Future Directions of Urban Public Transportation: Why Transit Is in Trouble

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All of us--whether we are elected officials, transit managers, transit analysts, academicians, suppliers, business professionals, or private citizens--benefit from a healthy public transit system. But there are several ominous factors troubling transit in this country. In fact, many forecasters are saying public transportation is in deep trouble. How do we know that transit is in trouble? Some raw facts are helpful in assessing the current situation.

MARKET SHARE

The 1980 Census shows that only 6.3 percent of American workers used transit to get to and from their jobs in 1980 compared with 8.9 percent in 1970. Of the 96.5 million employed U.S. citizens over the age of 15, nearly two-thirds (62.3 million people) commuted alone in private automobiles. Consider that during this period of time America was hit with the worst energy crisis in its history. It is not getting any better, either. From June 1981 to June 1982 U.S. transit ridership has dropped 6.85 percent.

Viewed from another perspective, about 22 million people use transit each day in this country. That is about the same number of daily riders as use transit in West Germany, which has only one-fourth the population of the United States.

OPERATIONAL EFFICIENCY

A key indicator of operational efficiency in the transit industry is cost per hour of operation. In 1979, cost per revenue hour for systems serving more than 1 million people was $29.24. In 1980 that figure rose to $38.26--a 31 percent increase--while inflation rose 13.5 percent during this time. To my knowledge, the industry has never in the last 10 years limited its increase in operational costs to the rate of inflation, much less bring its costs in below the rate of inflation. When examining operating expenses versus vehicle miles operated from 1971 to 1980, we can see that costs rose from $1.16/mile to $3.10/mile--an increase of 167 percent. The consumer price index during this same time period rose from 121.3 in 1971 to 246.9 in 1980, an increase of 103 percent.

PRODUCT PRICING

Is the customer willing to pay for the service or product provided by the transit industry? The answer is "tentatively no" if farebox revenue is an indication. In 1975 farebox revenue provided 49.5 percent of the total operating expenses. In 1980 farebox revenue dropped to 37.7 percent of the total operating expenses. Even with local operating assistance increasing during this time, the combined contribution from riders and local taxpayers declined from 68.1 percent of total operating expenses to 63.8 percent.

CAPITAL NEEDS

Since 1970 a significant infusion of dollars, about $18 billion in absolute dollars ($27 billion in constant 1981 dollars), has been spent to upgrade and expand transit (including equipment, bases, vehicles, park-and-ride lots, HOV lanes, underground tunnels, rail modernization, and new rail starts). But at least $55 billion more in absolute dollars ($35 billion in constant 1981 dollars) will be needed during the 1980s just to bring the existing transit infrastructure up to modern standards.

Perhaps an even more telling point is that we are not making the necessary annual maintenance expenditures to maintain and protect the capital investments we have made in the last 10 years. U.S. Department of Transportation data project that at least $4 billion should be spent on capital rehabilitation and replacement projects in 1983. Recent congressional appropriation committee action indicates that no more than $2.5 billion will in fact be spent. With this substantial expected shortfall, a growing maintenance problem will get worse.

IMAGE

Many of our customers--and potential customers as well--do not have a good impression of public transportation. According to our marketing studies, many people perceive that transit vehicles are hot, crowded, used by riders of low socioeconomic classes, and are generally unpleasant. Non-riders fear the complexity of the transit system and feel the constraint of meeting a bus schedule is the antithesis of personal freedom. In addition, the self-esteem of those of us who work in the transit industry is not what it should be.

CONTRIBUTING FACTORS

When reviewing the transit industry situation in terms of market share, efficiency, pricing, capital needs, and image, I think it is fair to conclude that the transit industry is in serious trouble. Many factors have contributed to this state of affairs.

Economic Conditions

The single most important factor affecting our ridership situation is employment. As unemployment rises in today's economic times, ridership drops. Unemployment rose from 7.7 percent in June 1981 to

9.8 percent the following year. During this period transit ridership dropped 6.85 percent.

Gasoline Prices

The real price of gasoline is probably the second most important factor affecting ridership. During the current energy glut the real price of gasoline at the pump has decreased significantly, and the energy supply has stabilized. For example, from May 1981 to May 1982, the real price of gasoline dropped 24 percent. Lower energy costs have encouraged more people to drive cars--and discouraged them from using transit.

