



Amtrak and the Michigan State Budget

By Michael Farren

Summary

Recent federal legislation has shifted a larger burden for subsidizing Amtrak onto Michigan taxpayers. It is projected that the average subsidy will be almost \$100 per roundtrip passenger this fiscal year. The irony is that the majority of these funds come from motorists' fuel and vehicle registration taxes.

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The Passenger Rail Investment and Improvement Act of 2008 ended the federal government's financial support of many passenger rail routes. The federal subsidy for the operational costs for the Wolverine passenger rail service running from Pontiac-Detroit-Chicago, for example, has ended. The Michigan Legislature included an extra \$19.3 million in the budget for the 2013-2014 fiscal year to replace the lost federal funds. This sum represents a tripling of the state subsidy required to cover Amtrak's operating costs compared to the previous year.

Two other Amtrak lines, the International/Blue Water (Port Hudson-Chicago) and Pere Marquette (Grand Rapids-Chicago), have been running on Michigan taxpayer money since their inception in 1974 and 1984, respectively. Their combined operating costs, not including routine track maintenance, rose from \$1.0 million in 1994 to \$8.7 million in 2012. Now that Michigan must also subsidize the Wolverine, the impact on the state budget is substantially larger. The total state budget for operational costs, capital investments and routine track maintenance in fiscal 2014 is \$40.6 million. Assuming a 3 percent increase in total ridership (which is same growth in total ridership last year), taxpayers will provide \$98.11 per roundtrip passenger in fiscal 2014. A lower bound estimate, using only the budgeted operating costs, results in an expected subsidy of \$49.51 per roundtrip this year.



Under what circumstances should taxpayers subsidize passenger rail services? Economists tend to favor subsidies only when the benefits of a service cannot be restricted to those who pay — that is, when the service has what economists describe as “public good” characteristics. Classic public goods are clean air and the defense of a country. The benefits of both cannot be easily restricted to those who pay a fee to a private provider of such services, and thus any company that tried to provide clean air or defense would raise insufficient revenue to cover the costs of providing those services.

But passenger rail service is not a genuine public good like defense and clean air and thus does not have to be provided by government. It is a private good that happens to receive taxpayer support. In fact, up until 1970 and the bankruptcy of the Penn Central railroad, passenger railroad service was not subsidized by taxpayers. In other words, only those who benefited from passenger rail directly were required to pay for it.

For this reason, passenger rail subsidies, like the ones Michigan taxpayers are forking over this year, should be discontinued. The same logic applies

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to subsidies for any mode of transportation, because none are genuine public goods. Ending these subsidies would not harm transportation in Michigan or the United States — it would simply mean that travelers will pay the full price of their chosen method of transportation, without having to subsidize someone else's preferred choice of travel.

Two common arguments made for subsidizing passenger rail despite it not being a public good are that it reduces highway congestion and is more environmentally friendly. However, in 2007 a federal transportation study found that inter-city bus transportation was nearly three times more energy efficient per passenger-mile than passenger rail. Additionally, the congestion increase of switching from rail to bus would be negligible; Michigan's three Amtrak lines carried around 700 roundtrip passengers per day in 2013, which could have been replaced by fewer than 15 inter-city buses.

Michigan subsidizes Amtrak by diverting revenues raised through fuel taxes and vehicle registration fees, which historically were meant to pay for public highways by the motorists who use them. In an economically efficient and sustainable system, the funds supporting one method of transportation would not be taken away and provided to another. The people and policymakers of Michigan should ask themselves whether it is a good idea to continue forward with a transportation system that is distorted in these ways.

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Michigan taxpayers will provide a \$98.11 subsidy per roundtrip passenger in fiscal 2014.

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