



FACTS & OPINIONS

On Public Interest Issues

Quotes

If fear alters behavior, you're already defeated.

– Author Brenda Hammond

A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.

– Sir Winston Churchill

Many a man thinks he is patient when, in reality, he is indifferent.

– B. C. Forbes

Character, Liberty, and Economics

Lawrence W. Reed

Over four decades, I've written scores of articles, essays, and columns on economics, taught the subject at the university level, and given hundreds of speeches on it. In recent years, the nexus between the economics of a free society and individual character has increasingly worked its way into my writing, speaking, and thinking. I believe that nexus is the central issue we must address if our liberties and free economy are to be restored and preserved.

Activists in the free-market movement over the past 25 years have stressed the need for sound public policy research and basic economic education. Think tanks and new media have sprung up to provide both. Though important, they are proving to be insufficient to overcome statist trends that are eroding our liberties.

Economic education is certainly needed because young

minds are not typically getting it in conventional schools. But even if economic education were dramatically improved, a free society wouldn't necessarily follow. Just like public policy research, it can be undone by harmful themes in popular culture (movies, music, literature and even sports) and in the standards of conduct and behavior people practice as adults.

Even among the most ardent supporters of free-market causes are people who "leak" when it comes to their own bottom lines. A recent example was the corn farmer who berated me for opposing ethanol subsidies. Does he not understand basic economics? I've known him for years, and I believe he does. But that understanding melted away with the corrupting lure of a handout. His extensive economics knowledge was not

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October 2008
Volume 14, Number 4
President
Dr. Don Racheter

FACTS & OPINIONS is one of our quarterly membership newsletters, arriving in January, April, July, and October. It consists of short articles of public interest with an emphasis on current issues.

FACTS & OPINIONS is published by Public Interest Institute at Iowa Wesleyan College, a nonpartisan, nonprofit, research and educational institute, whose activities are supported by contributions from private individuals, corporations, companies, and foundations. The Institute does **not** accept government grants.

Contributions are tax-deductible under sections 501(c)(3) and 170 of the Internal Revenue Code.

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Focus on Iowa Wesleyan College

Iowa Wesleyan College has been notified by the Higher Learning Commission of the North Central Association of Colleges and Schools that its regional accreditation has been continued for the next ten years. "The members of the visiting team recognized the many positive accomplishments of the faculty and staff in educating our students in accord with the College's mission and purpose," said Iowa Wesleyan President Jay Simmons.

New staff welcomed by IWC include Amy Hill, Webmaster; Martha Potts-Bell, Director of Public Relations; and Meghanne Thompson, Director of Publications. Hill is a graduate of Southeastern Community College with an A.A. in Internet/Web Design, Potts-Bell has a B.A. in Journalism & Mass Communications from Drake University and an M.A. from the University of Iowa, and Thompson graduated from Middle Tennessee University with a B.F.A. in Graphic Design and Illustration.

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What's New at Public Interest Institute?

Public Interest Institute is furthering the cause of transparency and accountability in Iowa state government with the creation of a transparency website, www.iowatransparency.org. In the coming weeks, information on the Iowa legislative process will be available to "Joe Taxpayer" to see how the dollars total up in the spending column for each Iowa Legislator. "Vote Tally" and "Bill Tally," adapted from the National Taxpayers Union Foundation for the 2008 session of the Iowa General Assembly, will make information on appropriations votes immediately accessible to the taxpayers of Iowa. "Vote Tally" analyzes floor votes on appropriations bills and gives reports on spending patterns of Iowa Legislators. "Bill Tally" gives spending data for sponsored legislation introduced in chamber. Public Interest Institute has also created a new monthly publication, IOWA TRANSPARENCY NEWSLETTER, devoted to covering the growing transparency movement in Iowa and around the nation. Our first issue was mailed to Institute members in September.

Runaway Train

Justin Jenkins

In 1513, Juan Ponce de León embarked on an expedition in the Bahamas to discover the legendary Fountain of Youth.¹ Today, modern explorers are in quest of a different current, one whose waters promise endless days of carefree bliss. Unlike de León, whose tongue never tasted from the elusive Fountain, some have successfully tapped into this treasured flow. It is known as the Eternal Stream of Somebody Else's Money.

On June 11, 2008, the U.S. House of Representatives diverted more of the Eternal Stream to Amtrak by appropriating \$14.9 billion to the rail company over the next five years, adding to the \$30 billion in taxpayer-funded subsidies since 1970.² The House did this despite the fact that in fiscal year 2007, Amtrak's total revenue fell short of its total expense by over \$1 billion.³

Think about that. A grossly inefficient company finds itself another billion dollars in the red, and Congress rewards it with fifteen billion more!

