GETTING WHAT YOU PAY FOR: THE POLITICS OF PUBLIC INVESTMENT IN AMTRAK AND VIA RAIL CANADA

Anthony PERL
C. A. Ashley Fellow
Trinity College, University of Toronto
Toronto - Canada

THE PARADOX OF PASSENGER TRAIN FINANCE IN NORTH AMERICA

Over the past two decades, both Canadian and American governments have spent public funds to keep unprofitable passenger trains running. When Canada and the U.S. began subsidizing passenger trains, the prospects for reversing their economic decline appeared bleak. Railroads were experiencing declining ridership and operating costs that rose faster than revenues. Increasing travel by airplane and automobile appeared to confirm the passenger train's obsolescence. But twenty years later, the competitive position of Canadian and American rail passenger operations has diverged markedly. In the U.S., Amtrak has undergone an economic transformation that repositioned the passenger train to compete for an expanding segment of intercity passenger travel. The productivity, marketability, and commercial performance of American passenger trains have all increased dramatically. During the same time period, VIA Rail Canada has experienced a decline in productivity and performance, compared to either Amtrak or to road and air services in Canada.

This paper seeks to explain the apparent paradox in North American passenger train finance. Why did Canada, the nation that first started subsidizing passenger trains, prove unsuccessful in arresting their commercial decline, while the United States, where free enterprise economic philosophy leaves little room for government led industrial revitalization, succeed in turning Amtrak into a dynamic commercial enterprise? A simple answer is suggested in the paper's title. Both nations got what they paid for. Operating subsidies bought time, but little economic renewal. In Amtrak's case, significant capital investment in new equipment and infrastructure made it possible for management to reposition the entire industry. In Canada, preservation became an end in itself. VIA lacked both a mandate and the necessary resources to replace outmoded equipment and infrastracture. As air and road travel continued to expand and improve, the passenger train was left further and further behind.

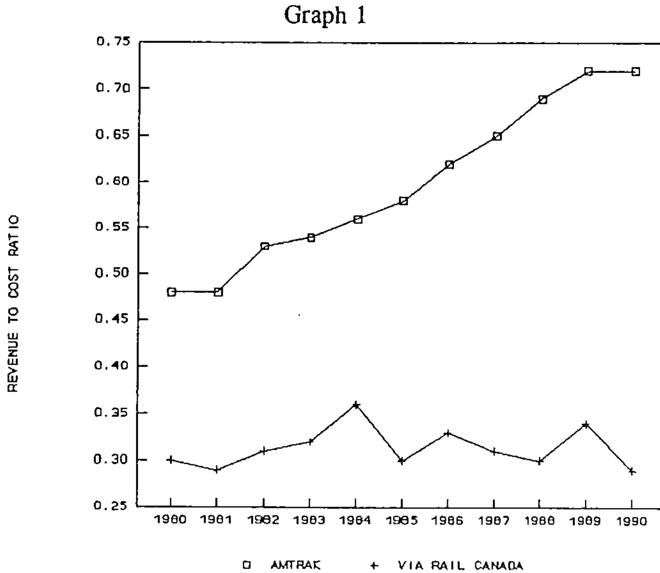
If the nature of public investment proved decisive to changing the competitive position of passenger trains in the U.S., one must then explain why Canada pursued a divergent path. In particular, why did the U.S. experience, evident for some years in Amtrak's performance, not influence Canadian fiscal policy? Why did the Mulroney government, which as late as 1986 favoured spending more on VIA, not simply develop a capital investment program analagous to Amtrak's? In exploring these questions, it will become apparent that the different structure of Canada's government, in both democratic and bureaucratic institutions, created a political barrier to adapting economic lessons from the U.S. While the economics of passenger trains proved consistent across the Canada - U.S. border, it is the differing politics of the two nations that has sent their rail passenger industry down divergent tracks.

1. THE GROWING PERFORMANCE GAP BETWEEN AMTRAK AND VIA

Since 1984, Amtrak has experienced steadily improving commercial performance, following directly from the implementation of a multi-billion dollar capital investment program. The economic impact of the capital investments, detailed in section 3.1, is captured in Amtrak's revenue to cost ratio. This relationship between earned revenue, excluding subsidies, and operating expenses, excluding depreciation and amortization, describes a firm's immediate commercial performance. The revenue to cost ratios of Amtrak and VIA Rail Canada are presented in Graph 1.

