would channel the trans-Alle-gheny trade and its profits through Virginia and Maryland; in fact, historians blame the Potomack Company for the Constitution's replacing the far more libertarian Articles of Confederation: "Maryland and Virginia's collaboration on the canal project directly led to a series of meetings concerning interstate commerce that culminated in the Constitutional Convention in Philadelphia in 1787," as the Smithsonian Institution puts it.

Finally, in 1817, New York State began building what the federal government had rejected as too expensive: the Erie Canal — or "[Gov. DeWitt] Clinton's big ditch," as opponents both political and principled dubbed it. No matter: Politicians in other states enviously eyed the \$300,000 in tolls New York collected in 1824 and its boastful, incredible predictions of \$9,000,000 annually by 1874. What could they do to reap similar rewards? Railroads happened to chug onto the American scene right about then.

They had debuted in England during the 1750s; there had been enough refinements since to transform them from carts pulled by horses pulled along a wooden track into something approaching what we would recognize as a train. American governments at first did little more than charter railroad companies, as they had the earlier canal companies.

But politicians were quick to seize DeWitt Clinton's excuse for building the canal: They argued that projects like canals and railroads were too expensive for private financiers and entrepreneurs. So government, which has no money beyond what it siphons from those financiers and entrepreneurs and which knows nothing whatever about business except how to tax it, would go into the business of railroads.

Indeed, President John Quincy Adams waxed positively dictatorial as he explained why government must usurp both its constitutional boundaries and the private sector in his first annual address to Congress: "The great object of the institution of civil government is the improvement of the condition of those who are parties to the social compact." And here his father and those other ignorant Founders thought government's purpose was to "secure" our rights to life and liberty. "Roads and canals," John Quincy continued, " ... are among the most important means of improvement.... Let us not be unmindful that liberty is power." — Whoa! *There's* an equation that rocks any lover of liberty back on his heels — "While foreign nations less blessed with that freedom which is power than ourselves are advancing with gigantic strides in the career of public improvement, were we to slumber in indolence or fold up our arms and proclaim to the world that we are palsied by the will of our constituents, would it not be to cast away the bounties of Providence and doom ourselves to perpetual inferiority?"

The track went downhill from there. Over the next 150 years, until Amtrak nationalized passenger service, the railroads and government fed off each other in a fascist frenzy. Railroads expected the government to grant them land, whether undeveloped or already owned; subsidies; and favorable legislation, especially as settlement pushed westward. Politicians in return demanded the use of the railroads, usually during wars. Mostly, they "borrowed" trains to move troops, but at least once they



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outright, though temporarily, nationalized them. Meanwhile, they portrayed themselves as the public's savior, rescuing Americans from corrupt and callous railroads, much as their descendants claim to have saved us from corrupt and callous medical insurance companies by requiring us to buy their product.

Railroads were still relatively recent immigrants when California joined the union in 1850.

Transcontinental fever infected Congress, and it forced taxpayers to spend \$150,000 surveying routes west for laying track.

### **Congress and Collusion**

In 1862, Congress passed the Pacific Railroad Act — “hastily,” as Burton Folsom, Jr. says in *The Myth of the Robber Barons*, to capitalize on the absence of Southern, agrarian Democrats. If the feds hadn't previously realized the value of controlling a nationwide network of speedy transportation, the internecine war then raging convinced them. The act's official title blared its purpose: “to aid in the construction of a railroad and telegraph line from the Missouri river to the Pacific ocean, and to secure to the government the use of the same for postal, military, and other purposes.” And it awarded both land and loans of taxpayers' money per mile of track laid to two companies. Coincidentally, no doubt, businessmen who understood politics but not necessarily railroads headed each.

The Central Pacific would lay track from Sacramento eastward, racing the Union Pacific as it lay track westward from Omaha. So there was competition, all right, fierce and plenty of it (as the two lines of track drew together, the Central's Chinese workers attacked and often killed the Union's Irish employees, and vice versa).

But as always when government meddles with business, that competition actively endangered consumers rather than protecting them from high prices and shoddy service. The two Pacifics vied to lay track fastest, thereby grabbing the most acreage and subsidies; nothing else mattered, whether quality of materials and of the resulting track, or safety, or economy in things like laborers' wages and rations, or even the most direct route: Indeed, the companies' tracks ran parallel for miles in Utah as their chances for snatching more soil and subsidies neared an end.

