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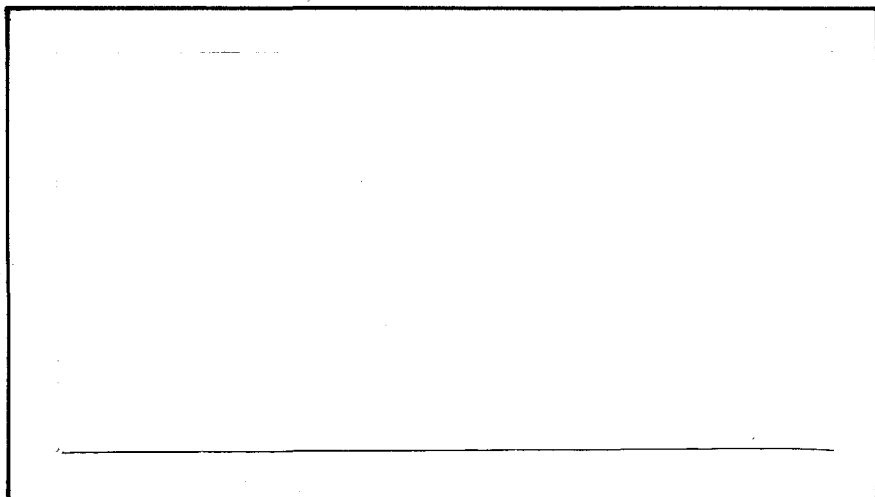
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THE REGIONAL RAIL REORGANIZATION
ACT OF 1973

by
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The Regional Rail Reorganization Act of 1973

Walter J. Wills^{1/}

Abstract

The Regional Rail Reorganization Act of 1973 if implemented as now planned will make many changes in approaches to rural development. Agricultural economists throughout the U.S. should be aware of the challenges the approach used presents to sound decision making. It is suggested the AAEA take the leadership in organizing a national task force to develop guidelines for a national transportation policy.

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The Regional Rail Reorganization Act of 1973

Walter J. Wills^{1/}

An important factor in economic growth and development in the United States has been access to an efficient transportation system. This transportation system has provided a means of moving raw materials and finished products throughout the vast areas of the United States. Such a transportation system has encouraged specialization in production with the many advantages resulting from such specialization.

This vast transportation system has been plagued with economic problems. At various times it has been subject to many abuses by most sectors of the economy. By the very nature of the transportation industry many millions of dollars have been invested in transportation facilities by both the public and the private sectors of the economy. In the trucking industry, much of the overhead for roadbeds has been provided by public funds. The same is true for much of the maintenance of the waterways and for much of the investment in airport facilities and control systems. On the other hand, the railroads have invested similarly large amounts of money in developing and maintaining their roadbeds. However, in their early development they too were given rather substantial subsidies by the government. It is beyond the scope of this paper to enter into the argument of the types of subsidies paid to various sectors of the economy, including transportation.

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Except for a few very brief periods during the history of the United States, the transportation industry as a whole has been faced with many serious financial problems. During the early development of the United States the waterways and canal systems certainly underwent a number of traumatic financial crises. This was followed by toll roads which also had many of the same types of problems. The early history of railroads in the United States is filled with references to financial difficulties. During World War I there was relatively little money devoted to maintenance of roadbeds and equipment so that following that period the railroads were not in good physical or financial condition.

During the great depression many railroads underwent major reorganization and bankruptcy. A great demand for service was again met by the railroads during World War II.

During World War II the railroads received very heavy use and again inadequate resources were devoted to maintenance of physical facilities and equipment. Following World War II there was a massive change over from coal to diesel power; there was introduction of large amounts of specialized equipment. Many railroads were unable to make the physical and financial adjustments in resource use and in necessary management changes to meet the needs of a modern industrial economy.

To meet many of the changes that have occurred in the transportation industry during the past quarter of a century a host of short range piecemeal changes were attempted. During this past quarter of a century most of the proposals to improve the

transportation system have been essentially that of treating symptoms rather than diagnosing the causes of the difficulty and attempting to do something about it.

During the 1950's and 1960's there was a move to merge many of the railroads feeling that the problems with which they were faced could be cured by mergers. But mergers did not get at the heart of the problem.

Classic example of this is the merger of the Pennsylvania and New York Central Railroad systems with the subsequent financial plight that they are in.