Amtrak's dramatic rise in cost recovery, from just 48 cents for each (U.S.) dollar spent in 1984 to 72 cents in 1989, occurred when upgraded infrastructure and modern rolling stock came into service. During the same years, VIA Rail's cost recovery hit a peak of 36 cents on the (Canadian) dollar, and stagnated in the low 30 cent range. Following elimination of more than half of its operations on January 15, 1990, VIA's commercial results worsened, dropping to their lowest point since 1981.

Graph 1



Source: Amtrak and VIA Rail Canada Annual Reports [1]

When the decade-long results presented in Graph 1 are compared, it becomes apparent that the economic potential of passenger trains in North America is dependent on inputs that were available to Amtrak but not to VIA. To determine how differing policy patterns emerged, it is necessary to look back into both nations' regulatory experience during the years preceding public enterprise.

2. REGULATION AND THE PASSENGER TRAIN PROBLEM

Both Canada and the U.S. had regulatory mechanisms in operation when their railroad industries began to experience passenger losses. The regulators who considered railroads' increasing economic adversity were ill equipped to facilitate industrial innovation. Regulation had been established to assert the public interest against the monopoly power of the railroad industry. As other public agencies began investing in air and road infrastructure that would break the railroads' monopoly, regulators proved incapable of absorbing government's new role in the transport sector.

While railroad executives and regulators continued to behave as if the industry remained a natural monopoly, U.S. and Canadian governments undertook enormous new fiscal and administrative responsibilities for promoting road and air transport. These ranged from spending hundreds of billions of tax dollars on new infrastructure to creating vast new air and road transport bureaucracies.

Under the onslaught of the newer transport modes, the passenger train became the first casualty of postwar transport competition. American and Canadian regulators responded to the passenger problem by distributing the cost of uneconomic passenger trains in very different ways, which in turn fostered different political dynamics surrounding each nation's search for a solution to passenger deficits.

2.1 U.S. Regulation Attempts to Concentrate the Costs of the Passenger Train Deficit

American railroad executives were quick to insist that the expense of maintaining passenger trains be removed from their costs of doing business. Since passenger travel proved far more elastic to road and air substitution, the passenger deficit initially appeared to be an anomaly in an otherwise healthy industry. Management portrayed passenger losses as a blight that must be excised before the infection spread to profitable freight business.

Leery of pursuing closer ties with government, as their air and road competitors had, railroads devoted their political energies to pressing for expedited abandonment of unprofitable passenger services. The U.S. Congress responded by removing passenger trains from state governments' regulatory jurisdiction and placing them under the authority of the Interstate Commerce Commission (ICC). The Transportation Act of 1958 instructed the ICC to weigh the "public convenience and necessity" of passenger train service against the possibility that sustained losses would form an "undue burden on interstate commerce."

In the same year that it gained jurisdiction over the passenger train the ICC released a staff report that accepted the rail industry's narrow premises and pessimistic projections about passenger service.[2] Evidence of declining ridership and revenues was attributed to an inexorable shift in consumer demand. The passenger train's inferiority relative to air and road competition was viewed as inherent, leading the ICC's analysts to predict that all intercity passenger trains would end by 1970.

The Commission responded to the study's grim projections by insisting that passenger trains must stand or fall based on their own earning power. The alternative, in which losses would be met by a cross-subsidy from other railroad revenues, was rejected. In its deliberations, the ICC placed the burden of proof on the advocates of retaining passenger trains to show that losses alleged by railroad were either inaccurate or reversible. Absent such evidence, the Commission granted abandonment. Between 1958 and 1971, American railroads abandoned 75% of their passenger mileage compared to a

base of operations in 1939.[3]