The feds' threat to investigate finally convinced the Pacifics to meet at Promontory Point, Utah. But the famous, golden spike and congratulatory speeches didn't stop the taxpayers' fleeing. The companies had to rebuild and even re-locate large portions of their poorly constructed track. The Union's chief engineer admitted, “I never saw so much needless waste in building railroads. Our own construction department has been inefficient.” Actually, it was a model of efficiency in its response to the incentives it received — from politicians, not consumers.

When an industry relies on political favors rather than hard work and competition, excellence, efficiency, honesty, and customers all suffer. Corruption ruled the Pacifics; indeed, the notorious Credit Mobilier scandal, in which officers of the Union Pacific created a sham corporation to construct the railroad and to overbill the government, then sold shares of it to politicians, remains a measure of how much graft such projects spawn.

Voters were outraged. So were the railroads' customers, who were paying far more than their trips were worth to compensate for continuous repairs. Rather than barring Congress, which had created and profited from the mess, once and for all from the entrepreneurial sector, Americans demanded instead that Congress regulate its cronies — or, more accurately, Congress obliged itself and those Americans demanding that it regulate the very lucrative enterprises of its cronies.

And so in 1887, these cynics established the Interstate Commerce Commission (ICC), the first of the



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anti-constitutional, unelected, and unaccountable agencies that rule so much of our lives. The ICC's birth had an Attorney General at the still-new Justice Department counseling one railroad executive, "The Commission is, or can be made, of great use to the railroads. It satisfies the popular clamor for a government supervision of the railroads, while at the same time that supervision is almost entirely nominal. The part of wisdom is not to destroy the Commission, but to utilize it." Yet Americans persist in fantasizing that bureaucracies protect them from Big Business.

Among the ICC's toxic legacies: a system of accounting it compelled the railroads to adopt that prevented them from accurately pricing their services and controlling costs. So it's no surprise railroads never recovered from their bout with the government or from the distrust that fusion inspired among customers. By World War I, the feds bridged the small gap remaining between private and public by nationalizing the industry under the United States Railroad Administration. In return, the government guaranteed operating expenses regardless of actual income, destroying all incentive for pleasing customers. That lasted for only two years, so that railroads returned to the fiction of "private" ownership by 1920 — though the government saddled them with exorbitant new costs before handing them back. Perhaps because Americans believed the fiction, they took 1.2 billion rides on 9,000 daily intercity trains that year, making it the industry's best.

Railroads continued to seek subsidies and freebies, the very things that had poisoned the Pacifics during the 1860s. Technologies emerging during the late 19th and early 20th centuries gave them the excuses they needed, too. First it was automobiles, then planes, against which trains couldn't compete without funds from taxpayers. That refrain continues today: Amtrak's defenders complain with a regularity its schedules must envy that Washington heavily subsidizes automobiles with a national network of highways and airlines via the FAA and the TSA as well as state and local governments' ownership of commercial airports. They are correct. But rather than strangling all forms of transportation equally, wouldn't we do better to drive government out of the business entirely?

The relationship between the feds and the railroads was cozy enough by the time of World War II that President Franklin Roosevelt didn't bother nationalizing them. Instead, the huge numbers of troops moving about the country pretty much did *de facto*. Railroads and associated companies cooperated by paying for propaganda thinly disguised as advertising: Pullman, manufacturer of the famed "sleeping car," advised customers in 1945 that "no other wounded in the world are cared for with the skill and devotion which the men and women of the Army Medical Corps give American wounded. No other wounded in the world are brought home so speedily. Motor vehicles, ships, planes and trains all play a part in getting them here *fast*.... So please — if you should be unable to get the Pullman space you want exactly when you want it — remember this: About half the Pullman fleet is assigned to carrying out mass troop movements and transporting other military personnel.... PULLMAN For more than 80 years, the greatest name in passenger transportation." And if appeals to jingoism didn't reserve trains for the troops, the feds helped by taxing tickets 15 percent. Like so many measures politicians claim they're instituting because of a war, this tax outlasted the war. The government slightly reduced it in 1954, but only in 1962 did it completely disappear.

