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Rail just another 'investment' that won't pay

by Cliff Slater

To understand how we are destroying Hawaii's wealth it helps to understand the wealth creation and destruction process as it relates to infrastructure.

Example: A private group in Oregon announced this week that it is to build a $12-mile $400 million tollway south of Portland under the state's public-private partnership laws.[1] They plan to charge tolls sufficient to pay off, over time, its entire construction, financing and operating costs and also return a profit after taxes sufficient to compensate the group for the risks involved.

To achieve this, tollway users will have valued paying the tolls as preferable to the time and money costs incurred in taking the alternate route. If they do so, the private group will have created something that is valued at being worth more than the sum of all its costs.

The builders will have added not only to their own net worth, but also the nation's because its net worth is, for the most part, the aggregate net worth of its citizenry.

For our example it is not really necessary for it to be a tollway; it could be a bridge paid for with taxes. While tolls make the calculation easier, we can easily assess who would use the bridge and how much bridge users would value its use. This will tell us what the bridge is worth.

In the late 1800s, with advent of electricity generating plants, streetcar lines were laid out in virtually every city in the U.S. within about ten years. Passengers were willing to pay the fares necessary to pay off over time all the costs involved and leave enough for profit and taxes. Because of that the streetcar companies became valuable private properties and added to the nation's net worth.

Generally, by the 1930s, streetcar users were no longer willing to pay fares sufficient to pay off the replacement costs for rails and trains since the capital costs for new motor buses were less expensive than streetcars. Accordingly, over the subsequent 30 years, the private streetcar companies all over the nation began removing rails and overhead electrical wiring, and replacing them with buses. By 1960 the process was almost complete.[2]

Since that time local governments have taken over urban transit systems: Consider what happens today when government plans to build and operate a new passenger train system (it does not matter if it is light rail, heavy rail, commuter rail or high-speed rail).

We know from experience that train users these days will not pay fares sufficient to pay off its construction costs. In fact, we know that not only will fare revenues not pay off construction costs; they will not even cover operating costs. According to a recent Federal Reserve Bank study, "fares cover on average about 25 percent to 30 percent of operating expenses, with local, state and federal subsidies covering the remainder."[3]

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1 http://www.tollroadsnews.com/node/4694
2 http://www.cliffslater.com//TQOrigin_all.pdf
3 http://www.stlouisfed.org/publications/br/articles/?id=608

The bald fact is that our citizenry will not pay fares that cover what it costs to operate a train — any kind of train. Thus, today a passenger train has no value; since it loses money no one is willing to purchase and operate it without guarantees of subsidies.

Essentially, in building a rail project the government uses billions of our tax dollars and renders them worthless. Worse yet, it also encumbers taxpayers with operating subsidies stretching far into the future. In the name of progress, our government will have subtracted a considerable sum from our nation's net worth.

And we continue to do this all over the U.S. — including Hawai'i. We build convention centers, sports stadiums, and, of course, rail lines, none of which ever come close to paying for themselves, which is to say, no one will pay for their use sufficient to allow them to operate without subsidies.

Attempts are made to treat them as an "investments." For example, rail transit proponents say the side benefits of reducing traffic congestion, helping lower income people travel, and providing jobs, all make the project a sound investment. However, such benefits have trivial effects compared to the construction costs and operating losses of these projects.

It is instructive to contrast this waste with what prevailed from our nation's beginning until the Great Depression. In those days if it was not thought to pay, it did not get built.

One did not build anything knowing that the final product would be worth less than the money spent on its construction. Today we build the convention centers, sports stadiums, rail transit, and now high-speed rail knowing that they will be worthless on completion — and we call it an "investment."

Welcome to the new progressive era.