

## AMTRAK'S PERSPECTIVE

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After listening to yesterday's presentations, I changed most of my remarks. I want to address what I think is fundamental about this debate.

Why does this issue about Amtrak look so complex? Why does the matrix look so cluttered with options? I believe it is at its very heart an inability to focus on some contradictory decisions about Amtrak and its place in the United States. There is an assumption some place in this that Amtrak is a mode of transportation. But think about that, in the 1880s there would not have been a single doubt about passenger rail service being the predominant mode of transportation in the United States.

As late as the 1900s to 1930s, there still would not have been a single doubt that the predominant mode of transportation in the United States was rail passenger service. Built America. Moved America. Moved America from the farm to the cities. It moved vast migrations, families west. Ensured connectivity. It was a mode. Some place, it fell off the chart as a mode.

Transit. If you look at transit as a mode of transportation, which is generally accepted in the United States, it is diverse, it is big, it is little, it is small, it is urban, it is rural, it is bus, it is trolley, it is subway, it is commuter rail, and it is robust and it is growing. There is no doubt in the American public mind that transit is a mode of transportation, like highways, like aviation.

Amtrak shares a lot of those characteristics. It is as robust in its kinds of service, but that is perceived to be somehow a weakness rather than a strength. It is small, urban and rural, as eloquently pointed out by John Robert Smith. It is point-to-point city connections in places that do not think about having other access, like Minot, North Dakota to Havre, Montana.

It is high speed rail development coming to a Northeast Corridor city near you soon. It is medium distance, a rail hub, in markets like L.A.—San Diego, Chicago—St. Louis, Milwaukee—Chicago, Seattle—Portland. It is intermodal connections with intercity bus. It is a complex interrelationship potentially with air, as well as bus, in places like Newark Airport or other airports that are experiencing land side congestion.

Those are all characteristics of a mode of transportation, but the most predominant characteristic of this service as a mode of transportation is the intensity of the public debate. You do not have a public debate over,

say, United Parcel Service. Or, Burlington Northern. You do have an intense public debate over a mode of transportation.

I was meeting with a senator recently and he said, "I just cannot do anything with you all. Your political support is too strong." And I said that the last time I checked, this was a democracy, and a public debate was supposed to take place in the halls of the Congress about what I think is a mode of transportation.

A lack of focus on the fact that this is a mode of transportation does not bring any legitimacy to the public debate about the role of the mode of transportation. So it becomes kind of fuzzy—"it is not fair, you are generating political support, or people—you know, you have too many supporters in small urban and rural communities, or it is too important in the northeast." Those are all the characteristics of a mode of transportation.

The second characteristic, or the second fundamental misunderstanding, or as Daniel Patrick Moynihan titled a book about citizen participation in the 1960s, *The Maximum Feasible Misunderstanding*. The other element of the maximum feasible misunderstanding here is, we are a business. There are some inherent contradictions between being a mode of transportation and being a business.

You have an administration, this White House, who said in a letter from the Office of Management and Budget, that if Amtrak did not agree to be subsidy-free in the year 2002, the president would not request any funding for Amtrak.

Okay. The Congress picks up that quickly and says, yes! You are a business. You are going to be out of the subsidy business by 2002, regardless of what that means to the national transportation system or the impacts in places like Meridian or Vermont, or Montana, or Philadelphia. Just get out of the subsidy business because you are creeping socialism, and a waste of the public's money.

It is hard to talk about a future for this company, when both a Democratic President and a Republican Congress are unanimous in their agreement that Amtrak has to be out of operating subsidy by 2002. I would like to argue, but I have lost the forums to argue in. So we have been defined in the public marketplace as a business. Let me run through some quick characteristics that make us more businesslike.

We make capital investments, not by congressional district, but by rate of return. We neither have the luxury nor the capability of making investments by congressional district to cement our support as demonstrated by the loss of all rail service in Nevada, Wyoming, most of Idaho, half

of Oregon, and the threat of the loss of all rail service in Arkansas and Texas.

A friend of mine who works in government here in Washington said, you either get a "Profile in Courage Award," or the award for the stupidest decision of the year. I said, what was that? And he said, well, two months before the general election, you announced that you were abandoning all rail service in Texas and Arkansas. We do not make capital investments the way a government agency does, we make them like a business.

We try and develop new markets and new marketplaces. We leave old markets where growth has been stunted or is declining. We have a 20% service reduction in the last three years; that is more than almost any other single reduction in service in the history of the corporation, and we did it without the intense congressional debates that took place in the 1977-1978 time frame, where the issue about reduction of Amtrak routes ripped the Congress and the White House apart.