Demographic Shifts

Suburbanization, the exodus of the American population from major metropolitan centers to small towns and rural areas, has had its impact on transit. These rural areas are difficult to serve with traditional public transportation. Longer trips serving more dispersed areas mean higher operating costs. Again, comparison with the European experience is helpful to understand what has happened in this country. Between 1950 and 1970, 3 out of every 100 people left the city and moved to the suburbs in West Germany. But in the United States, 11 out of every 100 people fled the city for suburbia. Also the type of suburbanization in West Germany is different from ours. When West Germans moved to the suburbs, they clustered in townhouses instead of widely scattered single-family dwellings. So these areas are much easier to serve with public transit.

America's Love Affair with the Automobile

For years the automobile has been the symbol of freedom, mobility, and status in this country. Just how dominant the automobile is in the United States is exemplified by contrasting the United States with West Germany. In 1969, 8 out of every 100 West Germans owned automobiles. That was equivalent to our ratio in 1921. Even in the late 1970s, only 29 out of every 100 West Germans owned automobiles. That is comparable with the mid-1950s in the United States.

Lack of Secure and Predictable Funding Source

Unstable funding sources from year to year is another problem troubling transit. In 1979, about half (37 of 83) of all transit systems with more than 100 vehicles depended on annual state and local general fund appropriations for 20 percent or more of their annual operating budgets. The lack of stable and predictable federal funding sources also makes intelligent planning a difficult chore.

Federal Government Action

Federal policies, such as the mortgage interest subsidy, and Federal Housing Administration and Veterans Administration programs stimulated new housing. Creation of the Highway Trust Fund and a network of roads supported a way of life centered on the automobile. The government, through gasoline subsidies, kept the price of gasoline at an artificially low level. Moreover, consumers could deduct state and federal gasoline taxes from their federal income taxes. Also, many federal regulations have added burdens to the operation of local transit agencies.

Insufficient Research and Development in Transit

In the United States only 28 cents/capita annually is spent on research and development. In West Germany, 71 cents/capita is spent on transit research and development annually--about 2.5 times more than this country contributes. That kind of research expenditure is stimulated when government policies and transit capital investments are coordinated to give equipment manufacturers some assurance of market potential in the wake of research and development expenditures. It is not by chance that many innovations in transit are occurring in countries other than the United States.

Poor Management and/or Union Recalcitrance

As the transit industry declined after the Second World War, unions sought job and work rule protection. Rights gained through collective bargaining were strengthened by the Urban Mass Transit Act, especially Section 13(c). Important productivity improvements, such as use of part-time operators, have been vigorously resisted by unions. By the same token, transit management has been less than energetic and imaginative in pursuing needed changes such as part-time drivers. And the list goes on and on.

WHAT IS IN STORE FOR THE FUTURE

Yes, transit is in trouble, and a lot of different factors have contributed to today's situation. However, I would like to pose what I believe to be an even more serious question, how does the transit industry avoid being in deeper trouble in the years ahead?

As bad as today's situation is, the transit industry may look back to the 1980s with envy. Consider that the country is going through its worst economic slump since the Great Depression in the 1920s and 1930s. Yet the transit industry has not died, folded up shop, or been decimated. No "going out of business" signs have been posted. This situation is in sharp contrast to many industries in today's economy. Business failures so far this year, with more than three months remaining, already total 17 502 (as of September 16, 1982)--the highest rate since 1933 when nearly 20 000 business failures were reported.

In short, we have found out that the transit industry is in large measure recession-proof. It suffers, but only marginally. Between 1981 and 1982, both ridership and farebox revenue declined because of unemployment and stabilized gasoline prices. Our market share is down, but we still capture 6.3 percent of the market. Transit obviously provides a product (service) that is needed by a significant portion of the buying public, as opposed to being wanted and therefore dropped when times get tough. Nevertheless, the threat of a continued slow market share erosion is real.

During this economic downturn, private business has two objectives. The first is to survive the downturn--make do during the current situation. The second objective is to position itself for an upturn in the economy so it can compete more effectively and gain a greater share of the market. Similarly, several steps by the U.S. transit industry are needed, in my opinion, to manage successfully in the 1980s.