During this same period there was the development of a philosophy of the use of railroad resources to form holding company conglomerates so that even though the railroads were desperately crying for additional capital the limited amount of capital they had available was being converted to other sectors of the industrial economy. One could even make an argument that those people responsible for directing the transportation system of the United States both in the private sector of the economy and the government did not recognize that transportation needs of the future was part of their responsibility.

After much deliberation the Congress passed the Regional Rail Reorganization Act of 1973, PL93-236. This act was signed into law on January 2, 1974. The act is primarily concerned with the railroad transportation system in the Northeastern United States. This area has the greatest concentration of railroads that are now in serious financial difficulty of any area in the United States. The act provides for the develop-

ment of an economically viable railroad system capable of providing adequate and efficient rail service to the region.

The Secretary of the U.S. Department of Transportation was directed to prepare a "Comprehensive report containing his conclusions and recommendations with respect to the geographic zones in the midwest and northeast regions within and between which rail service should be provided." This report was transmitted on February 1, 1974. It is a report of approximately 1100 pages. The report provided for abandonment of approximately 26 percent of the rail lines in the effected states, which are those states north of the Ohio and east of the Mississippi excluding Wisconsin but adding Virginia, West Virginia, and the District of Columbia. In addition, it was projected that rail service other than that connecting the metropolitan areas in some of the other fairly large cities would not be provided. This had the effect of eliminating rail transportation to and from roughly some 80 to 90 percent of the rural areas now having some type of rail transportation service.

Following the release of this report on February 1, during the month of March a number of hearings were held at which time various people had an opportunity to make formal presentations indicating their reaction to the report.

Subsequently the Interstate Commerce Commission issued a lengthy document defining three terms that become of major importance in taking care of an additional provision in the act. This provision was that under certain conditions there would be certain subsidy monies available up to 70 percent from the

federal government with the additional 30 percent being provided by the states to keep certain essential lines in operation that otherwise would be closed. The terms needing definition were: (1) revenue attributable, (2) avoidable cost, and (3) reasonable rates of return on investment. Again interested people were given a relatively short period of time, until May 3, to react to the proposal. The final definition of these three terms was issued by the Interstate Commerce Commission on July 1, 1974.

The next major activity that must be completed by not later than October 29, 1974 is for the Federal Railroad Administration to develop a comprehensive rail plan for the affected area. The affected states will then react to this plan developed in Washington to show how the railroad system will be organized to provide the essential efficient transportation system needed for economic growth. The plan visualizes that some railroads will be privately owned, some will be publically owned and probably some will be subsidized. The states are also expected to develop a railroad plan for intra state traffic.

On May 1, 1974, the director of the Rail Services Planning Office issued a thirty-six page report in which he pointed out that the report by the Secretary of the Department of Transportation issued on February 1 was unacceptable.

In two court cases in June & July 1974 various provisions of the act have been declared unconstitutional by lower courts. However, higher courts have not had time to act on appeals.

There are many federal agencies involved in this railroad reorganization exercise:

The U.S. Department of Transportation

The Rail Service Planning Office (ICC)

The Interstate Commerce Commission (regulatory)

The Federal Railroad Agency (USDT)

In addition, there are various state departments of transportation or other designated agencies, state regulatory authorities, regional planning groups, shippers groups and others with major conflicting vested interests in the development of a sound transportation system.

Because of the impact of the actions that may follow, there is much emotion involved. There is inadequate available data to analyze the situation. The Act and Washington agencies want this plan pushed through to completion in a minimum of time. The various Washington agencies give many evidences of each being more concerned with their relative bureaucratic position in the final system than in the efficiency of the U.S. transportation system.

There are a number of reasons for agricultural economist to watch the developments on this particular piece of legislation:

1. Many of the assumptions in the use and the study came from "Development and Evaluation of an Economic Abstraction of Light Density Rail Lines Operation." This study was prepared by the Federal Railroad Administration in June, 1973. Although the report spends considerable time pointing out the weaknesses of the data

and showing the variations between observations to be quite high, by the time this data was used in the study there was no longer any particular reference to the fact that the original data were quite weak. Admittedly this may have been the best data available at the time they made the study, but just because it was the data available this does not insure that it is necessarily valid. At least a person could hope that governmental agencies when they find these types of data discrepancies would start doing something about them.

