TESTIMONY OF SECRETARY OF TRANSPORTATION BROCK ADAMS, ON S.796, CONCERNING THE RAILROAD DEREGULATION ACT OF 1979, BEFORE THE SENATE COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION, RENO, NEVADA, APRIL 19, 1979.

Good morning, Mister Chairman. I appreciate the opportunity to be here today to talk about the proposed Railroad Deregulation Act of 1979. The rail crisis continues to worsen throughout the nation despite substantial attention from every Secretary of Transportation and every Congress in recent years. The failure is due in large part to the fact that these efforts have focused solely on the rail industry itself. I emphasize to you, the crisis is not confined to the railroads. The crisis affects the entire transportation system: how shippers get their products to market, and what consumers pay for those products. The Rail Deregulation Act of 1979 addresses these concerns, and its passage is imperative for our transportation system as a whole, and for every shipper and consumer in the country.

The financial plight of our railroads is severe and that was very much on our minds as we developed this bill. It was also very much on President Carter's mind when he transmitted it. He said "The private freight railroads are the backbone of our industrial and agricultural production. But today the...industry faces a crisis which could have grave consequences for our nation's economy." The Administration remains very concerned that the already hard-pressed U.S. taxpayer not be asked to increase an already large and in many ways unproductive subsidy. This legislation provides a real opportunity to avoid such an unwise course of action. But as important and immediate as these concerns are, I do not want the debate on this bill to turn solely on the railroads' financial health. Our concerns are far broader.

The shipping community has told us -- by their words and by their actions -- that the railroads can no longer serve their needs. Even as railroad prices have gone up, railroad service has gone down. Increasing numbers of cars and locomotives spend larger and larger amounts of time in repair shops. An ever-growing proportion of the rail system has declined to the point that it can be operated only at severely reduced speeds. Increasing numbers of shipments are lost or significantly delayed. Accidents become more frequent every year.

Some time ago trucks, 60 percent of which are deregulated, surpassed rails in share of the freight market. And the disparity of their shares keeps growing. In 1977, water carriers, 92 percent deregulated, carried 599 billion ton-miles of traffic, one fourth of all U.S. freight movements that year. The railroads are carrying less and less of our nation's goods -- and the nation is paying a high price for that change.

If other modes could carry all these goods more efficiently, we would not be so worried about what is happening to our railroads. The fact is, however, that a lot of the traffic carried by other modes could be carried faster, or less circuitously, or at lower cost, by the railroads. But the regulatory system continues to inhibit the railroads from competing effectively for this traffic. In those instances, the loss of rail traffic doesn't just mean a loss of rail revenues. It means that we have an inefficient, costly, and less productive transportation system. And every one of us pays the bill for that inefficiency.

I believe that if we allow today's railroads to operate as other industries do, instead of regulating their every move, many of the industry's problems can be solved -- and solved in the private sector. But we must move quickly.

Let me stress that this reform proposal is not the total answer. To benefit fully from a less regulated environment, the industry must modernize its physical plant, its operations, its labor relations and every other way it conducts its business.

Simply stated our goal is better rail service. To achieve this goal we must encourage increased rail productivity, efficiency, and innovation, allowing the railroads to increase their revenues, decrease their costs and become better competitors. That's what our legislation is intended to do.

Increasing rail revenues does not mean just raising rail rates. Raising rail rates indiscriminately won't work -- in fact, it will be counterproductive. Rail rates must be flexible and imaginative -- reflecting individual, specific costs and competitive circumstances. This will happen in several ways.

First, where rates on competitive traffic are below the carrier's costs, rates must be raised. Even if the railroads lose the traffic, that loss will make a contribution to rail profits.

Second, for traffic already contributing to rail revenues, further competitive progress can be made if the railroads learn to provide a variety of rate/service packages. Not all shippers want the identical service or require the same speed, or the same time of pick-up and delivery. New and profitable traffic can be attracted by the railroads if their rates and services are attractive.

Third, the service and rates affecting the so-called "captive shippers" must be addressed. For five years such shippers will be able to seek ICC protection. But even then the issue will be primarily one of definition. Many shippers are captive only by habit. For those shippers, deregulation offers a major competitive opportunity. They will find many chances to improve their marketing -- new rates, new services, faster, better, often cheaper service -- whether by rail, truck or other mode, and to new markets, as well. Other so-called "captive shippers" have for many years been the beneficiaries of a regulatory policy that originally sought to promote infant or depressed industries or geographic areas, but ended up as a permanent fixture of the railroad rate structure, subsidizing mature, profitable industries at the expense of the railroads. The railroads can no longer afford this policy, nor can the taxpayers who will have to pay an increasing share of this hidden subsidy.

Finally, there are shippers who rely on the railroads as the only reasonable, economical mode of transport. This bill recognizes that need, by providing such shippers with tools to assure fair and reasonable rail rates. Discrimination is forbidden. Contract rates and peak-load pricing are encouraged, and these tools will allow railroads and shippers to reduce the uncertainty of demand, and assure competitive prices and timely service. Another means of helping such shippers is the five-year transition to maximum rate deregulation. Shippers will use this time to amortize existing investments and work with the railroads to make long-run plans. DOT will undertake studies during the transition period to assure that no one bears an unfair share of the costs of deregulation.

At the other end of the spectrum, reducing rail costs will also help to lower some rail rates and encourage the efficient use of the total transportation network. Our bill will encourage consolidation of track and facilities, joint trackage rights, reductions in terminal congestion, and a myriad of other operating efficiencies. Mergers will be treated more fairly and promptly, and they will be consummated without imposition of heavy-handed operating conditions that rob the merger of all or most of its intended benefits.

Finally, let me mention one more gain to the economy -- the reduction in the cost of regulation itself. Suffice it to say, by way of example, that the railroads tell us that six tons of paperwork were submitted to the ICC in support of the last general rate increase request, and that abandonments can still take up to two and a half years, and cost upwards of half a million dollars each.

In closing, Mister Chairman, let me touch just briefly on another important railroad issue. The Department was directed by Congress in the Amtrak Improvement Act of 1978 to recommend a restructuring of the nation's rail passenger system, basically according to population and market criteria.

My recommendations will greatly improve Amtrak service to Nevada. The San Francisco Zephyr, which now operates between Chicago and San Francisco via Denver and Reno, will be combined with the Southwest Limited. The new train will run from Chicago to Kansas City, Denver and Ogden. At Ogden the train will be divided, with one section proceeding to Reno, Sacramento and San Francisco, and the other operating to Salt Lake City, Las Vegas, and Los Angeles. This train will preserve service to all Nevada points now served by Amtrak, will initiate new Amtrak service to Las Vegas, and will provide direct service from Chicago, Kansas City and Denver to both Reno and Las Vegas. The train will also provide service between Los Angeles and Las Vegas.

That concludes my prepared testimony, Mister Chairman. I look forward to discussing my proposals with you as the debate proceeds.

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