Unlike Amtrak, the private sector lives by the laws of supply and demand. A business providing a service at a price higher than consumers are willing to pay is unable to generate enough revenue to continue

providing the service. This business must either increase efficiency to keep costs down and lower its prices or be forced out of the market.

For some lucky companies such as Amtrak, however, the federal government offers a third option: keep prices artificially low in order to retain customers, and make up the loss in revenue through government bailouts. This option poses a number of problems. First, bailouts inefficiently allocate resources, since taxpayer dollars which could have gone to a productive use in the economy are siphoned away to prop up failing businesses that the market cannot sustain. Second, these bailouts create perverse incentives. Illustrative are the following two scenarios.

Since profits make up Company A's sole source of revenue, Company A stays in business only by attracting customers with quality goods or services at sustainable prices. Meanwhile, Company B receives a yearly bailout from Congress to cover the gap between income earned and costs incurred. The easiest way for this company to remain operational is to lobby members of Congress to part with an even larger chunk of

its General Fund in next year's bailout. In this way, bailouts replace the incentive to keep quality up and prices down — equivalent to the incentive to satisfy customers — with the incentive to squander money and petition for more. In short, a business that is constrained by its own innovative capacity to generate revenue will operate more efficiently and with greater concern for the wants of the consumer than the business that is lucky enough to tap into the Eternal Stream of Somebody Else's Money.

Amtrak is an example of Company B. If Amtrak were forced to operate apart from federal subsidies, the level of demand for Amtrak services could not sustain the actual price, since "passengers value the service only at a fraction of what it costs to provide it."⁴ The only way to keep fare rates low enough for people to pay them is to rely on taxpayer funds.

When examining a business, the thoughtful observer should ask a fundamental question: In this company, to what end is the greatest amount of effort being directed? Having located the point of maximum exertion, the

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Character, Liberty, and Economics

Lawrence W. Reed

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enough to keep him from the public trough. We are losing the sense of shame that once accompanied the act of theft, private or public.

The missing ingredient here is character. In America's first century, we possessed it in abundance and even though there were no think tanks, very little economic education, and even less policy research, it kept our liberties substantially intact. People generally opposed the expansion of government power because they placed a high priority on character. Using government to get something at somebody else's expense, or mortgaging the future for near-term gain, seemed dishonest and cynical to them, if not downright sinful and immoral.

Within government, character is what differentiates a politician from a statesman. Statesmen don't seek public office for personal gain or attention. They often are people who take time out from productive careers to temporarily serve the public. They don't have to work for government because that's all they know how to do. They stand for a principled vision, not for what they think

citizens will fall for. When a statesman gets elected, he doesn't forget the public-spirited citizens who sent him to office and become a mouthpiece for the permanent bureaucracy or some special interest that greased his campaign.

Because they seek the truth, statesmen are more likely to do what's right than what may be politically popular at the moment. They do not engage in class warfare, race-baiting, or other divisive or partisan tactics. They do not buy votes with tax dollars. They don't make promises they can't keep or intend to break. They take responsibility for their actions. A statesman doesn't try to pull himself up by dragging somebody else down, and he doesn't try to convince people they're victims just so he can posture as their savior.

When it comes to managing public finances, statesmen prioritize. They don't behave as though government deserves an endlessly larger share of people's money. They exhibit the courage to cut less important expenses to make way for more pressing ones. They keep government within its proper bounds and trust in what free and enterprising people can accomplish. Politicians think that they're smart enough to plan other people's lives; statesmen are wise enough to understand what utter folly such arrogant attitudes really are. Statesmen, in other words, possess a level of character that an ordinary

politician does not.

By almost any measure, the standards we as citizens keep and expect of those we elect have slipped badly in recent years. Though everybody complains about politicians who pander, perhaps they do it because we are increasingly a panderable people. Too many are willing to look the other way when politicians misbehave, as long as they are of the right party or deliver the goods we personally want.

Our celebrity-drenched culture focuses incessantly on the vapid and the irresponsible. Our role models would make our grandparents cringe. To many, insisting on sterling character seems straight-laced and old-fashioned. We cut corners and sacrifice character all the time for power, money, attention, or other ephemeral gratifications.

Yet character is ultimately more important than all the college degrees, public offices, or even all the knowledge that one might accumulate in a lifetime. It puts both a concrete floor under one's future and an iron ceiling over it. Who in their right mind would want to live in a world without it?

