DEPARTMENT OF TRANSPORTATION | NEWS

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EXCERPTS FROM REMARKS BY ASSISTANT SECRETARY FOR POLICY AND INTERNATIONAL AFFAIRS, CHARLES D. BAKER, BEFORE DELTA NU ALPHA, PITTSBURGH, PENNSYLVANIA, APRIL 21, 1971

What is transportation policy? Well, the way I see it, it's a statement of positions that guide the formulation of programs and/or their execution. It is not really a statement of objectives and goals, but rather positions which will shape programs so that objectives and goals will be achieved. This, of course, implies first identification of objectives (broad and general ends to be achieved), for example, with our urban transportation grant program, to provide transportation for those who do not have access to cars and goals (specific quantifiable ends to be achieved)---for example, to increase ridership 50 percent over next five years. Then policies are established---and then (and ideally, only then) programs are formulated and revised. Or so it should be.

But alas, in the real world, theory and practice are not synonymous, and policy is rarely developed as it should be. Just about a year ago, Pat Moynihan made a speech at Hendrix College in which he considered this dichotomy between action and objective in some depth. Mr. Moynihan attributes the discrepancy in Federal government programs between proclamation and achievement of ambitions as resulting from defining public policy in terms of programs which relate to a single part of the system rather than in terms of policy which responds to the system as a whole. Put another way, government all too often can decide what it wants to do, but less often really why and against what backdrop of policy.

How has this been manifested in the transportation arena? Well, for example, a big problem looms on the horizon---the Penn Central goes bankrupt! What happens? There is a big Federal (both Congressional and Executive) reaction---loan guarantee legislation, talk of nationalization, and so on. This is OK, and good in fact: The government should react to crises, but it should also have a reasoned approach, some policy against which to develop its reactions.

So, what are we looking for? It seems to me we should be striving for policy positions developed with an eye to our basic objectives and goals---and established not in the academic or the abstract, but neither in an environment of hysteria or crisis.

Where do we start? Interestingly enough, some transportation policy already exists, and some of it has been made consciously. During the '60's, the Federal government determined that it would provide operating subsidies only to transportation carriers in certain (peculiar) circumstances. In point of fact this turned out to be matters of international/national security and regional service needs. Hence, the Merchant Marine operating differential subsidy and support to local service air carriers. These two are reflected in explicit legislation---the 1936 Merchant Marine Act and the 1958 Federal Aviation Administration Act. But there is a problem. Even here, given specific policy statements, we still need criteria to apply. Just how much Merchant Marine? And specifically when is local air service "needed"?

However, it's important to remember that policy can go just so far. Congress, by means of appropriations and legislation, and the Executive Branch, through program execution, essentially evolve criteria as times change and new issues evolve.

Some other policy exists which is less conscious but just as real. For most of this century, it has been Federal policy to support capital investment in transportation not forthcoming from other private or government sources when necessary to allow (transportation) capacity to keep step with perceived demand. In this category are airport and airway development, the Army Corps of Engineers Inland Waterways Program, and the Federal Highway Program. Here, I think it's interesting to note that historically the pipelines haven't required Federal investment to keep pace with demand. Neither have the railroads---yet---and we don't have programs in either area. The recent investment in rail passenger service hopefully on a one-shot basis is an indication of newly perceived demand not being elsewhere responded to.

Still other policy has been conscious but evolutionary. In the last century the prevailing opinion was that the railroads were the town bullies and therefore should be regulated to protect the consumer and competitors (truckers and barge lines). Thus, total regulation of the railroads by the ICC.

So, a great deal of transportation policy (explicit or otherwise) does already exist, and as I mentioned vis-a-vis the railroads, some is evolving. So why all this talk about a National Transportation Policy Statement? What are we in fact up to? First, we are looking at those policies which we already have to determine what if anything needs revision and I submit that transportation regulation is a major case in point, of which more in a moment.

We are also attempting to develop policy where to all intents and purposes there really isn't any. What, for example, is our policy on funding sources for Federal support of transportation? In 1956 we determined that the user pays for highway development; similarly, in 1970, for airport and airways development. Coincidentally, it has been established that users do not pay for waterways, whereas the railroads, the town bullies, overpay: Rail receives no Federal support and in 26 states pays taxes on land in excess of the normal rates.