2.2 From Cross-Subsidy to Public Funding: Canada's Regulatory Redistribution of the Passenger Train Deficit

Canadian railroads have been more accustomed than their U.S. counterparts to addressing industrial development in concert with government. Whereas government intervention in the U.S. rail industry had promoted competition, through land grants open to firms on equal terms and a regulatory bias against merger and consolidation, Canada's input into rail development tended in the opposite direction. Since 1917, when government nationalized three large insolvent railroads, justifying their consolidation on the grounds of efficiency, Canadian regulation emphasized stability over competition. With the establishment of Canadian National Railways (CNR) as a publicly owned counterweight to the Canadian Pacific Railway (CPR), just two carriers have dominated Canada's railroad industry. Each company was thus well positioned to negotiate with government policy makers and with its counterpart. A rail transport "duopoly" disposed Canadian railroads to coordination and cooperation rather than intra-modal competition.[4]

Because Canada's road and air infrastructure development lagged behind that of the U.S., the CNR and CPR were under less immediate economic pressure from competition. In the 1950s and early 60s, both firms could subsidize passenger costs from freight revenues because truck transportation had not yet reached a point where rail freight rate increases would simply spur substitution. Canadian regulatory tradition was also open to using railroad rates as an instrument of economic redistribution. Since the 1880s, regulators had permitted regional variation in rail rates in an effort to achieve national economic objectives, such as stimulating domestic manufacturing in Ontario and Quebec, or improving the export potential of Western agriculture.

Railroad dominance in freight transport and regulatory support were necessary conditions for cross-subsidy to fund passenger train preservation in Canada, but they were not sufficient. CNR, and to a lesser extent CPR, operated with an economic philospohy that allowed for non-profit activities seen to serve the public interest. As a Crown Corporation and Canada's largest railroad, CNR exercised leadership in the initial phase of passenger train preservation. Part of CNR's tolerance for services that cost more than they earned can be explained by the corporation's mandate to pursue public service in addition to profit. In addition, CNR's corporate structure contained a mix of commercial and bureaucratic characteristics.

Some scholars of public bureaucracies have argued that the inability to appropriate any earned surplus drives their leaders to maximize total budget size rather than net profits.[5] Others suggest that constraints on allocating the factors of production (e.g., labour and capital) and in revising goals and objectives, encourage executives to focus on the "top line" (i.e., limitations on performance) much more than the "bottom line" (i.e., profit).[6] To the extent that CNR's executives were driven by these bureaucratic, as opposed to "free market", motivations it is understandable that corporate policy favored conserving the employment, facilities, and above all political support associated with passenger operations rather than facilitating their disappearance. Although CPR placed its emphasis on profit maximization, it accepted CNR's initiative in searching out a cross-subsidy mechanism as long as the duopoly over intercity transport allowed the burden to be shared on equal terms.

Canada thus applied the principle of cross-subsidy to preserving passenger trains by consensus among regulators and railroad executives. But when passenger losses and

freight competition both grew beyond levels that would permit a subtle distribution of the costs, Parliament was called upon to address the shortfall. By the mid 1960s, the gap between the existing level of passenger service and that which could be sustained without a public subsidy was considerable. On the eve of Canada's Centennial, amid renewed attention to railroads as a symbol of nation building, no government would have opted to cut passenger trains if public funds were available. At this stage in Canada's fiscal history, such resources were plentiful.

In 1967, government passed legislation that formalized the preservation policy by backing it with direct public funding. A new National Transportation Act explicitly sanctioned the public service and non-market criteria that had been embodied by the CNR's cross-subsidy of passenger deficits. Under the new law, the Canadian Transportation Commission (CTC) was empowered to authorize public funding of 80% of the cost of passenger trains whose continued operation it deemed to be in the public interest. While Canadian railroads were required to make an application for discontinuance to initiate the subsidy evaluation, the CTC's examination used very different criteria from the ICC. Instead of associating the public interest with any gains the railroad industry would achieve by withdrawing service, the object was to minimize losses in communities and other segments of society. As a result, by 1973, only 11 of 70 discontinuance requests were denied public subsidy.

2.3 Regulation and Differential Political Mobilization

Had both countries maintained their initial responses to rail passenger decline, the disparity between Canadian and U.S. passenger train operations would be exactly the opposite of what it is today. The American rejection of subsidy would have moved the passenger train off to the transport museum as the ICC's report recommended, while Canada would not have recently cut its rail passenger network in half. The forces responsible for reversing both nations' rail passenger finance can be found in the different political dynamics engendered by each nation's adjustment processes.

