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STATEMENT OF JOHN A. VOLPE, SECRETARY OF TRANSPORTATION, BEFORE THE SUBCOMMITTEE ON TRANSPORTATION AND AERONAUTICS, HOUSE INTERSTATE AND FOREIGN COMMERCE COMMITTEE, REGARDING RAIL PASSENGER SERVICE, TUESDAY, JUNE 2, 1970.

Mr. Chairman and members of the Committee:

I appreciate very much this opportunity to appear before you to discuss the railroad passenger service problem. Rail passenger service in the United States is declining so severely in amount and quality that it may soon disappear completely unless action is taken now.

In the last ten years, the number of intercity passenger trains has fallen from 1500 to fewer than 500. The railroads have proposed discontinuance of many of these remaining trains. Accompanying this overall decline in passenger service has been a generally marked deterioration in quality.

Severe deficits from passenger operations impose a serious financial burden on the Nation's railroads. This, in turn, affects their ability to provide high quality freight service. The rail passenger deficit, calculated on a solely related cost basis, has been increasing and amounted to about \$200 million in 1969. The impact of this deficit is apparent when compared to total rail net income in 1969 of only \$500 million.

The future is clear -- we will surely witness the disappearance of intercity rail passenger service if we do not take positive action to avert it. I am convinced that there is a very real need for intercity passenger service and that such service can be provided on an economically self-sustaining basis. By the end of this decade, the total demand for

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intercity transportation service will put serious strains on our highway and airway systems. This will be particularly true in the major corridors, such as those on the west coast, in the northeast, and in a broad band across the midwest. These corridors traverse more than 20 States. Considering some of the potentially attractive long-haul routes, service to as many as 40 States is involved.

The Metroliner operation between New York and Washington convincingly shows that good quality rail passenger service can attract the traveling public. Over one million people have now ridden the Metroliner and, in 1969, between New York and Washington total rail patronage increased 46 percent over the preceding year.

Given a demand for good quality intercity rail passenger service in these corridors and over some long-haul routes, how do we go about achieving such service? I know this Committee, as well as the Department, has been examining this issue intensively over the past year. There appear to be two basic choices. One choice would be to establish some form of public subsidy which would compensate the railroads for their passenger deficits. A public subsidy program would assure the continuation of service, and possibly improve it, but only at a very high cost. As a general rule, there is little incentive to innovation in a subsidy approach. My experience has been that all we can look forward to are greater subsidies.

The other choice is to completely restructure the existing rail passenger system. This restructuring would be based on two premises. The first is that the attention and energy of the railroad industry, and more



particularly railroad management, are directed more to the transportation of goods than to the transportation of people. This is not unnatural given the overwhelming predominance of their freight business both in operational and revenue terms.

The second premise is that in some markets there is insufficient demand for rail passenger service. In these markets, rail passenger service simply can no longer compete with the automobile, the bus, and the airplane. Therefore, to achieve economic viability on a systemwide basis, there has to be some paring of uneconomic routes or service.

After carefully examining the pros and cons, I concluded that, if the Government was going to do anything to meet this problem, it would be a serious mistake to do nothing more than prop up the present system with public subsidy. We must take a bolder approach and create a new structure. With sufficient capitalization, a new, quasi-public corporation, whose only purpose is to maintain and improve rail passenger service over a more economically sensible system, has a good chance of becoming a sound and successful enterprise. This is the concept embodied in S. 3706, a bill now before the Committee. The Department worked extensively with the Senate Commerce Committee in developing this bill, which passed the Senate on May 7, 1970.

I would like to review briefly for the Committee how S. 3706 would work if enacted. The bill would require the Secretary of Transportation to designate a basic national rail passenger system. Within 30 days following enactment of the bill, the Secretary would have to prepare and submit to

the Interstate Commerce Commission and the Congress a preliminary report designating such a system. Within 30 days thereafter, the Interstate Commerce Commission would be required to provide the Secretary with its comments and recommendations. After considering the Commission's views and within 90 days from the date of enactment, the Secretary would be required to submit to the Congress his final report designating the basic system.

The bill would create a National Railroad Passenger Corporation whose purpose would be to provide intercity rail passenger service. Shortly following enactment, the President would appoint incorporators who would serve as the Board of Directors for 180 days and take whatever actions were necessary to establish the Corporation as a going concern.

The bill would require the provision of passenger service within the basic system either by the Corporation or a railroad until at least January 1, 1975. A railroad could be relieved of this obligation only by entering into a contract with the Corporation under which the Corporation would assume responsibility for providing the service. In exchange for being relieved of its obligation, the railroad would agree to pay to the Corporation an amount up to one-half of its fully distributed passenger service deficit for calendar year 1969. If a railroad does not contract with the Corporation to relieve itself of passenger service responsibility, it may not discontinue any service prior to January 1, 1975.

It is important to note that, upon contracting with the Corporation, the railroad would be relieved of all responsibility for rail passenger service, including service performed outside the basic system. In many



cases, the Corporation would discontinue the service outside the basic system for which it had assumed responsibility. The bill does provide, however, for the maintenance of service outside the basic system if State, regional, or local authorities are willing to provide financial assistance to compensate the Corporation for any deficits incurred.

We would anticipate that most railroads would enter into contracts with the Corporation. This would provide the Corporation with initial capitalization of about \$200 million, which could be paid over a three-year period, in equipment, services, or cash, at the option of the Corporation. In addition, the Secretary of Transportation would be authorized to provide \$40 million in cash to assist the Corporation in meeting initial organizational costs and for operational and other corporate purposes. The Secretary would also be authorized to guarantee loans to the Corporation up to \$60 million. Thus, the Corporation would have access to about \$300 million in capital at the outset.

Because the financial condition of some railroads might otherwise preclude participation, the bill would also authorize the Secretary to make or guarantee short-term loans to railroads for the purpose of permitting them to enter into contracts with the Corporation. These loans would bear interest at the Treasury rate and could not exceed a total of \$75 million.

Obviously, the establishment of the Corporation will not result in dramatic overnight changes in rail passenger service. The Corporation will contract with the railroads for operating crews, trackage rights,

and equipment maintenance. Therefore, at the outset, it may be running many of the same trains. As a result of the consolidation of service, however, it is expected that there will be a general upgrading of the equipment in use. Immediate improvements can also be made in various passenger convenience areas such as ticketing and reservation. Over the longer run, new equipment can be purchased, roadbeds improved, terminals modernized, and other quality-of-service improvements achieved.

I do not wish to leave the Committee with the impression that there are no risks in the course of action proposed in S. 3706. The rejuvenation of railroad passenger service will require a great deal of effort, dedication, and imagination. These traits have never been lacking in American enterprise, and S. 3706 provides a framework within which they can be exercised. On behalf of the Administration, I strongly urge early and favorable consideration of S. 3706 by this Committee and the Congress.

I realize that, in this brief statement, a very complex problem has been given a very summary treatment. I will be pleased to answer any questions the Committee may have.