Where are we now? We have been drafting for the past twelve months, with the major impact and initiation coming from my predecessor, Paul Cherington. During this time, we have met with a myriad number of interested parties: In the aviation industry, we have talked with the presidents of the trunk carriers, the local service carriers, and the supplementals, as well as with representatives from several trade organizations, among them, the ATA, ALTA, and NACA. The railroad presidents have been in and out of the Department and we have maintained fairly continuous contact with the AAR. Similarly, with the truckers---the (other) ATA---and the shallow draft people, the AWO and the WTA.

Outside the carriers, but nevertheless very concerned, are the regional people, the Governors and State legislators, whom we have seen both here and in the field. We have concentrated particularly heavily on the users of transportation---the consumer/shipper and the traveler and we have sponsored Departmental conferences for the express purpose of getting these groups' views on regulation and rail problems, particularly car service.

The regulatory agencies and their parent, the Congress, obviously have an extremely significant role, and we have "interacted" with numerous Congressional groups on a wide variety of issues and have appeared before various Congressional Committees.

Not long ago, I testified before Senator Howard Cannon's Subcommittee on Aviation vis-a-vis the aviation industry, and later this week I will participate in a similar exercise before Senator Vance Hartke's Subcommittee on Surface Transportation which is now conducting a series of comprehensive and wide-ranging hearings on the whole railroad problem.

Not to be forgotten are the TAA, investor groups, and labor---to mention only a few. I merely want to indicate here that we have made a genuine effort to get a handle on the views, ideas, concerns, you name it, of the widest possible spectrum of interested parties; to review and assess them; and where appropriate to get them channeled into the pipeline.

Over the past several months, we have focused a great deal of attention on the major issue of revenue sharing because much of our work in this area antedated the President's revenue sharing initiative. With the advent of this new proposal, a new issue arises: policies re the selection/application of (Federal) funds in (most) grant programs will be set by local rather than Federal decision-makers. Some locales, for example, may decide to use their share for mass transit or rail commuter operating subsidies rather than for construction or equipment acquisition or they may opt for efficiency criteria different from what the Federal government might come up with. In this context, we are revising some earlier Federal (national) transportation policy concepts. And so our policy to an increased degree will be/is focused on the process---for instance, citizen participation in decision-making---rather than on the program (for example, policies re types of uses to which funds may be put).

However, there are some things that can be said now with some degree of certainty:

-- In the area of regulation there will be more emphasis on market competition and less reliance on rate control and entry and exit control.

-- There will be more emphasis on using economic incentives (should demurrage charges reflect opportunity cost?) and less reliance on policing.

-- There will be more flexibility with funding among the various Federal transportation programs and concomitantly more reliance on decision-making by local elected officials, both of which are implicit in revenue sharing.

-- We will continue to rely heavily on user charges as a source for Federal funds. (You simply can't finance Federal support for the level of demand any other way!)

I mentioned our response to the Penn Central crisis earlier. This is just the type of national transportation emergency for

which we are developing baselines for guiding Federal involvement. Labor-management relations in transportation is another "problem" area where I see some definite policy positions being taken, witness the President's legislative proposal, the policy underpinning of which is increased emphasis on collective bargaining in an effort to reduce the Damoclean sword of eleventh hour Federal intervention. Over the past several years the consumer and his interests have been the subject of a great deal of attention. Clearly, in transportation this trend will take the form of policies designed to increase the focus on consumer interests vis-a-vis service and convenience and to de-emphasize protection of the status quo.

The Executive Branch has come out with two reorganization plans recently --- the President's Cabinet Reorganization Plan and the Ash Council's recommendations for consolidating the regulatory commissions --- which reflect a trend in organizational policy of which I approve heartily, to wit more mission orientation and less program orientation.

Some specialized policy areas, for example, automobile insurance, are already public. In this particular case, a strong endorsement of a move towards no-fault, first-party approaches has been advanced. Part of the policy statement re international transportation was released last spring in the International Aviation Policy Statement. Among other things, this strongly endorsed the public desirability of both scheduled and charter service.