2.3.1 The American Concentration of Costs and Benefits Produces Political Mobilization

Observers of regulatory politics have noted that policies which work to concentrate the costs and benefits of industrial production are likely to engender adversarial political behaviour.[7] In situations where the gains of one party are seen to come at the expense of another, all affected interests will gain an incentive to organize and press their advantage over others. By the mid 1960s, the ICC's adjudication of passenger train discontinuance had stimulated an adversarial political dynamic by concentrating burdens on consumers and organized labour in order to provide economic gains to railroad corporations. The process by which this occurred, replete with public notification, open hearings, and administrative and legal appeals, created an ideal climate for drawing rail passenger advocates together in coalition.

As the ICC's criteria became clear, groups that bore the cost of railroads' exit from passenger operations had every incentive to seek redress beyond the regulatory process. The receptivity of the U.S. Congress encouraged rail passenger proponents to seek legislation that would revise the ICC's terms of reference. Senators and Representatives depended on regional and constituency based political support that gave an advantage to passenger train advocates in ways the ICC hearings had not. As bills to subsidize, nationalize, or simply freeze the remaining passenger trains worked their way through Congress, it became clear that pro-passenger interests had succeeded in raising the cost of abandoning the remaining intercity passenger trains to a point that encouraged

political compromise.

The apprehension that Congress might act unilaterally and ignore these concerns motivated the railroads and the Nixon administration to participate in designing a public enterprise. Amtrak, America's putative public passenger train operator, satisfied industry demands for exit from the passenger business by superceding railroads' outstanding regulatory obligations. Even if Amtrak were to go out of business in the future, railroads that turned trains over to the new corporation would have no further financial obligation. For its part, the White House insisted that Amtrak's legislation include a "for profit" mandate to limit its future claims on the treasury. Accommodating both the Administration's opposition to subsidy and passenger train proponents' insistence that Amtrak take up where the private railroads' obligations left off was possible only by assuming passenger trains could *somehow* become commercially viable. As a result, the premise that innovation could once again make passenger trains competitive was incorporated into the heart of the rail industry's passenger divestment.

2.3.2 Canada's Diffusion of Costs and Benefits Promotes Political Quiescence

In Canada, the diffusion of the passenger train's costs and benefits through cross-subsidy and public finance worked to dampen political interest in, and mobilization around, the issue. Regulators, corporate executives, and government ministers had reached accord on subsidizing passenger losses at the expense of freight shippers and the general public. As long as freight competition was scarce, and tax revenues plentiful, neither shippers nor the public could identify the cost. By picking up the tab before society noted the price, Canada's government smoothed away potential disputes over how to pay for passenger trains.

Government's largesse confirmed Parliament as the principal arbiter of the passenger train's future. The electoral uncertainty created by minority governments in the early 1970s discouraged further experimentation with rail policy. But as public investment in air and road infrastructure continued to grow, CNR and CPR faced competition for freight traffic approaching that experienced by U.S. railroads. Under the increased economic challenge, Canada's railroads could not ignore the handicap that a 20% passenger cross-subsidy imposed on their freight business.

A new generation of managers who took charge of the CNR in the early 70s acted decisively to shed the passenger burden, along with other uneconomic services. CNR's 1976 annual report made the new economic philosophy explicit:

> There may be a feeling that a Crown Corporation like CN should be concerned with social responsibilities rather than profits. It would, however, be socially irresponsible for CN to provide services without any concern for their economic viability. It should not be up to the management of CN to decide on subsidy programs to assist certain regions, commodities, or loss-making services; such decisions should be in the hands of Parliament. CN should be able to concentrate on operating its services efficiently, receiving full compensation for any function performed as a public service and with incentives towards efficient and economical operation built into the system. 8

The CPR was only too happy to concur with the end of cross-subsidies and to transfer the remainder of passenger costs to the public treasury.

