STATEMENT OF ROBERT HENRI BINDER, ASSISTANT SECRETARY (DESIGNATE) FOR POLICY, PLANS AND INTERNATIONAL AFFAIRS, DEPARTMENT OF TRANSPORTATION, BEFORE THE FAMILY FARMS AND RURAL DEVELOPMENT SUBCOMMITTEE, HOUSE COMMITTEE ON AGRICULTURE
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Mr. Chairman and Members of the Subcommittee:

I appreciate this opportunity to meet with you to discuss the programs of the U.S. Department of Transportation and their impact on agricultural and rural development. This year, the Department submitted two major legislative proposals to Congress: The Transportation Improvement Act of 1974 (TIA) and the Unified Transportation Assistance Program of 1974 (UTAP). We consider both of these bills to be timely and important proposals designed to make an important contribution to the Nation's transportation system by strengthening different aspects of this system.

The Unified Transportation Assistance Program will strengthen the ability of urban governments to make the transportation decisions and investments needed to relieve congestion, conserve energy, and reduce pollution, and it will help rural areas to make needed expansions in their public transportation systems. The Transportation Improvement Act will improve the regulatory climate and financial health of our vitally important rail freight system, with resulting significant economic, energy and environmental benefits for the entire Nation. I would like to devote the bulk of my time today to the TIA because it is the proposal which has the most direct impact -- a highly beneficial impact -- upon the rural areas of this country.

As you are aware, Congress last year, passed the Regional Rail Reorganization Act of 1973, which was signed into law by the President on January 2, 1974. This legislation, of course, dealt with the deep rooted problems of the bankrupt railroads of the northeast and midwest. If we are to avoid future Penn Centrals, it is critically important that action be taken now to improve conditions throughout the railroad industry. The gains to the Nation, and in particular to rural areas from doing so, are enormous. The cost of failing to act cannot be tolerated.

Rural areas are heavily dependent on rail service both for the movement of agricultural commodities outbound and for the movement of manufacturer's goods inbound. The agricultural community therefore has a vital stake in the existence of a healthy, strong, progressive rail system. Unfortunately, the railroad industry suffers from a number of problems which prevent it from providing the full measure of high quality, low cost service of which it is capable. As a consequence, we all suffer: rails, shippers, consumers and the national economy.

We cannot overlook the fact that the railroad industry in the United States is in a troubled state. Net profits for the 73 Class I rail carriers (those with annual revenue of at least $5 million) are less than 2 percent of equity. Many railroads cannot generate sufficient earnings to make needed improvements in track, roadbed and facilities, while funds from outside sources are generally not available to carriers for these purposes.

As a consequence, a substantial segment of the total rail industry in the U.S. is in a state of deterioration. Rail plant deterioration presents a problem as real and as important as the crisis of the insolvent railroads in the northeast which we faced last year. Many, many miles of line are subject to "slow orders" and on some lines the maximum safe speed is less than 10 mph. I understand further that this problem is particularly acute in rural areas. The industry, furthermore, is burdened by many miles of uneconomic lines which are a financial drain and add substantially to operating costs. At the same time, parts of the railroad system are operating at or close to capacity, and these segments must be upgraded and expanded if the industry is to make its contribution to the national transportation system and to the public using its service.

In short, the railroads are in a vicious cycle. Low earnings are depriving them of the ability to make improvements in plant which are needed to reduce costs and improve service. The inability to reduce costs and improve service hampers the competitive position of railroads and adversely affects their net income -- so the cycle is repeated. If we are to revitalize the railroad industry and achieve the full measure of benefits which healthy, progressive railroads can offer, it is essential to break this cycle.

A major cause of the railroad industry's problems is an outmoded and excessively restrictive Federal regulatory policy. Existing regulatory policy has seriously hampered railroads' ability to adapt to changing economic and competitive conditions in the transportation industry. It has discouraged abandonment of uneconomic rail lines and hindered the industry in innovating new services, in responding to competitive conditions in transportation and in attracting traffic on which railroads have a competitive advantage. The outdated regulatory system is not only sapping the vitality of the industry, but it is threatening the industry's long-term ability to function as a viable, privately-owned system. We have neglected this Nation's railroad industry too long.

We see improvements in the ratemaking system as the cornerstone of the regulatory reform provisions in the Department's proposed legislation (H. R. 12891). The current system of rate regulation severely limits an individual railroad's freedom to establish rates. As a consequence, it has created serious rigidity and distortions in the railroad rate structure. It has discouraged experimentation with new service, hindered the introduction of new service, and prevented railroads from adapting to changing economic and competitive conditions. In particular, it has prevented the operation of market forces in determining how traffic is divided among the various modes.