The U.S. Department of Commerce issued a report in August, 1966 entitled "Cost Base Freight Rates--Desirability and Feasibility." This study pointed out many of the prevailing discrepancies in available information to adequately analyze rail cost problems. Apparently no steps have been taken to correct the data problems.

February, 1973 John R. Snitzler Associates, prepared a report for the Transportation Warehouse Division, Agricultural Marketing Service, U.S. Department of Agriculture, entitled "Railroad Transportation Costs Survey" in which they again pointed out the inadequacies of existing sources of data to analyze the problem facing anyone trying to more precisely analyze the nature of the total transportation problem. After seven or eight years of suggestions concerning information inadequacies, professional agricultural economists

should be concerned with how improvement can be brought about in the adequacy of the data, if analysis of inadequate data is going to be used as a basis for determining the extent to which transportation will be available to rural America.

2. There is need to do much additional work on evaluating alternatives and their consequences in rural development with different levels of rail transportation availability. These alternatives are concerned not only with transportation costs but also with the capital needs and capital dislocations brought about by obsolescence of facilities with changes in transportation services. Certainly there will be many very substantial changes in rural communities after rail service is terminated in many of these areas. Most of the rural development work has in the past made certain apparent assumptions that transportation availability can be taken as given.
3. By the assumptions in this U.S. Department of Transportation study and by many statements a person can pick up in the trade literature, it is apparent that railroads would prefer to haul train loads of product from origin to destination. Not every shipper is able to load train load lots and not every receiver is in a position to receive train loads of product. At the same time the Federal government is allegedly concerned with maintaining markets that are if not competitive at

least oligopolistic this proposal would encourage the development of more monopolistic type firms and practices. While it is recognized that there are some economies available in many types of business through increased operational efficiency with increased volume, it is also recognized that this could have some interesting implications so far as pricing efficiency is concerned. Some good arguments may also be made that many firms may well be larger than necessary for maximum operational efficiency. There may be diseconomies of size. Agricultural economists need to analyze the pricing efficiency implications of transportation changes.

4. There is an extensive body of literature available on price theory that is generally recognized by reputable economists. This theory provides some excellent tools to conceptualize problems and to develop solutions to these problems. The Interstate Commerce Commission and the transportation industry have developed their own terminology. This results in their making many unsound decisions because of the type information they collect and use. Before sound solutions to the transportation problem can be developed, it will be necessary for the regulatory agencies and the regulated industries to re-evaluate their definition of terms and to start using the tools that can help provide answers. To the agricultural economist it is an opportunity to make a

contribution in this area if there is some way that he can gain access to the people who are responsible for collecting and analyzing the data. So far transportation economists have generally been heavily influenced by the industry with which they were working.

5. Work on this particular transportation reorganization problem has been particularly revealing as an exercise in political economy. This exercise suggests that agricultural economists need to be continually aware of the need to broaden their horizons so that they can effectively participate in such an arena.
6. So far in working on this problem, much of the information has been prepared by the various Washington based federal agencies. They then distribute the materials for formal statements and reactions. Frequently a very short lead time is provided. Since these various reports have a major bearing on the direction of transportation policy in the U.S. for the generations to come it would seem more appropriate if these agencies gave people an opportunity to discuss with them the implications of their statements so that there could be a broader based approach. Essentially the Washington agencies are asking for reactions on rather narrow topics without ever giving an adequate opportunity to discuss the problem. The approach they use can well prohibit an opportunity to ever present information on the real problems at hand.

7. If the approach for the railroads in the northeastern United States is successful, then one could expect that similar approaches will be proposed for the railroads in each of the other major areas of the U.S. By working only on one section of the country at a time, the remainder of the country can sit back and feel secure. Such a divisive approach may be sound from the standpoint of being able to force something through the bureaucratic governmental maze but it is hardly the type of approach that will be responsible for developing a sound coordinated transportation policy for the country.

8. In 1940 the U.S. came out with a national transportation policy. There have been many changes in this country since then. It is suggested the development of a transportation policy by default is hardly a procedure that leads to sound decision making. This particular proposal provides us with no more of an approach to a coordinated transportation policy for the future than we had in the 1950's or the 1960's.

Since agriculture has such a heavy stake in what transpires in transportation, it is suggested the American Agricultural Economics Association take the leadership in organizing a national task force to develop guidelines for a national transportation policy for the United States. Such a policy includes much more than rail transportation.

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