In 1977, VIA Rail Canada was incorporated by the federal cabinet to permit just such a reorganization. Unlike Amtrak, VIA was created without any legislative act. Its

mandate remained implicit, to operate Canada's passenger trains subject to the fiscal resources made available by government. No further objectives were provided because government felt no pressure to commit itself to specific goals for the new public enterprise. The input of consumers, unions, and communities most affected by passenger trains was not forthcoming because these beneficiaries correctly perceived no change in the preservation policy in effect since the 1950s. But while government was willing to sustain this policy in the short term, VIA's future was left intentionally unclear. With experts convinced that passenger trains were uncompetitive, government chose to leave itself the maximum discretion in allocating future subsidies.

3. PUBLIC ENTERPRISE AND THE POTENTIAL FOR INDUSTRIAL REVITALIZATION

Amtrak and VIA both began operation as highly ambiguous public enterprises. Faced with tough choices on how to proceed in rail passenger policy, the Canadian government carefully guarded its autonomy in deciding VIA's fate, while U.S. interests that had fought to shape Amtrak continued their political conflicts in the open.

3.1 Transforming Amtrak's Subsidy From a Stopgap Into a Growth Factor

When Amtrak began operations on May 1, 1971, Congress and the President parted company on its future. Deadlock emerged because these two branches of American national government assessed the cost and benefit of passenger train service in substantially different terms. Labour unions, consumer advocates, and like minded "do gooders" loomed large in the constituency of each Senator and Representative, yet they could easily be ignored by the White House.

The resulting asymmetry in Amtrak's political environment made it impossible for the nascent public enterprise to secure adequate resources. The White House and the Department of Transportation viewed Amtrak as an illegitimate offspring of Congressional pork barreling and were strongly opposed to committing funds to either operations or capital investment. As its $40 million start up grant ran out, Amtrak's only claim to permanency became its political support in Congress.

Primacy in budget making allowed legislators to shelter Amtrak from fiscal oblivion. Spurred by interest group advocacy, the transportation and appropriations committees in both houses never implemented the requests to cut back Amtrak's funding put forward by every administration from Nixon to Bush. In these early years, Amtrak was caught in fiscal limbo. Charged with a task well beyond its resources, the corporation could do little more than preserve an increasingly uncompetitive transport operation. With Congress able to pass operating subsidies and the White House able to block capital investment, there was little room for Amtrak to maneuver. This stalemate was broken fortuitously, by a further consequence of the rail industry's decline.

In 1976, the Consolidated Rail Corporation, or Conrail, was established to transform the wreckage of six bankrupt Northeast railroads into a government corporation with a mandate to provide profit making freight service. After the Penn Central Railroad, Conrail's principal component, became the largest U.S. corporation to enter bankruptcy in 1970, the Northeast's rail infrastructure was increasingly threatened. Unlike passenger trains, Penn Central's freight services were crucial to major industral shippers throughout the Northeast and Midwest. The "Big Three" auto makers claimed that they would have to shut down assembly lines if Penn Central ceased operation. With a broad industrial constituency, Conrail gained the executive branch support that Amtrak lacked. When the

two railroads' economic future converged on the issue of rail infrastructure, Conrail broke the deadlock that had stymied capital investment in passenger trains.

A significant part of Penn Central's crippling losses resulted from its ownership of the trackage between Washington, New York, and Boston known as the Northeast Corridor (NEC). Despite the fact that passenger trains necessitated the bulk of the NEC's expensive upkeep, Penn Central had been incapable of recovering adequate costs from commuter train operating agencies and Amtrak. The eight northeastern states that subsidized a dozen different commuter rail operations made it clear to Congress that they would not tolerate downloading the burden of a largely dilapidated infrastructure onto their budgets.

The Ford administration, already uncomfortable with the risk of a high stakes government intervention in the Northeast railroad crisis, was highly motivated to consider steps that would improve Conrail's economic odds. Severing the NEC's cost burden from Conrail was one such move. Because of jurisdictional overlap, the same Congressional committees that could make or break Conrail's economic prospects were also responsible for Amtrak. For the first time, key legislators were in a position to trade the Administration something that justified supporting capital investment in passenger trains.

