

STATEMENT OF WILLIAM T. COLEMAN, JR., SECRETARY OF TRANSPORTATION, BEFORE THE SENATE COMMERCE COMMITTEE REGARDING S.1436, THURSDAY, May 1, 1975.

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to appear before you today to discuss the condition of the Nation's railroad rights-of-way and legislation designed to improve those rights-of-way and, at the same time, provide jobs for railroad and other workers who are presently unemployed.

The principal bill before the Committee is S.1436. That bill would require the Secretary to provide funds to railroads to the extent necessary to permit them to hire sufficient numbers of maintenance employees to restore the size of their repair and rehabilitation work forces to the maximum level maintained between June 1, 1974, and April 15, 1975. It also authorizes the Secretary to provide funds to States and local governments and to regional commissions to finance wages and salaries associated with the rehabilitation of various railroad facilities given priority by the bill. The bill authorizes \$600 million to finance these activities and another \$100 million to assist in the acquisition of materials and equipment necessary to carry out railroad rehabilitation

programs instigated by the Secretary's grants to increase the maintenance work force.

This legislation and other bills of a similar nature represent an approach to one facet of the railroad problem which at first glance offers considerable appeal. Its supporters have pointed out that it provides an opportunity to attack simultaneously two problems of national significance: the deteriorating rail plant and unemployment. Because of this potential, the Department began more than a month ago a very thorough review of such legislation. On the basis of our analysis, however, we have concluded that adoption of this legislation is not the right approach to take at this time.

We recognize that the railroad industry in this country, by and large, is in a sorry state. Most people are aware of the severity of the problem in the Northeast and Midwest because of the bankruptcy of several railroads in those areas. However, some of the railroads that operate in the Plains States also are in poor financial condition -- witness the recent failure of the Rock Island -- and there is a danger of the problem spreading to other areas.

For many years, the income generated by bankrupt and other railroads has been insufficient to meet the requirements of plant maintenance and rehabilitation, and with an industry average rate of

return of three percent or less, it has become extremely difficult for many railroads to obtain funds from outside sources. As a result, much of the rail plant has become dilapidated and is unfit for high-speed operations. In fact, it is not uncommon for train operations on mainline tracks to be limited to speeds of 10 to 20 miles per hour. In addition to cutting down on the efficiency of operations, these conditions are contributing to an ever-increasing number of accidents and derailments.

I am extremely concerned about this situation, for I am convinced that a strong rail system is essential to the future well-being of the whole country. Despite many years of decline, the railroads still carry nearly as much freight as motor carriers and inland waterways combined. And, in view of the energy and environmental problems facing the country, I believe it is important that the railroads be in a condition to move quickly and safely a significantly increased amount of freight and passengers. As coal production is increased in an effort to reduce our dependence on oil, we must continue to look to the railroads to play a predominant role in its transportation. Over the next ten years it may be necessary to double our coal production to meet our energy needs and it appears that more and more of this production will occur in

the Western part of the country. These factors could require a very substantial increase in ton-mile production by the railroads. Increased use of rail transportation also can lead to savings in energy, for rail transportation is the most energy-efficient of all our modes of transportation in terms of long-haul movements.

As for the many difficulties of the railroads, I should point out (and this is particularly important in the context of the legislation now before the Committee) that the poor condition of the track and roadbeds and the large number of railroad bankruptcies are symptoms of a number of basic ills that plague the industry. Among the most important of these basic ills are redundant facilities, excess rail competition, and outmoded regulation. We realize that symptoms should not be ignored and they often require treatment. But rather than adopt short-term temporary programs that only address the symptoms and that may be inconsistent with long-range objectives, I believe the time has come to get to the heart of the problem and attack the basic ills themselves.

The railroads need financial assistance, but providing that assistance under a bill such as S.1436, without changes in the basic rail structure or in the regulatory regime, can lead to a waste of funds. We need an overall broad-based attack. A

major part of our present railroad difficulties lie in the Northeast and Midwest. In February, the United States Railway Association issued its preliminary system plan to restructure the railroads in that area. We are carefully analyzing that plan and intend to announce our views on it very shortly. The approach that is finally adopted will be of utmost importance in determining whether this part of our rail system is going to get back on its feet or whether it will continue to founder.

Complementary to adopting a sound approach for the Northeast and Midwest, we believe it is essential that the Congress adopt a comprehensive railroad bill, applicable nationwide, which together with providing financial assistance will make possible important reforms to the system for the economic regulation and restructuring of the railroads. This is the approach we are taking in the Department's proposed Railroad Revitalization and Energy Transportation Act, which we intend to submit to the Congress very shortly.