Bad character leads to bad economics, which is bad for liberty. Ultimately, whether we live free and in harmony with the laws of economics or stumble in the dark thrall of serfdom is a character issue.

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Individuals like you who believe in individual liberty and free-market solutions
envelope to make your tax-deductible contribution to this effort today.

Character, Liberty, and Economics

Lawrence W. Reed

After serving as President of the Mackinac Center for Public Policy for two decades, Lawrence W. Reed became President Emeritus. On September 1, 2008, he assumed the Presidency of the Foundation for Economic Education, headquartered in Irvington, New York.

For more information, visit the Mackinac Center for Public Policy's web site at www.mackinac.org.

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observer may then work backwards to discover the incentive behind it. Misplaced exertion is almost always indicative of a poor incentive. Change the incentive, and you channel energy towards the accomplishment of a different activity.

Last year's billion dollar shortfall indicates that Amtrak's maximum exertion is certainly not directed towards the efficient delivery of transportation services. Case in point: a 2006 Government Accountability Office report states that Amtrak routes "of 750 miles or more... account for 15 percent of riders but 80 percent of financial losses," while shorter routes "have higher ridership" and "perform better financially."⁵ A private company would quickly dissolve a division of its business which reached only 15 percent of customers but racked up 80 percent of financial losses. Common sense suggests that Amtrak eliminate its boondoggle routes to free up resources for more efficient short-distance routes, but don't hold your breath waiting for a government-funded company to invest in a sensible use of resources.

So, if efficient service delivery is not receiving the bulk of Am-

trak's effort, then what is? Answer: persuasion of Congress to put another check in the mail. To that end, Amtrak has employed at least three unique marketing strategies. First, Amtrak has become very effective at manipulating data to create the erroneous impression of high-quality performance. Second, the company utilized the aftermath of national disasters, such as 9/11 and Hurricane Katrina, to over-emphasize its supposedly essential role in relief efforts, and no Congressman in good conscience can undermine disaster relief. Finally, Amtrak employed the ultimate stratagem guaranteed to bust any impediment to the Eternal Stream by proclaiming itself the greenest form of transportation.⁶

The charge that Amtrak is inefficient or ineffective is technically inaccurate, since the company has achieved a remarkable amount of success in convincing Congress to share the wealth of the American taxpayer. The problem is not that the rail service is incapable of efficient work, but that the incentive produced by the federal safety net channels that effort toward something other than financial solvency. If Amtrak put half as much innovation into driving quality up and prices down as it does into fundraising, it might not be facing a billion dollar shortfall.

Companies like Amtrak which are fortunate enough

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to gain access to the Eternal Stream of Somebody Else's Money are free from the obligation to ration their own well water for survival. Unfortunately, while cool and refreshing to the tongue, the water from the Eternal Stream is contaminated with a strain of bacteria known to induce inefficiency, waste, and an unquenchable thirst for more.

Performance Management or Privatization?

The guarantee of a bailout provides insurance against the harsh effects of an inefficient allocation of resources and produces the unintended consequence of channeling exertion away from efficient delivery of services to efficient persuasion of government to keep the dollars rolling. Amtrak's initiative to market itself as the most environmentally friendly mode of transportation, a tactic which is sure to electrify members of the present Green Congress, is a case in point.

Consider this statement made by Dr. Ronald D. Utt, Ph.D. and Senior Research Fellow at The Heritage Foundation, in 2007: "Amtrak switched its promotional focus from transportation to its potential to increase energy independence and reduce greenhouse

gas emissions."⁷ Unbelievable! This is like reporting that "Pizza Hut switched its promotional focus from food service," or "AT&T switched its promotional focus from telecommunications," or "Holiday Inn switched its promotional focus from lodging." How does a company get away with making the very purpose of its existence a secondary priority?

In the private sector, it can't. Private firms either must convince customers to buy their product at a price and volume that generates a profit or face economic failure. However, Amtrak can afford to forego routine concerns like attracting customers for the sake of more exotic foci such as advertising its role in preserving the ozone layer. This explains the rationale behind this odd statement made by a passenger rail lobbyist before a congressional subcommittee in 2007: "The debate must change from 'Amtrak, how much did you lose last year and what can you do to reduce federal funding?' to 'What can you do to reduce our dependence on oil and further reduce carbon emissions . . .'"⁸ Imagine a CEO telling his Board of Directors that questions like how much the company lost in the previous year or what can be done to avoid future losses aren't really relevant!