Turning the Northeast Corridor over to Amtrak solved two problems simultaneously. Not only could Conrail begin to revitalize Northeast freight service with a clean fiscal slate, but Amtrak could also obtain resources its advocates insisted could lead to greater efficiency. For the first time in decades, true industrial revitalization, rather than disinvestment or preservation, was the motivating force behind rail passenger policy. Congress and the Administration agreed to an ambitious program of infrastructure enhancement. $2.5 billion was authorized to rebuild the NEC into a high speed railway with new tracks, signalling, re-electrification and other structural improvements.

The benefits of this commitment to infrastructure modernization extended far beyond the Northeast. Congressional log-rolling facilitated a parallel finance of modern bi-level passenger cars, known as Superliners, and locomotives to re-equip trains in the Midwest and West. Making a considerable public investment in the passenger train's future also allowed Amtrak to gain significant productivity improvements from the rail industry and unionized labour. When obsolescence was the conventional wisdom, it was perfectly rational for both rail labour and the contracting railroads to maximize their immediate gains even if such actions were to hasten Amtrak's decline. The Northeast Corridor and Superliners provided tangible evidence that Amtrak could be counted on to stay in business. If the passenger train's decline was indeed reversible, all parties involved could gain by negotiating productivity improvements whose benefits could be shared.

3.2 No Mandate, No Mobilization, No Modernization: VIA's Predicament

While new capital investments pointed Amtrak toward commercial success, VIA was unable to secure the resources that could have achieved similar results. Instead, VIA's economic stagnation worked to erode political support for passenger trains in Canada. The train's competitive disadvantage grew both relatively, as new roads and airports came into service, and absolutely, as equipment and locomotives built in the 1950s reached the end of their service life. During these critical years, VIA lacked the autonomy to develop a mandate. Instead, the corporation relied on *ad hoc* cues from government, passed along through public appropriations and executive staffing.

Lacking a mandate, a highly mobilized constituency, or an institutional niche by

which some part of Canadian government took an interest in its success, VIA operated primarily as a conduit for passing subsidies on to CNR and CPR. One study in the mid 80s found "... the creation of VIA Rail gave responsibility to an organization for providing rail passenger service without corresponding authority to control the largest components of both costs and revenues."[9] Aside from supervising on-board service, reservations, and ticketing, VIA paid others to deliver its product. CNR and CPR charged VIA not only the directly avoidable cost of operating passenger trains, but also a sizeable amount for overlapping administrative functions.

The passage of time simply put a greater gap, both fiscal and commercial, between where VIA was and where the passenger train needed to be as a competitive mode of transport. When government's fiscal priorities began to shift from regional or sectoral development to deficit reduction, it was hardly surprising that the Treasury Board and the Ministries of Finance and Transport responded to the political void surrounding VIA by proposing cutbacks. Like its U.S. counterparts, Canada's bureaucracy saw public enterprise efforts to preserve passenger trains as a waste of resources. In 1981, Liberal Transport Minister Jean-Luc Pepin abandoned preservation and cut VIA's services by 40%.

When the Liberals were defeated in 1984, VIA gained its most promising opportunity for a commercial mandate. For the first time since the 50s, an elected government could blame its opponents for past mistakes and break with an entire cycle of policy development. All that remained between VIA and a clear commitment to redevelop the passenger train was a means of implementation. Two very different initiatives were undertaken to generate a new mandate for VIA. As they progressed, both attempts to replace ambiguity with a clear set of objectives were resisted and ultimately suppressed.

At first, the new government appeared to endorse reform. When it increased VIA's budget to allow the restoration of services cut back under the Liberals, a "Rail Passenger Action Force" was created to provide a blueprint for VIA's economic renewal. The group noted Amtrak's improving performance, already emerging in 1985, and explored means of achieving similar results in Canada. The Action Force recommended that administrative reform, new capital investment, and new managerial talent were all needed to put VIA on track to commercial success. It urged that modern equipment be selected on its merits, rather than by which political constituency benefitted most from its construction. Unproductive practices by the CNR and CPR, as well as rail labour, were also targeted. In sum, virtually every constituency in the transport community was apportioned a share of blame for VIA's stagnation.[10]

As a result, each of Canada's bureaucracies and corporations concerned with transport declared war on the Action Force and pressed the government to disband the group before its findings were released. CNR, CPR, equipment builders, bus companies, the Ministries of Finance, Transport, and the Treasury Board united to sidetrack the Action Force. Advocates of an entrepreneurial rail passenger policy lacked both the formal independence of a Royal Commission and a political base within society from which to resist the assault. Under concerted pressure from all sides, government abandoned its effort to make VIA viable.