As in the case of the proposed Transportation Improvement Act which we submitted to the last Congress, our new comprehensive railroad bill will include, first, improvements in ratemaking which would remove limitations on an individual railroad's freedom to establish rates and to effectively compete with other modes. The railroads will benefit from increased traffic revenue, and the

consumer will benefit from lower transportation costs. Secondly, the bill would impose restrictions on certain practices of rate bureaus which tend to dampen competitive forces in the ratemaking process and to discourage pricing flexibility and service innovation. Thirdly, the bill will propose other regulatory reforms such as prohibiting discriminatory State taxation and mandating a new accounting system for the ICC. Finally, the bill will establish a substantial financial assistance program which will help the railroads to rationalize and upgrade the facilities and equipment necessary to provide efficient rail transportation service.

We not only believe it is highly essential to provide a substantial amount of financial assistance to the railroads, but we believe it is equally important that the financial program be administered in a manner which will provide the most return for the taxpayer's money. Thus, we propose that a number of important conditions be imposed upon the provision of such funds. A central factor we would consider is the contribution the proposed improvements would make to the establishment of a rational, efficient, and economical railroad transportation system. Very importantly, we propose that the Secretary be empowered to require as a condition to the approval of financial assistance that a railroad enter into agreements for mergers and consolidations and for the joint use of tracks, terminals, and other facilities, or for the purchase or sale of other assets. Such agreements

would be approved in an expedited procedure. The railroad problem is critical and consolidation of rail facilities is crucial to revitalization. We can no longer afford to take twelve years to reach decisions as happened in the Rock Island situation. Thus, in addition to providing badly needed funding to the railroads, this financial program would promote the elimination of excess railroad capacity, without the cumbersome regulatory procedures administered by the ICC.

I should point out that the program for financial assistance in our comprehensive bill is not designed to accommodate railroads reorganizing under the Regional Rail Reorganization Act of 1973. While the planning process is still underway under that Act, we believe that we should continue to use the funds the Congress authorized in February to provide for the operation and improvement of those bankrupt railroads. Of course, the 1973 Act also contains substantial authorizations for the rehabilitation of the rail system in the Northeast and Midwest once it is restructured under that Act. As I mentioned before, we will announce very shortly our views on the preliminary system plan published by the United States Railway Association, including our recommendations with respect to the need for rehabilitation of the restructured system.

Up to this point I have discussed what I think is the proper approach to solving the problem of the railroads, including the

rehabilitation of tracks and roadbeds, namely, a comprehensive approach which deals with causes rather than systems. Before I close, however, I would like to make some comments on S.1436 and the concept of providing immediate relief from the unemployment problem by establishing a railroad rehabilitation program.

Certainly we are all deeply concerned over the current high level of unemployment and the serious difficulties it is causing many people throughout the country. However, this is a problem which the Administration has taken into account, first, in preparing for this coming fiscal year a budget designed especially to stimulate the economy; secondly, in approving the Tax Reduction Act; and thirdly, in approving extensions to emergency employment assistance and unemployment benefits. These measures already will result in a deficit for fiscal year 1976 higher than any year since World War II, and the Administration is committed to placing strict limitations on any new spending programs. A new spending program of the type contained in S. 1436 not only would increase the Federal deficit, but we also doubt that a program properly geared to meet priority needs for railroad rehabilitation could be implemented fast enough to make an immediate impact on the current unemployment problem. There are a number of preliminary steps that must be taken before a new program of this nature



can be brought into full swing. The establishment of a formula program as proposed in S.1436 might expedite the distribution of funds, but once the bill were enacted, it still would be necessary to issue implementing regulations and guidelines to insure that funds were used solely for eligible projects and in accordance with the objectives set forth in the bill. In the case of funds distributed on a discretionary basis, sufficient time would have to be provided for grantees to forward applications and for review and approval of those applications. Therefore, it appears that much of the reemployment impact under S.1436 would occur late this year and next year. Thus, we do not believe that S.1436 would be an effective employment stimulus for the short term.

In conclusion, we urge that the Committee not act favorably on S.1436. Instead, we believe it is preferable to attack the railroad rehabilitation problem through the adoption of a sound final system plan for the Northeast and Midwest and through early enactment of the Department's comprehensive railroad bill. With respect to the unemployment problem, we believe we should await the impact of budgetary and other actions already taken by the Administration. These actions should help bring about an upturn in the economy which will provide more jobs.

That concludes my prepared statement. I shall be happy to answer any questions the Committee may have.