Our bill (H. R. 12891) makes a number of changes in the existing pricing rules as a means to revitalizing the railroad industry and improving the efficiency with which transportation resources are used. Needless to say, a competitive and sound rail industry -- an industry ready and able to respond to the consumer's need -- would be a great asset to the rural parts of our country. The TIA will contribute substantially to that result. Let me review some of the TIA provisions for you.

The bill provides that a rate decrease may not be found unlawful under section 1 of the Interstate Commerce Act and allows for the speedier introduction of rate changes and more innovative rate-making, such as seasonal and off-peak pricing, which could be of great assistance to rural areas.

The bill provides a procedure for initiation of rates involving the development of a new service involving capital expenditure of $500, 000 or more. This provision is designed to reduce the delay and uncertainty associated with the introduction of new services, and thereby to encourage experimentation and the introduction of service innovations. This provision could also be a great benefit to rural areas. The bill also directs the Interstate Commerce Commission to raise all rates which are below variable cost to the variable cost level.

The present regulatory process has also resulted in the rates of one mode being held too high to protect another mode. The bill prohibits the ICC from holding the rates of a carrier of one mode up to a particular level for the purpose of protecting the traffic of a carrier of another mode, so long as the rate in question is not below variable cost. This provision should lead to more competitive and cost-related intermodal pricing and introduce greater rate flexibility into transportation ratemaking. This provision should have significant beneficial impact upon carriage of grain. The net result should be a more efficient use of transportation resources.

Complementing these various changes in the area of rate-maing, the bill makes a number of changes with respect to rate bureau practices. The basic thrust of the proposals is to remove the inhibiting influence of the rate bureaus, and to place great reliance on competitive market forces in ratemaking. I am confident that this will result in a lower overall freight bill, and improved service and lower cost to all consumers, including the rural consumer.

In addition to the regulatory reform provisions of the TIA which I have discussed, the bill contains a number of other important provisions; one such is the provision that would provide a more precise and appropriate standard for abandonments, and reduce the uncertainty as to the timing of abandonment cases.

The TIA abandonment provisions would not result in an abrupt loss of service -- nor in an extensive loss of service. The case is quite the contrary. The bill requires a series of steps prior to abandonment. Basically, no abandonment may occur under the new procedures earlier than one year from the date of enactment. If there is protest, the abandonment could be delayed for up to two years.

With respect to the extent of abandonment, our preliminary studies indicate that the rail service that might be curtailed because of abandonment is less than 1 percent of the total service. Even here, the bill provides that the local communities and shippers can subsidize the uneconomic lines and prevent their abandonment, and in such cases the bill further delays the abandonment to allow such financing to be arranged. In addition, by providing greater rate flexibility our rate proposals will provide a better market test of those lines which are economically viable. In some instances, a piece of track which is not economic now would become profitable again and no longer be a candidate for abandonment.

Even where a line is abandoned, we do not think the local area will be disrupted seriously. In most areas of the country, low-density lines which are candidates for abandonment are paralleled by highway and water routes. Furthermore, TIA provides for easier market entry of motor and water carriers where there is an abandonment.

As for other provisions of the TIA, the bill requires the ICC and this Department to recommend new uniform cost accounting and revenue accounting methods. Discriminatory local taxation -- a problem which results in the railroad industry's annually paying some $50 million in excess taxes -- would be prohibited. The bill would also prohibit subsidized rates for government shippers and make needed improvements with respect to intrastate ratemaking. The bill also authorizes the creation of a national rolling stock scheduling and controlling system. We are hopeful that implementation of such a system by the railroad industry will go a long way toward achieving a more efficient use of freight cars. This would contribute substantially to alleviating the "car shortage" problem and would be of great benefit to rural areas.

The regulatory reform changes and the other provisions which I have discussed are critically important to resolving the railroad industry's problems and improving its prospects. But regulatory reform alone is not enough. There is also the need to provide financial assistance to the railroad industry. Because of the industry's low rate of return, many railroads are simply unable to generate adequate funds to make needed capital improvements. On the other hand, the investment community has been reluctant to provide external capital to the industry because of the heavy level of existing liens on rail properties.