Following the Action Force's demise, VIA Rail attempted to advocate renewal from within. Its chief executive officer, Denis DeBelleval, broke with his predecessors' tradition of administrative anonymity. DeBelleval advocated concentrating public investment on a high technology, high speed, rail link between Montreal, Ottawa, and Toronto. This service would become the competitive core of a dynamic public enterprise.

An experienced public sector manager, DeBelleval realized that government's

determination to get Canada's deficit under control meant that time had run out for the preservation option. Instead of waiting for the axe to fall, he sought to redistribute resources within the corporation based upon commercial, rather than political, priorities. Savings from cutting back transcontinental trains were to be used for capital investment in Quebec and Ontario.

DeBelleval's principal miscalculation was to believe that the government would allow him to fully orchestrate a case for revitalizing VIA in which electoral dissatisfaction in the areas that lost service was coupled with ongoing bureaucratic and corporate hostility. Even if VIA's new strategy worked, its economic gains would come at the expense of air and bus companies, while its managerial autonomy offended rival Ministries. Before the study could be completed, Cabinet slashed VIA's budget from $641 million in 1989 to $250 million in 1994 and fired DeBelleval.[11]

In radically cutting VIA's budget, the Conservative government abandoned the preservation policy that it had implemented by default. Given an unwillingness to overcome obstacles to expanding VIA's autonomy and productivity, coupled with a growing dedication to fiscal austerity, there was no alternative to pointing VIA toward the minimal level of operations that would be politically feasible. To help pare VIA down to size, the Conservatives appointed Ronald Lawless as president. Lawless also remained president and chief executive officer of CNR. The potential for conflict of interest in heading these two Crown Corporations, one of which is a significant customer of the other, was outweighed for the government by Lawless' talents as a cost cutter.[12]

After a major bloodletting, VIA's corporate performance now appears more anemic than ever. But the evidence that even a minimalist preservation strategy is unlikely to shelter the passenger train from its competitive disadvantages appears to be of little use in reforming Canada's rail passenger policy. When a newly elected government shrank from following through on boosting VIA's productivity, one must conclude either that Conservatives' interest in rail passenger revitalization extended no further than electoral success or that the political obstacles to reform are indeed formidable. The truth likely contains elements of both characteristics.

Faced with the alternatives put forth by the Action Force and DeBelleval, Cabinet chose not to risk going against the preferences of key administrative agencies. It's not surprising that Ministers sided with their internal experts rather than embarking on what they saw to be an untried and costly reform gamble. Politicians naturally fear taking on a highly visible commitment that bureaucrats cannot or will not be able to implement. When it came to passenger trains, program visibility and the latent symbolism of the issue made the risk of failed innovation appear much greater than blaming VIA's progressive decay to the passenger train's supposedly inherent obsolescence.

4. CONCLUSION: MAKING THE RIGHT INVESTMENT IN PASSENGER TRAINS

The passenger train's decline of the 1950s and 60s has not proved immutable. Government intervention in both Canada and the U.S. has kept trains rolling long past the ICC report's projected 1970 shutdown. But as the 1980s revealed, the choice between operating subsidies and capital investment can have dramatic long term economic consequences.

For a decade now, Amtrak has succeeded in increasing its revenues ahead of its costs, the essence of commercial vitality that belies conclusions about the inherent obsolescence of passenger trains in North America. Capital investment has increased the

productivity of Amtrak's equipment and employees. It has made important train services competitive with auto and air travel again. And its returns promise to continue lowering Amtrak's need for operating subsidies in the 1990s. Despite open political conflict between Congress and the executive branch, and between the industry and consumers, U.S. policymakers made the right investment in renewing Amtrak's infrastructure

Canada's consensual and cooperative fiscal politics led to preserving its passenger trains at an ever less competitive position. VIA Rail's stagnation eventually made it necessary to discard preservation, and after several false starts the remedy chosen was austerity. The fact that VIA's worst performance years have coincided with Amtrak's best indicates that political obstacles blocked Canada's ability to make the right investment in passenger trains, even when clear evidence pointed the way.

