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STATEMENT OF JOHN A. VOLPE, SECRETARY OF TRANSPORTATION, BEFORE THE SENATE COMMITTEE ON COMMERCE, REGARDING RAILROAD ASSISTANCE, TUESDAY, NOVEMBER 24, 1970.

Mr. Chairman and members of the Committee:

I appreciate this opportunity to appear before you again to discuss the financial problem confronting many of our Nation's railroads and the action necessary to deal effectively with that problem.

In testifying before the Committee last June on S. 4011, the Administration's bill to authorize Federal guarantees of loans to railroads, I recited some statistics reflecting the serious financial condition of the industry:

- The margin of net operating income to gross had deteriorated to about half the 1966 level;
- Net working capital had declined steadily from a 1963 level of $828 million to a 1969 level of $58.4 million and, I might add that by June 30, 1970, this figure had dropped to a deficit of $321.8 million;
- Cash flow from retained income and depreciation/retirement charges was providing for only about 60 percent of gross capital expenditures, the remainder coming from borrowing and drawing on working capital;

- Equipment obligations had increased from $2.5 billion at the end of 1962 to $4.2 billion at the end of 1968.

This was the situation as it appeared last June. Data available for the third quarter of 1970 show few signs of improvement. The net railway operating income for Class I railroads in the Eastern District was minus $25.8 million, or a decrease of $43 million over the same quarter of 1969. While the Eastern roads as a class are in the worst shape, six roads in the Western District experienced net railway operating income deficits in the third quarter. For the first nine months of 1970, more than three-fourths of the Class I railroads experienced either a deficit or lower net railway operating income compared with the same period in 1969. The rate increases recently approved by the ICC should lead to an improvement in 1971 but there will be some offset by factors such as the pending wage settlement.

Currently, there are four railroads in reorganization -- the Penn Central, the Boston and Maine, the Central of New Jersey, and the Lehigh Valley. At least two of these are facing severe cash shortages as of the end of 1970. The Central Railroad of New Jersey and the Penn Central are approaching the point where they will not have sufficient cash to continue operating.

The cash balance of the Central of New Jersey as of December 31, 1970, is estimated to be $566,000. On that same date, it must meet a payroll of $925,000 and other operating costs totaling $500,000; in other words, a cash deficit of almost $1 million. For 1971, the trustees estimate a cash deficit of $6 million to $7 million.

The cash balance of the Lehigh as of December 31, 1970, is estimated to be $3.6 million. The forecast does not take into consideration the cost of a possible retroactive labor settlement or revenue losses due to the General Motors strike. Nor does it reflect obligations of $6.9 million for such items as taxes, interline settlements, and per diem payments.

The Boston and Maine will not have as critical a cash shortage at the end of 1970 but it is also in need of working capital.

With respect to the Penn Central, you have already heard testimony from the trustees indicating the critical situation confronting them. Without taking into account substantial wage settlement costs, the company will be out of cash by March 31, 1971, and would face the prospect of closing down operations. The Penn Central operates more than 20,000 route miles of track; serves eleven major metropolitan areas and eight major ports; employs 93,000 people; carries 12 percent of the Nation's rail freight traffic; and carries 66 million passengers a year. A failure to keep the Penn Central operating would have a devastating effect, not only on the 16-state eastern region where it carries one-third of all rail traffic, but on the entire country.

The Penn Central, together with the other roads in reorganization, are not islands unto themselves. They are part of a national rail network. Given the importance of that network to our total transportation system and to the economic health of the country, we must start now to take the actions necessary to develop a sound and viable industry. To develop a strong railroad industry, we must develop strong railroads.

Both short-term and long-term measures are required. In the short term, there appears to be no substitute for Federal financial assistance. Without substantial infusions of cash, the roads now in reorganization face the possibility of liquidation. The measures that are possible and necessary in the long run will not meet bills coming due December 31, 1970.

In the case of the Penn Central, the trustees correctly stated the alternatives available in their testimony yesterday and, in essence, the choice is between having a public or privately-owned railroad. So long as there is a reasonable prospect of recreating a viable, privately-owned carrier through the process of reorganization -- and I share the trustees' view that there is -- we should make every effort to do so.

The bill proposed by the Administration last summer, S. 4011, would have authorized the Secretary of Transportation to guarantee loans to rail carriers for the purpose of meeting their temporary and urgent financial requirements. The loans guaranteed could not have extended beyond 15 years from the date of issuance and the aggregate amount of loans guaranteed outstanding at any one time could not have exceeded $750 million. The bill would have authorized guarantees for the next five years.

The purpose of the bill was not only to help railroads in reorganization to continue operating, but to keep railroads from going into reorganization in the first place. I know it was the feeling of many in the Congress that such an approach was too wide-ranging and might simply perpetuate poor management practices.

In light of those reservations and in light of the critical situation now confronting the roads in reorganization, the Administration would support a narrower approach. Specifically, we would support a bill which reduced the aggregate guarantee authority to $500 million; restricted guarantees to certificates issued by trustees of railroads in reorganization; and provided explicitly for priority of the guarantee over any other creditors of the railroad in the event of default. We believe that legislation of this nature would meet the most critical problem confronting us -- keeping the railroads running -- and provide the time necessary to develop and implement the long-run measures which are so essential.

I cannot over emphasize the need to deal with the more basic problems confronting the entire railroad industry. Short-run infusions of cash are simply not the final answer. Without some fundamental corrections within the industry and in the Government's approach to the industry, a loan guarantee program may do no more than keep false hopes alive.

We must squarely face the long-standing problems affecting rail transportation and look for solutions in such areas as:

- Revising Federal and state regulatory policies;
- Removing discriminatory taxation and reviewing the tax laws for other inequities;
- Increasing the productivity of the industry through improved labor and management practices;
- Improving railroad operational efficiency with respect to such matters as utilization of freight cars, modernizing facilities and improving track and roadway, and rationalizing the total railroad plant;
- Exploring other areas of railroad operations where new concepts or new technology might lead to greater efficiencies.

I realize that this Committee fully shares this concern. Its concern is reflected in the major railroad legislation it has already favorably reported and steered through the Senate this session, including S. 2289 dealing with discriminatory taxation. I hope we can address these other problems in an equally constructive manner during the next Congress.

This concludes my prepared statement, Mr. Chairman. I shall be happy to answer any questions the Committee may have.