Hauling freight was usually more profitable than hauling passengers. As the railroads battled cars and planes after the war to survive, many companies wanted to stick with freight and forgo passengers. Their political masters said no. Other regulations increasingly hobbled the railroads just when they needed the most agility to beat the competition coming from streets and skies.

Few industries could survive such repeated governmental assaults. Add to that the ruinous demands



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from unions that legislators and bureaucrats codified as law, such as featherbedding with overpaid staff and forbidding modernization. This made for a load so weighty no railroad could haul it, let alone survive under it. But rather than defending themselves, the victims complied and connived. Most of the industry's executives preferred government's regulation — so long as it came with lavish subsidies — to striving honestly, in an open market, free of the State's supervision and "help."

### **Resuscitating Rail Service**

No wonder that "by the 1960s the passenger train was rarely considered as a means of travel," as the Amtrak Historical Society puts it. "Schedules were erratic, trains were run down, and more often than not the journey was a miserable experience." Government's interference, strictures, and taxes had made transporting passengers so unprofitable that the railroads actively shunned them. Naturally, the feds "helped" once more. This time, the new Department of Transportation beat the drum for riders. The government that had tried for so long to kill the railroads now prodded the corpse in hopes of resuscitation.

One after another, railroads filed for bankruptcy throughout the 1960s. Finally, in 1968, the once-mighty, now-shaky Pennsylvania Railroad and the New York Central merged. Like the Almighty, the federal government superintends even a sparrow when it falls, let alone the country's two largest railroads. And they must seek permission even if the sparrow doesn't. That gave politicians an opportunity to lard the venture with so many regulations and requirements, including forcing the new company to incorporate a bankrupt railroad, that they doomed it to failure. Amtrak emerged from the shambles.

"It was once inconceivable that the government would own and operate America's railroads," Gregory Bresiger mourned in "Train Wreck" (*The Freeman*, August 1999). "They were at the foundation of industrialization and so profitable they were a big part of the early Dow Jones Industrial Average." In contrast, Amtrak was a rolling money pit from the start: During its first quarter-century, it gobbled \$13 billion of our taxes. Somehow, the fortune Congress transfers from our pockets to it are never enough. Amtrak has vowed to break even every year since it hatched, and every year it fails. "Amtrak said it covered about two-thirds of its operating costs in 2006," the *New York Times* reported, "bringing in revenue of about \$2.05 billion while incurring expenses of about \$3.07 billion."

And that's while practicing such duplicity as would send executives of private companies to prison. "Even as WorldCom and Enron officials were being indicted for cooking the books," Hudgins continued in the *Atlanta Journal-Constitution*, "Amtrak was asking and being urged by some members of Congress to abandon generally accepted accounting principles so it could shuffle money between operating and capital accounts to hide its dire financial situation. Amtrak also fakes its on-time numbers. It measures punctuality only at select stops and will build in lots of extra time before those stops so trains can make up for lost time."

Speaking of dishonesty, the current administration hypes "high-speed rail" as the newest nostrum. Amtrak tried this — and failed, naturally — with its Acela Express just five years ago. You would think even a President who can't remember a single campaign promise would recall that.

Meanwhile, what the *New York Times* calls "conservative" Republicans often talk of "privatizing" Amtrak, by which they mean that they want it to turn a profit, not that they want to get government out of the business of running a railroad, while Democrats lament Amtrak's "starvation budget," as Rep. Jerrold Nadler (D-N.Y.) put it. Nadler considers the budget, rather than the bureaucrats running



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Amtrak, to be the railroad's "basic problem."

The credulous *Times* also tells us that Amtrak was "created by Congress to be a for-profit private corporation." But the lifelong politicians who warm most congressional benches proved they have absolutely no idea how to pull off such a feat when they also "required" Amtrak "to provide a minimum level of intercity passenger service — even if that means maintaining unprofitable lines." Sen. Kay Bailey Hutchison (R-Texas) succinctly summarized Congress' criminal ignorance and bumbling when she announced in April 2005, "My motto for passenger rails is 'national or nothing.'"

"Nothing" certainly works for the Constitution.

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