STATEMENT OF BROCK ADAMS, SECRETARY OF THE DEPARTMENT OF TRANSPORTATION, BEFORE THE SURFACE TRANSPORTATION SUBCOMMITTEE, SENATE COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION. February 7, 1979

Mr. Chairman and members of the Committee:

I am very pleased to be here this morning as this new Congress starts its consideration of what to do about an old and difficult problem--the state of our nation's railroads. In his budget message, President Carter said he foresees generally stable business conditions for most sectors of the economy. Railroads are the exception. The rail industry, he said, "is struggling for financial survival."

During the past year, the Department of Transportation has completed a major study of the freight rail system. This study was mandated by the Railroad Revitalization and Regulatory Reform Act of 1976 (the 4R Act), which I voted for with high hopes that it would turn the tide. It hasn't. The grim conclusion of the Department's study is that without fundamental restructuring of the railroad system, the United States will be forced to provide massive and open-ended subsidies or simply to nationalize the nation's freight rail system in the not-to-distant future. The Department finds these alternatives unacceptable.

Some railroads, like the Southern and the Union Pacific, are enjoying record earnings. But many U.S. railroads are in desperate straits. Since 1967, 10 companies have filed for protection under the bankruptcy laws. More than 40 percent of today's rail freight services are provided by rail companies that can charitably be described only as "financially weak."

But the total rail system is inextricably linked since more than half of all our freight movements travel over more than one railroad. This means that even financially strong railroads will, in the relatively near term, be pushed to the brink or beyond, and that overall rail service will deteriorate further. Even our largest subsidy need projections do not allow for such a collapse of the rail system.

All this has happened under government regulation and in spite of repeated and ever-increasing government assistance. Has the government faced up to its full responsibility? If regulation is part of the problem, and the facts suggest that it is, then who is the government protecting by continuing to keep the railroads shackeled to 19th century economic theories and 90-year old regulatory policies? It is time to make some serious and fundamental changes, building on but going farther than the 4R Act. Now that we are approaching the 21st century, we must at least get the railroads into the 20th.

We have to stop making basic business and operating decisions for a multi-billion dollar industry. We must release that industry from its stifling and backward-looking regulatory restraints, and allow it to enter into the economic system that governs the rest of our nation's business. We must apply to the railroads the fundamental economic notions that there are profits and rewards if good service is provided at a competitive price, and that they can and will go out of business if service is bad or the price too high. The change may be painful, after so many years. But as the late Adlai Stevenson said, "there are no gains without pains."

While we will move on many fronts, some of which will be the subject of later hearings before this Committee, the foundation of the Department's plan for solving the rail freight crisis is to encourage innovation through regulatory change. In an era when railroads enjoyed significant monopoly power and all of our nation's goods moved by rail, it was reasonable to use regulation as an instrument of social policy. But the development of a 224,000 mile federal-aid highway network, a 25,000 mile waterway system, and a 1.1 million mile intercity pipeline network has long since ended the railroads' monopoly position. Today, the railroads carry only a third of our freight, less than their truck competitors. The choice is no longer between unfettered monopoly power and protection of the public welfare. Today our choice is between greater Federal subsidy to rail freight service and reduction in outdated regulatory controls. I submit the choice is just as clear.

The private rail industry is simply not going to survive unless it can better compete with its unregulated barge and truck competitors. The Department believes that reduced railroad rate regulation is essential, and that it is appropriate in light of the pervasiveness of intermodal competition that's already unregulated. We also need to encourage railroads and shippers to enter into long-term contracts to protect themselves against sudden shifts in demand or price.

But restoring rail health is not just a matter of more competitive prices. We also need to let the railroads reduce their costs--by consolidation of redundant lines and facilities, coordination of track so that it is used with maximum efficiency, and finally by abandonment of lines that cannot pay their way and where the public or the user is unwilling or unable to bear the full cost of service.

Finally, when the deadening weight of regulation is lifted, we can expect more innovative rail management decisions--decisions that have been frustrated by unyielding and unimaginative regulation. The triad of better management, reduced costs, and increased revenues is the key to a healthy freight rail system, and only a substantial change in our regulatory policy will give us a chance to turn the key.

It is generally agreed that restructuring the nation's rail system would, in the long run, yield a more efficient mix of transportation service and allocation of transportation resources. But, understandably, few shippers or communities, facing the possibility of higher rates on some commodities or decreased service are able to envision the benefits of a more efficient rail system, carrying more goods over longer distances and at more competitive prices. The prospect of rate freedom and system rationalization raises great uncertainty among shippers and communities.

This uncertainty, understandable but overstated, must be balanced against the certainty that federal government expenditures will increase manyfold if we decide to try to maintain the current system. Just as certainly, even if such an attempt were successful, in the sense that most of our railroads survived, we would simply have perpetuated a regulatory scheme conceived in an era when our problems and needs were different, and our commercial imagination restricted by a more limited technology.

The Department's initiatives look to the future of less narrow boundaries. Our proposals will provide a framework in which the railroads themselves can work to provide a better, more efficient rail system for our country. At the same time, these initiatives will assure that the transition is orderly and predictable, providing our shippers and communities the opportunity to adjust to and understand the new order and providing the nation's private rail system a chance to survive as a healthy, independent, even flourishing part of our private enterprise economy.

As you know, I have an appointment with another committee. Jack Sullivan, the Federal Railroad Administrator, is here to discuss what has led us to this point, just three years after the 4R Act.