



Regional Plan Association

... a research and planning agency supported by voluntary membership to promote the coordinated development of the New York-New Jersey-Connecticut Metropolitan Region.

235 East 45th Street

New York, New York 10017

(212) 682-7750

NEWS RELEASE

No. 1394
February 20, 1981

For Further Information:

William B. Shore
(212) 682-7750 (office)
(914) 631-0053 (home)

FOR RELEASE: Thursday a.m.'s
February 26, 1981

REPLACING U.S. TRANSIT SUBSIDY WITH HIGHER FARES WOULD INCREASE GASOLINE IMPORTS 167 MILLION GALLONS A YEAR, CIVIC RESEARCH GROUP FINDS

President Reagan's proposal to replace \$1 billion in federal subsidies by higher fares would cut back transit use by about 900 million trips a year, nationwide, an analysis by Regional Plan Association finds.

The nonprofit civic organization, the world's oldest regional planning body, prepared the analysis (attached) at the request of New York State Assemblyman Jerrold Nadler, Chairman of the Subcommittee on Rail and Mass Transit.

Changes in fares have produced quite consistent rider response in recent years, the Association stated, so the result of fare rises to replace the federal subsidy is predictable:

- Transit riding would decline by 11 percent.
- Four out of five of these trips would switch to auto.
- That would add 2.4 billion miles a year in auto travel.
- That would burn 167 million gallons of gasoline
- That would trigger an eventual annual increase of around half a billion dollars in U.S. payments abroad (not to mention higher oil prices for other oil-importing nations).
- It also would reduce Gross National Product, possibly by as much as a billion dollars.

--It would increase the Cost of Living by .1 percent, with secondary effects of that increase to be expected.

All of these calculations were made conservatively--the effect on auto trips might be considerably greater, the Association explained.

An alternative to eliminating the federal subsidy, the Association said, while still cutting the budget deficit by \$1 billion, would be an extra cent a gallon gasoline tax, equivalent of two-thirds of a percent sales tax on motor fuel, nationwide. That would produce more than the billion now distributed by the federal government to transit systems. Rather than just use the extra gasoline tax for public transit, proceeds might be distributed to the states to be used for highways or public transit at their discretion. A 4¢ a gallon tax returned to the states would replace the billion withdrawn from federal public transit subsidies and produce \$4 billion more for repair of deteriorating highways, at states' discretion.

Regional Plan Association has favored motorist subsidy of public transit rather than drawing money from general taxes because transportation as a whole should not be subsidized--the organization argues--but public transportation needs funds from outside the fare box to avoid the effects described in the analysis.

Subsidizing public transit is a good investment for the motorist, the Association says, because it saves him precious gasoline and space on urban highways and streets. The subsidy is justified because public transit picks up the most expensive portion of the nation's travel, peak-period trips in urban areas. It would be far more expensive for the nation as well as for the motorist to shift these peak-period trips to auto than to subsidize public transit, the Association concludes.

Regional Plan Association's statement deals only with transit operating funds. A forthcoming report by the Association, "Urban Rail in America," will address new construction issues. Maintenance and depreciation financing, a third issue, also will be addressed later by the Association.

#####

/dr

Regional Plan Association

235 East 45th Street • New York, New York 10017 • Telephone: (212) 682-7750

WHAT WOULD HAPPEN IF \$1 BILLION IN FEDERAL TRANSIT OPERATING SUBSIDY WERE WITHDRAWN AND HAD TO BE PAID OUT OF PASSENGER FARES?

1. The estimated passenger revenue of the nation's transit industry in 1980 was \$2.7 billion. Adding \$1.0 billion to that would raise fares, on the average, 37 percent. (The increase would be some 15 percent in New York and more than three times that in small cities.)
2. Each percent increase in fares reduces riders anywhere from 0.12 (New York subway) to 0.5 percent (buses in small cities); 0.3 percent is average; it would cause transit riding to decline by 11 percent.
3. Total transit riding in 1980 (exclusive of commuter rail) was roughly 33 billion passenger-miles; 11 percent of that would mean a decline of 3.6 billion passenger-miles.
4. Some of this travel would simply not be made, some would be replaced by walking, but about 80 percent would switch to the auto.
5. At an urban weekday occupancy of about 1.2 persons per car, 2.9 billion passenger-miles would represent an additional 2.4 billion vehicle-miles of travel.
6. At the current average auto fuel efficiency of 14.5 miles per gallon, that means burning 167 million gallons of gasoline.
7. At \$1.30 a gallon, just the extra consumer cost of the gasoline is about \$220 million annually.
8. The extra gasoline would have to come from abroad; increased demand would increase world oil prices; using relationships developed by the Harvard Business School Energy Project (Stobaugh & Yergin, 1979) U.S. payments abroad for all crude oil purchases might increase by as much as \$650 million. If transit service is cut back in step with the ridership decline, the increase in foreign oil payments might be \$445 million.
9. The effect of this drain on demand for Gross National Product will depend on whether a tax reduction offsets the extra \$1 billion paid by consumers in transit fares, whether the money supply increases, and whether part of the money that flows out is re-invested by foreigners in the U.S. Depending on these conditions, the reduction in GNP may be anywhere from \$0.1 to \$1.1 billion.
10. In addition to a real reduction in output as measured by GNP, there will be an effect on inflation, caused by transit fare, gasoline and home fuel oil price increases. The first round of these effects will be on the order of 0.1 percent on the Consumer Price Index.