We are well on our way to developing the first active, live, operating high speed rail business in the United States on the Northeast Corridor with the start of high speed service in 1999-2000. We are in the process of developing an aggressive mail and express business ancillary to passenger rail service as a helper, because we have to find other ways, in acting like a business, to develop the income.

If we are a business, we participate in that business environment. We have now, almost by stealth, a privatized rolling-stock railroad. Amtrak owns hardly any of its rolling stock anymore. Instead, the owners include KfW, the German Export Bank; ING, the Dutch Leasing Bank; and the Export Development Corporation of Canada (EDC). As a matter of fact, we are the largest debtor to the EDC and if we went under, so would the Export Development Corporation of Canada.

Well, if you do not own much track and you do not own any rolling stock, you are getting pretty privatized. We are the largest contract commuter operator in the United States, and we may be the largest contract commuter operator in the world. It is a business we bid on and have to continue to bid on in places like L.A. and Boston and the San Francisco region. We think we have done a great job on cost and safety, but it is a business. It is a \$200 and some odd million a year business for Amtrak.

We have doubled our state contracts, and those are contracts that we have to live with, in terms of specific performance, but they are contracts. That is a business relationship.

Merchandizing. We are in the merchandizing business, we are selling our logos, we are trying to get into relationships with air partners, cruise line partners. Those are all business arrangements. We are contracting out food service. We have entered into some aggressive energy

contracts with ENRON about power distribution and power consumption. IBM runs our information systems. Those are all business decisions.

What I would suggest is, that the Congress created something almost by accident without fully understanding the import of it, and that we have not realized the benefit of it for a variety of reasons and we have become enmeshed in an ideological struggle. Congress created a public benefit corporation.

We are a stock corporation, incorporated within the District of Columbia. The stock is held by the U.S. Secretary of Transportation as the principle shareholder, but we do not have GSA, we do not have civil service, we do not have all of the contract provisions. We can bid business ventures. We can quickly enter into agreements.

We had a negotiation this spring with a wholly-owned subsidiary of Phil Anshutz, who recently sold the Southern Pacific to the Union Pacific, about the use of fiber optic conduit in the Northeast Corridor. The first question he asked is, am I going to put up with a lot of bureaucratic entanglements in this process or can we make a deal? Can we make a deal in the next 45 days?

The deal was for \$45 million, up-front, cash, for access to some older conduit in the corridor. If we had been a government agency, we could not have acted that way. We did sign the deal. We executed it. The board approved it. The money is now in the bank. That is being a government-held stock company. The public benefit company issue was raised for me with some of the discussion about British Rail and the role that capital played there. What is the federal role related to investment of capital in a public benefit corporation? Is it for infrastructure, is it for plant, is it for expansion? Is it to reduce subsidy?

I think there is a huge number of lessons to be learned about our future in looking critically at the British Rail experience, and almost none of that has been done.

As a public benefit corporation, it is easier for states in this kind of quasi-public environment to contract with us for service. It is also easier, if we get funding flexibility out of whatever comes in the ISTEA reauthorization, to have partnerships with states or regions as a public benefit corporation, not as a business.

We have as a public benefit corporation incremental right of access to freight railroad property, private property. A unique experiment, I think, in the world, and it is not fully understood what that has done to minimize costs for passenger rail service and getting all of those other social gains: environmental, growth, density, economic development, connectivity, rural access. It is unique in this system and without the public benefit corporation role, created by Congress, we could not get incremental right of access to that track system, 22,000 miles of it. We pay \$100

million a year for it. One railroad, the Burlington Northern Santa Fe, right now is spending about \$1.2 billion a year on track and structure upgrades, and they plan on doing that for the next five or six years. That is the effectiveness and efficiency of the private marketplace with privately owned infrastructure on the track side.

I think the benefit to the railroads about having us there, for instance, is that it helps diffuse, in part, the pressure for open access. If you think about railroad property, it is the same as an electric utilities property. Deregulation means open access for electric power distribution networks, privately owned.

The same conditions can be imposed on railroads about open access. Having passengers on freight railroads is a form of public access, literally, and it helps better define what the public role is and the private role is. That relationship would not be there if we were simply a business.

If we were a business, would we still be tax-exempt on property tax and sales tax? Consumption taxes? I think the polarized debate obscures some fundamentals about what has happened over the last 25 years here. This environment about Amtrak is full of ideological vehemence left and right. On one side, the attack on privatizing it completely, single-mindedness; on the other, single-minded expansion about the public benefit side of Amtrak.

Without the unique ability to have some data to inform this debate, we go from re-authorization to re-authorization, assumption to assumption, "we will give you some capital, in five years it goes away. Then you will have to make your full cost of capital." This railroad will never make its full cost of capital. Very few railroads in the freight business make their full cost of capital. This one will never and can never. I think the same will be shown by any passenger railroad in the United States.