That Amtrak's promotional focus has shifted from transportation is evident from its poor performance record. In transportation jargon, the "load factor" refers to the percentage

of available space occupied by passengers or cargo.⁹ A consistently high passenger load factor indicates high demand, since the vehicles are operating at near-capacity. Dr. Utt reported that the load factor for commercial airlines has remained approximately 80 percent for the past few years. In sharp contrast, Amtrak's load factor in FY 2007 was 48.9 percent.¹⁰ That means that taxpayers paid over one billion dollars in 2007¹¹ so that the government could continue running half-empty trains across the country!

The problem with government subsidies to Amtrak is that the funds are not sufficiently conditioned upon the train company's performance. In other words, Amtrak keeps receiving taxpayer money even though its finances are in the red and its load factor is in the tank.

A timeout from Amtrak will permit an introduction to "performance management" (PM), an important type of business administration that focuses on one specific outcome indicator: effectiveness. According to Carter McNamara of Authenticity Consulting, LLC, "The major contribution of performance management is its focus on achieving results — useful products and services for customers inside and outside the organization. Performance management redirects our efforts away from busyness toward effectiveness. . . . Everyone (and everything) in

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the organization must be doing what they're supposed to be doing to ensure strategies are implemented effectively."¹² Put simply, PM is a results-oriented approach to administration. It deemphasizes inputs such as staff, supplies, and programs, and focuses on ensuring that hiring staff, purchasing supplies, or organizing programs are efficiently tailored toward achieving the outputs of serving customers and maximizing profit. Our highly competitive marketplace makes use of PM by businesses critical.¹³

The question remains why the federal government is not also utilizing PM? If PM is so essential in the private sector, is it not indispensable in the services-oriented public sector where millions — nay, billions — of tax dollars are at stake? The U.S. Office of Personnel Management devotes an entire webpage to PM,¹⁴ so the feds have apparently heard of it. Unfortunately, the distance between the government knowing right and doing right is often the length of thirty half-empty Amtrak trains.

According to Dr. Utt, the Amtrak debacle is in serious need of PM. Dr. Utt recommends linking "Amtrak's generous federal subsidy to improvements in its load factor" by conditioning future subsidies

upon Amtrak's success in attracting more customers.¹⁵ In other words, Congress tells Amtrak, "The money you receive will now vary by degree according to how many people you can get to board your trains." The resemblance between this proposal and free market laws is uncanny.

The beauty of Dr. Utt's approach is that it infuses economic incentives into the equation. If money were linked to performance, Amtrak managers would "shift their focus from congressional lobbying and obsolete train schedules to passenger satisfaction and meaningful transportation options."¹⁶ When a parent conditions a child's receipt of a brownie upon the cleanliness of the floor he is responsible to sweep, something magical happens and the floor gets cleaner. That magical ingredient is known as "incentive," and it would work just as well for Amtrak officials.

Joseph Vranich and Edward L. Hudgins of the Cato Institute go one step further than Dr. Utt by calling for privatization of Amtrak. The company "can be privatized as a whole, or its potentially profitable routes can be sold off piecemeal to private companies."¹⁷ Vranich's and Hudgins's proposal is the best option. Performance management would produce certain advantages such as increased efficiency and better service, but privatization would maximize those benefits to their full potential.

How can we expect the federal government to run a national railroad efficiently when its management of U.S. Senate dining facilities is so poor as to prompt the Senate to call for their privatization?¹⁸ The time has come to release Amtrak to cope with the full forces of the competitive market. When its own money is at stake, Amtrak will quickly learn how to cut costs and boost efficiency. In that sense, privatization is the preeminent form of performance management.

(Endnotes)

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**Public Interest Institute
at Iowa Wesleyan College
600 North Jackson Street
Mt. Pleasant, IA 52641-1328**

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¹⁰ Utt, "H.R. 6003," p. 2.

¹¹ Amtrak.

¹² Carter McNamara, *Field Guide to Consultation and Organizational Development*, Authenticity Consulting, LLC, Minneapolis, 2005, adapted and reprinted in Free Management Library, "Performance Management: What Do We Mean by 'Performance?'," <http://www.managementhelp.org/perf_mng/defnition.htm> (June 30, 2008).

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¹⁵ Utt, "H.R. 6003," p. 2.

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¹⁷ Joseph Vranich and Edward L. Hudgins, "Help Passenger Rail by Privatizing Amtrak," Cato Institute, *Policy Analysis* No. 419, November 1, 2001, <<http://www.cato.org/pubs/pas/pa419.pdf>> (June 30, 2008).

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Justin Jenkins was a Summer Intern with Public Interest Institute. He is currently a Senior at Patrick Henry College in Virginia and serves as student body president.

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Question of the Quarter:

Should Amtrak
continue to receive
federal government
subsidies?

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