Now, where do we go from here? First, the Department will continue to refine and revise the material it already has developed, and, of course, guys like you will continue to give us your ideas. Then we get our "drafts" up to Congress, who in turn decides what it thinks of them. When? Well, obviously soon. And then against a new/updated background of government perspective we execute current programs and formulate new ones.

What will we actually have? At best just a start. Make no mistake --- this is by no means going to be the all-time school solution. For example the '72 Needs Study which we are now involved in is going to bring to light data which will give us a whole new slant on demand and prospects. Clearly, this will call for some revisions. But we will have a baseline and the

shipper, carrier, traveler, consignee, affected public, and relevant government agencies -- all levels -- will have a better handle on how they relate to and impact on one another. It will by no means be perfect, but it will be a beginning.

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STATEMENT OF CHARLES D. BAKER, ASSISTANT SECRETARY FOR POLICY AND INTERNATIONAL AFFAIRS, DEPARTMENT OF TRANSPORTATION, BEFORE THE SUBCOMMITTEE ON SURFACE TRANSPORTATION OF THE SENATE COMMERCE COMMITTEE, CONCERNING PROBLEMS AFFECTING THE RAILROAD INDUSTRY, THURSDAY, APRIL 22, 1971.

Mr. Chairman and Members of the Committee:

I am pleased to be here for these railroad industry oversight hearings and to have the opportunity to present our assessment of the situation and of course benefit by the information and understanding that this series of hearings will generate.

It is very timely and appropriate for your Committee to be concerned about the problems affecting present and future rail transportation. If the trends indicated by the railroad industry's posture, financial and otherwise, are to be reversed, it seems clear to us that a serious effort to deal with fundamental problems must be undertaken. Any discussion of rail transportation is necessarily dominated by the magnitude of the industry and its importance to our national interests. The fact that in 1970 the railroads generated $12 billion in gross revenues but realized less than $200 million in after-tax net income is an indication both of the importance of this industry and the scope of its problems.

I am pleased to have the opportunity to talk to the Committee about problems affecting rail transportation, both in the short term and long term. Solutions to the many problems that we or others may identify are not easily developed, but it is clear that we are dealing with two related but nonetheless distinct questions. First, what needs to be done

to cure the chronic ills of this industry--assuming they should be cured; and second, what needs to be done to keep the patient in some semblance of health while cures are being effected. We must carefully avoid piecemeal solutions. Further, since real "solutions" clearly take time, plans must now be laid to assure the progress of the railroads into the 1980's.

As shown in Exhibit I, and as the Penn Central, Lehigh Valley, and other bankruptcy cases make us grimly aware, the industry is sick. But let me say at the outset that it is my view the Nation neither needs nor wants a Federally owned and operated rail system in the 1980's. We will need a strong, independent industry that is capable of hauling 30 percent more ton miles of freight than it hauls today, at reasonable rates and with an expectancy of on-schedule delivery not less than 90 percent of the time.

Why am I of the view that the rails are vital? First, they are the largest modal carrier of freight (Exhibit II). Second, even at a slightly reduced share of all traffic by 1980, the rails will carry at least one trillion freight ton miles. Third, some major commodities depend very heavily -- some 2/3 or 3/4 of their tonnage -- on the rail mode. Exhibit III shows the importance of the rail mode in an all commodity review. Thus, it is clear that this country cannot function without its rail network in the predictable future. But given the sorry and worsening state of railroads today, it is clear that absent major

change; absent legislative, executive and industry leadership; absent labor-management vision; absent shipper-user involvement and concern; this transportation system is headed rapidly downhill and the prospects for the 70's and 80's become bleak indeed.

PROBLEMS OF THE RAILROADS

Now I would like to turn to the problems which presently prevent the rail mode from realizing its potential contribution to satisfying the Nation's total transportation needs.

Financial Condition

First of course, is the industry's deteriorating financial condition. The most dramatic evidence of the seriousness of this condition is the bankruptcies that have already occurred, and the current struggle of a number of carriers to avoid that fate. Further, evidence of this condition for the industry as a whole is found in some of the worsening trends in the railroads' fiscal picture.