This public benefit corporation structure reduced the operating subsidy for Amtrak, a rail passenger service, from \$1.2 billion a year to \$200 million a year. It streamlined services. It renewed equipment. It has, I think, helped revitalize interest in rail passenger service in the United States.

What are the comparative outcomes around the rest of the world? Our operating ratio for this railroad consistently is far more impressive than our international counterparts. I have seen figures of 20% operating ratio, 30% operating ratios on rail passenger services outside the United States. In FY96 we produced \$1.5 billion in revenues, giving Amtrak a 67% operating ratio. Should we be, in effect, looking at whether or not this model has produced a lot of success to date, looked at what the pluses and minuses were over this 25-year period, and how the gains were made, where they were not made, rather than trying to celebrate what is—and the way GAO and the

Congress is characterizing this now is—the imminent bankruptcy and failure of Amtrak.

It is because it is framed only as a business, it is failing as a business. My assumption here is that defining it as a business preordains its failure. The policy debate should center on facts, it is too emotionally loaded, it is not fact-loaded. States invest for a reason. Mail and express is a natural market for us, but it is running into even marketplace opposition with railroads. Be a business, except do not be a business. High speed. The doubt about whether or not the capital will actually return the investment.

I meet twice a year with Terry Ivany who is the President and CEO of Via Railroad in Canada. Scary how many of our problems are exactly alike; even the timing, the sequencing of the issues.

There is something in the economic marketplace forces, at least in North America, that is almost exactly identical in Canada and the U.S., so it is not unique to our relationship with Congress. It is not unique to the American economy. There is something here that has a lot of similarities. What are they? Why are those forces the same in Canada and the United States? I haven't got a clue. Nobody else does.

In Mexico, they look to the U.S. model on freight, a lot of the technical assistance that countries around the world are getting is coming from American freight railroads because they are successful. The first thing that the freights say is, kill off all of the rail passenger services as quickly as you can and get into the freight businesses because it is where you make money.

Without looking at the experience in the United States about what happened when you pushed passengers off of trains, you build a tremendous force for building highways. Pretty soon the highways fill up with doubles and triples, trucks eat the core freight business to death. Without looking at the American experience here, we are selling our model overseas and I think it is a lack, it is again, a fundamental lack of research about what has happened with Amtrak.

Why can't we look back on our positive experience? Why can't we look back on \$18 billion worth of national investment in intercity rail passenger service? I think it is again, if you are a business, there is not any research about business. If you are a public benefit corporation, and a mode of transportation, then there is a research agenda. There has not been one, I am stunned, after having worked in both the Federal Transit Administration and the Federal Highway Administration, about a lack of a research agenda. We are here at Transportation Research Board. What is it that has kept us from being a subject of hard policy research, hard economic analysis, hard looks at the resources? I believe it is because we are trapped in this issue

about being a business. And you do not do transportation research on a single business.

I look backwards and I see a National Cooperative Highway Research Program. I look at a \$125 million strategic highway research program. I look at a fully funded transit research program and I do not see a single thing that looks like a robust research program that looks at our role as a mode in the American transportation system. This is TRB, and I want to ask a couple of quick questions.

Why isn't there any research? Why aren't we compared to the rest of the world in terms of outcome, government role, business relationships? How did our progress occur? What type of mode is this? What is our rural role? What is real high speed economics and how do they work out, incremental versus giant leap? What is the business role? Mail and express and other businesses. What is the state role? What are the commuter operators' roles? Intercity bus? Regional rail systems with commuters? Air rail, land cruise, incremental cost to access impact, and the unique impact of this lesson on the rest of the world?

All of those are legitimate questions. My challenge would be, to the Federal Railroad Administration, to the Office of the Secretary, to our modal partners in the

railroad industry, to states, is to help in this process of defining some real facts about this business, not the emotion, not the I think, not the I feel, not the I want. But what are the facts here?

I have always had a saying about that, the facts won't set you free, but they sometimes help. Amtrak cannot wait. We know the survival of this mode of transportation is at risk now. The nightmare that pursues all of us, I think, is that another generation could easily look back and say, why did those dummies let it go? Didn't they know that you could not ever get it back? Didn't they see another generation would want and need this tool in national transportation? Didn't they know it was a mode of transportation?

If you are judged by another generation's reactions about your outcomes, it gives you a higher standard than simply survival, and it gets all the way back to the fundamental question; is it a mode of transportation? Is it a business? Or is it a public benefit corporation that is a mix of both, that is not illegitimate, and may have been, by accident, a powerful model, but nobody can prove it, nobody is addressing it, and at heart, it is a failure of rational research, and it has to be addressed.