Our bill would provide $2 billion in Federal loan guarantee authority to finance improvements in rights-of-way, terminals, rail plant facilities and rolling stock. The loan guarantee provisions of the bill are designed to encourage needed long-term restructuring of the existing national rail system. Our analysis of the freight car problem indicates that we can significantly increase utilization of freight cars if we modernize the terminal facilities. It is these terminals which are the stumbling blocks in the system. We feel that the loan guarantee program will help remove these bottlenecks and thereby contribute to better car utilization and better rail service.

Now let me talk briefly about UTAP. Before I discuss our UTAP proposal in more detail, let me first describe the present Federal-aid highway program as it impacts rural areas.

The Federal-aid highway program has historically evolved to meet the most pressing highway needs of our country. The Federal program was created originally to assist the States in developing a network of paved intercity and interstate routes. This program is known as the primary highway system. When the Nation needed to improve the flow of agricultural goods, the Federal-aid secondary highway program was developed to improve farm-to-market roads. The interstate system was later developed to interconnect large population centers and provide a system of super highways throughout our country to greatly improve automotive travel.

Rural areas have derived many benefits from the Federal-aid highway program.

- Good roads have made it possible for rural residents to commute greater distances to jobs in town.
- Better roads have fostered more decentralization of industry into rural areas.
  - Industries, no longer tied to rail service, can be more independent in site selection wherever there are good roads.
  - Manufacturing plants locating in rural areas can draw a labor supply from a commuting range of 20 to 30 miles or more, employing persons unable to support themselves in agriculture yet who prefer to live in rural areas.
- Through improved mobility, much of the isolation of farm life has been eliminated.
  - Farm families have greater opportunity to enjoy music, art, theaters, and sports in urban centers.

- Rural dwellers have greater opportunity for urban shopping, recreation, church, and lodge and farm meetings.

- Decreased transportation costs encourage agricultural specialization and efficiency, especially in farming operations (e.g., dairying) requiring frequent deliveries.

In addition to the continuing development of the primary, secondary, and interstate systems in rural areas, a number of rural programs meeting unique needs have been either created or continued by the 1973 Highway Act. A few examples:

1. The bridge replacement program which provides funds to replace bridge structures that are no longer structurally sound. So far, 36 bridges have been approved for replacement in rural areas.
2. Safety programs include pavement marking, rail crossing removal, and high hazard location improvements.
3. A demonstration program on rural highway public transportation which will determine the need for public transportation in rural areas, particularly for the elderly and poor, who do not or cannot operate automobiles.

4. The priority primary route program will fund those high priority routes that connect the interstate system to major centers in each State and have not been improved because of the emphasis placed on completing the interstate system.

5. The Economic Growth Center Development program, designed to demonstrate the conditions under which highway projects can be instrumental in providing a catalyst to the development of small urban centers in predominantly rural areas.

The most important component of the Federal-aid highway program is the interstate system. Funds authorized for construction of this 42,500-mile highway network are distributed by formula to each State highway or transportation department. Improvements on the primary and secondary highway systems are also financed out of authorizations which are apportioned to the States in accordance with formulas contained in the highway statutes.

Together, the primary and secondary highway system include more than 20 percent of the total road mileage in rural areas. However, unlike the interstate system, where funds are provided to construct a federally-defined highway network, primary and secondary highway authorizations are intended for construction or improvement of roads serving State and regionally-defined transportation requirements. It is left to each State to decide how and where primary and secondary highway funds are to be used. Thus, these programs provide a high degree of flexibility to State officials, enabling them to solve their transportation problems in the way they think best.

UTAP builds upon this foundation. While it is primarily focused on urban transportation problems, UTAP would provide additional flexibility in programs targeted at rural and small urban areas. First, UTAP would permit primary and secondary highway funds to be used for public transportation investments outside of our large urban centers. Second, UTAP would expand the recently established Rural Highway Public Transportation Demonstration Program explicitly to assist in funding public transportation operating expenses. These steps are designed to make the present highway program more responsive to the needs of small urban and rural areas.

A great deal of attention has been focused on the fact that UTAP includes authorizations for urban transportation after 1977, but no small urban and rural authorizations are sought beyond 1977. Many have concluded that this signals the Administration's intention to terminate the small urban and rural highway program at that time. Nothing could be further from the truth.

The Department of Transportation is currently developing a small urban and rural transportation program for the 1978-80 period which will be submitted to the Congress. Furthermore, the Administration is still firmly committed to completing the Interstate Highway System where State and local officials wish to proceed with construction.

We have furnished you more detailed information regarding both the TIA and UTAP and we will supply you with additional data should you find a need for it.

Mr. Chairman, this concludes my statement. My colleagues and I would be happy to answer your questions.