First, we must sharpen our focus on the quality of the service we are providing. A recent Wall Street Journal article quoting Edward Jefferson, chairman of Du Pont Company, put it well. Everything is easier when the economy is bubbling along because "growth can help mask your mistakes," Jefferson says. But slower growth is less forgiving, he adds, because "you have simply got to focus on the basics, such as a competitive cost position. With a lower

rate of expansion for existing products, you have got to pay stronger attention to efficiency and cost reduction. And in a period of low growth, you have to redouble your focus on quality and service."

For the transit industry this means focusing on reliable, on-time performance; safe and clean service; easy-to-understand service; capacity properly matched with demand; courteous and professional operators--our daily ambassadors to the millions who use our product.

As a second step, we must redouble our efforts to expand our markets, to understand how they are changing, and, in short, to capture a greater market share. Jerry Jasinowski, chief economist for the National Association of Manufacturers, recently said:

> We're entering a period of shorter business cycles and lower long-term growth rates. Companies are going to have to think harder about how to beat the system. Inflation has bailed out a lot of companies in the past. That's no longer going to be possible. We're in a period of survival, requiring consolidation, cost reduction, and continued efforts to expand markets. The emphasis is going to be on expanding market share even more than increasing rates of return. Companies will assume that higher returns will follow market share.

Walker Lewis, president of Strategic Planning Associates, a Washington, D.C., consulting firm, added: "A marketing vision will be crucial in the 1980s. Companies must be aware of what they can do to satisfy their customers. This will require an understanding of the marketplace and of a company's special capabilities to make and exploit opportunities."

So, what the market is and how it is changing will be key to determining what services we should be providing.

A third step is the total reexamination of how we price our product. Also, we must rethink how we finance our major capital investments. People are willing to pay for a product if they are getting quality service. But in a changing marketplace, it will be important to make concomitant changes in our pricing structure. A more sophisticated pricing structure is required that recognizes differentiation in products and their values. Private industry invests a great deal in determining how to price its products. We need to do the same.

We have entered a new era of public finance in this country. All the rules of the past 30 years are out the window. In the past, the rule was "when in doubt, borrow." And why not, when we could do it for long terms at very favorable tax-exempt interest rates such as 4 and 6 percent? Inflation alone was increasing faster than that. Today we have just the opposite situation. Even tax-exempt interest rates are at all-time highs (10, 11, and 12 percent), while inflation is at 4, 6, and 8 percent levels. So, today's rule should be "when in doubt, pay as you go."

Inventive ways to deal with this new reality--such as sale-leaseback provisions of the 1981 tax act--are necessary to finance the capital investment required during the next 10 years.

Fourth, we must be prepared to invest: invest, not spend, in capital infrastructure, people, and research and development.

John Welch, chairman of General Electric Company, said that in the current decade, many companies "won't find growth" in their industries. Instead, he says, successful firms will have to "make growth happen--that's the only way out of a slow-growth environment."

In order to make it happen we are going to have to make significant capital investments now to position ourselves for a greater share of the market later--for example, acquiring the rights-of-way for HOV or exclusive lanes on our freeways or for underground tunnels in our major congested cities. Acting now will permit us to be more competitive as congestion increases in the years ahead on our highway and street network.

Bus maintenance bases take at least 5-6 years from initial planning to completion. Future additions to the fleet require bases to house and maintain them. Lead times require investments now.

Also, we need to increase our investment in people. Our industry needs more and better management talent. And, we need to invest much more in our employees. Lewis says that "there must also be increased attention to operations and a stronger effort to stress a corporation's cultural values in a way that instills employee loyalty and shared goals."

Finally, to make advances we must make long-term commitments to research programs, which will possibly be costly and risky. As Reginald Jones, former chairman of General Electric, has said, "If companies are to succeed in an era of slower growth, they have got to have people who are interested in something more than quarterly financial reports."

Transit is in trouble, but transit's trouble is of our own making. The blame extends to everyone who has a hand in mass transportation--transit managers, elected officials, transit analysts, academicians, suppliers, business professionals, and private citizens. But while the troubles are wide-spread, they are not deep. Transit is still surprisingly healthy, especially when compared with private industry. What we need now is a commitment from all concerned to look at transit as both a business and a service. We must take advantage of opportunities, act aggressively, and position ourselves for future growth and expansion. Transit will succeed because it fulfills a need--not for any other reason.