Market Institute

Say "No" to Train Nationalization/Over-Regulation

The Background:

Trains are integral part of nation's economic standing both today and as a part of our nation's history. And, as a part of that position in our economy railroads have been a focus of regulatory control. In fact, in 1887 the railroads became the first industry subject to federal regulation thanks to the Interstate Commerce Act.

Between 1887 and 1980 particularly, more and more regulation piled onto the industry, making it one of the most highly regulated markets in the country. That remains the case today, despite partial economic deregulation in 1980. Despite this labyrinth of regulation, rail ships 1/3 of US exports and 40% of long-distance freight volume.

The efficiency and reliability of trains has provided the country with a higher quality of life than we would have without railroads. And, these companies are privately owned and therefore spend primarily their own money building out and maintaining their rail networks.

This high visibility, coupled with a common carrier obligation, has continued to make them a target for big government supporters. And, recently calls to nationalize this market have grown louder within the standard political calls for more regulation.

Why Trains:

Not only did trains first connect our country and allow quicker expansion, but they also helped fuel the industrial revolution. Today railroads continue to have a dramatic impact on our economy – allowing for lower cost goods through efficient and scaled shipping, as well as decreased environmental impacts. When inflation peaked and saw elevated levels in transportation, PPI data show rail rose much less compared to other modes.

It costs $0.30 to move a ton of goods one mile on a train and about $0.50 to move a ton of good by truck one mile. As a part of those cost savings a train can move a ton of good nearly 500 miles on only one gallon of diesel.

In the last 40 years railroads have spent almost $800 billion on maintaining their infrastructure, including bridges and tunnels. This means taxpayers play a minimal role in the industry, aside from public-private partnerships, although railroads do pay handsome taxes annually.

Lastly, trains keep more trucks off the roads. According to the US Department of Transportation's Bureau of Transportation statistics in 2020 train crashes equaled less than .1% of truck crashes in 2020.

Railroads maintain themselves, are more environmentally friendly, are cheaper to use for long distance shipping, and are safer. Trains are a win, win, win for the economy. It is hard to see any widespread market failure.

Current Calls for Nationalization:

Nonetheless, opportunistic Unions and some progressives are increasingly calling for nationalization. They argue that the government should seize private assets held by railroads and lease them back to companies, independent of decades of investments in that infrastructure. In the process, proponents argue there should be more railroad workers, that trains should carry larger crews, and that rail companies have under-invested in infrastructure and safety equipment. The argument doesn't stop there – the Unions also claim that fewer good are now being shipped by train and a responsible leader would be able to increase the amount of goods shipped.

And, while the argument to nationalize the trains has been a nearly constant refrain over the history of trains – the modern calls have picked up since the increased profile of the Railroad Workers United following muddied collective bargaining in 2022 that concluded with Congress implementing a deal agreed to by eight unions for four holdout unions under the structure of the Railway Labor Act. However, now proponents are also using a February 2023 crash in East Palestine as a part of their reasoning.

With each of these arguments the Unions are attempting to take the moral high ground in the debate, but if all of their arguments are taken together – it is obvious that private railroads are functioning better than any nationalized railroad ever could imagine performing. Amtrak, itself a railroad, is nationalized and has long faced solvency challenges. The way to increase market share – like the Unions claim would be possible – is only possible through lowering prices even further. However, lower prices outside of market conditions would mean even less capital to invest in infrastructure, safety, and labor. And, while the wreck in East Palestine was terrible, the train had more safety precautions in place than the federal government mandated. And, the cleanup will be paid for by the company – and the insurance instead of the federal government and taxpayers.

Because of these issues, the nationalization of rail would likely mean increased safety concerns, increased taxes, and possibly the failure of the whole industry.

Current Calls for More Regulation:

The 2023 Ohio derailment and subsequent chemical fire in East Palestine has caused some politicians to go after the rail industry – joining the Unions in calls for more regulation and more government control. This type of reactionary politics is understandable. But history has shown that regulations and government oversight don't solve problems. More regulations in healthcare have created more loopholes. The allusion of more oversight in finance provided Bernie Madoff the foundation he needed to swindle investors. Previous rail regulations stymied the industry and held them back from innovating. Research shows that partial economic deregulation that spurred investment has had a much greater impact in improving safety than regulators often lagging the industry.

Rail deregulation alongside trucking and aviation helped our economy grow in the 1980's and continues to impact our economy today.

Adding an increased burden to any industry will increase costs in that industry, but adding increased burdens on capital-intensive railroads would mean that the cost of goods in most industries would increase as the cost of shipping raw materials, exports, and finished goods would increase.

Angst regarding inflation is not dissipating. Increasing prices further does nothing but further exacerbate those problems.

The Market Solution:

The free market is always the best way to solve market problems and increase competition.

First, the idea of nationalization of railroads would just mean a slow death as market incentives would immediately leave the industry. The effects would be higher costs of goods, lower reliability, higher taxes, and the likelihood of both increased safety concerns while also providing fewer benefits when tragedies assuredly still occur.

On the other hand, if left in private control, and if the Unions are correct that more investment in infrastructure as well as more crew are needed for safe operation, then the market will quickly reflect this as reliability is always treated as a premium and insurance costs inevitably increase. Railroads that fail to keep up will soon face increased pressure from competitors that change business models. Automation in the future will present a unique pressure.

Second, nationalization, or even increased regulation, likely will have no real safety differences and instead merely raise costs.

The answer, again, is to let the market solve these issues. Nationalizing industries is a bad idea and runs counter to core U.S. economic principles.