This paper has suggested that a combination of government structure and economic forces drew American and Canadian rail finance in different directions. The American preference for assigning clear costs and benefits through industrial regulation made the burden of rail passenger losses a contentious political issue. As various interests mobilized, the U.S. government's heterogeneity encouraged officials to advocate the conflicting positions of industry, labour, and consumers. Amtrak's fiscal innovations arose out of the competition of political interests, as represented by different public officials.

In Canada, regulatory policy worked to diffuse the costs and benefits of passenger service through cross-subsidy, thus discouraging political mobilization among potential interests. Parliamentary government offered no internal adversaries to challenge the conventional wisdom that guided public funds into the wrong investment. Concealed behind elite consensus on preserving the passenger train was a deep seated skepticism regarding their long range prospect. By the time government's ambivalence became clear, VIA's commercial deterioration made austerity easier to champion than wise investment.

NOTES

[1] Financial data are drawn from the financial statements of Amtrak and VIA, found in the two corporations' Annual Reports, 1984 - 1990. In both cases, operating revenue was composed of all income excluding government subsidy. Operating costs were calculated by deducting all depreciation, amortization, and interest charges from total costs. In VIA's case, financial data was drawn from the restated costs and revenues provided in the succeeding year's annual report (with the exception of 1990).

[2] Interstate Commerce Commission, *Railroad Passenger Train Deficit*, (Washington: U.S. Government Printing Office, 1958).

[3] R. Kent Weaver, *The Politics of Industrial Decline*, (Washington: Brookings Institution, 1985), p. 41.

[4] *Ibid.*, p. 40.

[5] This view has been articulated by William Niskanen in *Bureaucracy and Representative Government*, (Chicago: Aldine-Atherton, 1971).

[6] James Q. Wilson disputes Niskanen's understanding of bureaucracy as one-dimensional and adds a more subtle interpretation of political constraints, which this

author does not find mutually exclusive. See J. Q. Wilson, *Bureaucracy* (New York: Basic Books, 1989), pp. 115 - 120.

[7] James Q. Wilson, *The Politics of Regulation*, (New York: Basic Books, 1980), pp. 367 - 372.

[8] Canadian National Railways, *Annual Report*, (Montreal: Canadian National, 1976), p. 13.

[9] Adil Cubukgil and Richard Soberman, *The Cost of Rail Passenger Services in Canada : An Examination of Institutional Problems*, (Toronto: University of Toronto - York University Joint Program in Transportation, 1984), p. 13.

[10] The report of the Rail Passenger Action Force was never released to the public. The author was shown some of these materials on a confidential basis.

[11] "Chief fired at VIA Rail, Head of CN takes over," in *The Globe and Mail*, Toronto: May 4, 1989, p. A1.

[12] For a profile of VIA's current chief executive and his approach to downsizing the corporation, see "Via's Lawless is no stranger to taking tough political stands," *The Globe and Mail*, Toronto: October 6, 1989, p. B1.

BIBLIOGRAPHY

Canadian National Railways. Annual Report. Montreal: Canadian National Railways, 1976.

Cubukgil, Adil and Richard Soberman. The Cost of Rail Passenger Services in Canada : An Examination of Institutional Problems. Toronto: University of Toronto - York University Joint Program in Transportation, 1984.

Interstate Commerce Commission. Railroad Passenger Train Deficit. Washington: U.S. Government Printing Office, 1958.

National Railroad Passenger Corporation (Amtrak), Annual Report. Washington: National Railroad Passenger Corporation, 1984 - 1990.

Niskanen,William. Bureaucracy and Representative Government. Chicago: Aldine-Atherton, 1971.

VIA Rail Canada, Annual Report, (Montreal: VIA Rail Canada, 1984 - 1990).

Weaver, R. Kent. The Politics of Industrial Decline. Washington: Brookings Institution, 1985.

Wilson, James Q. Bureaucracy. New York: Basic Books, 1989.

Wilson, James Q. The Politics of Regulation. New York: Basic Books, 1980.