The railroads' net railway operating income declined to $411 million in 1970, the lowest figure in the past 15 years (Exhibit IV). Gross operating revenues increased to a record high of $12 billion in 1970, but the margin of net operating income to gross is now down to about 3.4 percent, also a new low. The net income before taxes is improved by the addition of income from sources other than railway operation, but here again the trend is also down, from $1,341 million in 1955 to $215 million in 1969 (Exhibit V).

Return an investment reached a post-war low of 1.97 percent in the recession year of 1961. From that low, the figure rose to a high of 3.90 percent in 1966. Since then, however, it has steadily dropped, to reach an estimated new low of 1.47 percent in 1970 (Exhibit VI).

Net working capital has declined steadily since 1963, when it was $828 million. On December 31, 1970, this figure was $110 million (Exhibit VII). To give this some perspective, $110 million represents no more than five days' worth of operating expenses for the industry as a whole. In contrast, the accepted rule of thumb would view something over $750 million -- representing 30 days' expenses -- as a minimum level of net working capital. This is roughly equivalent to the $600 million figure which your Committee indicated was the minimum figure in 1958.

In recent years, cash flow from retained income and depreciation retirement charges has provided for only about 60 percent of gross capital expenditures. The remainder has come principally from drawing down working capital and from additional borrowing for equipment. This caused the railroads' total outstanding debt to reach $10.5 billion at the beginning of 1970 (Exhibit VIII).

Despite this fiscal plight, the railroad industry has attracted capital and modernized some of its physical property over the past twenty years. Since 1950, net investment in transportation property has increased over 30 percent, yet pre-tax earnings declined almost 50

percent over the same time period (Exhibit IX). Another picture of cash shortages is the fact that the railroads, as a whole, have used a large percentage of available cash for dividend payments. The percent of dividends to cash flow was 39.1 percent in the 1965-1969 period (Exhibit X).

As we view it, the broad problem the railroads face is to generate sufficient earnings to cover operating expenses and to attract additional capital for further modernization of equipment and facilities. The immediate problem of some of the railroads is sufficient cash to maintain current operations.

For example, over the past 15 or 20 years, there has been a decline in the installation of new ties. In 1950, the railroads were averaging a replacement program of 120 ties per mile. By 1967, this average declined to 63 ties per mile, a level adequate only if ties lasted 50 years. In fact, average ties actually last about 30 years.

We see a similar trend in the size of the freight car fleet. Over the past decade, although the railroads have added increasing numbers of freight cars each year, they are retiring them even faster, and the absolute fleet has declined from 1.9 million in 1960 to 1.8 million in 1970.

These examples serve to illustrate that the railroad industry is strapped for capital at a time when the "plant" and equipment are already in sad shape.

Let me stress, however, that when I speak in terms of industry averages, it does not highlight the fact that some railroads are in far worse shape than others. For example, the Southern Pacific made close to $100 million in 1970, while the Penn Central went into bankruptcy.

Rate Structure

Because of the industry's narrow spread between revenues, expenses and earnings, it has been suggested that a major contributing cause of the problem of inadequate revenue lies in the existing rail rate structure and the lack of a meaningful and rational approach to the pricing of rail freight service. I find this argument fairly convincing. Although over the past ten years the rail industry has received authority to increase their rates some 33 percent on a cumulative basis, their average revenue per freight ton mile has increased only 10 percent over the same period of time. This serves to confirm to me that the problem is one of structure and composition of the rates. While there have been a number of significant exceptions such as the Rent-a-Train concept, the basic rail rate structure and the considerations that are taken into account in the pricing of rail service still appear to follow a "value-of-service" philosophy of pricing. This would be more suitable to the times when railroads dominated the transportation of freight than to the competitive situation we have today. This approach leads to situations where certain commodities are carried at less than their direct costs-of-service, in

turn leading to a measure of cross-subsidization from higher-rated commodities. The Penn Central trustees estimate their below-cost rates are producing losses estimated at more than $80 million a year. From a preliminary analysis -- and we recognize there is considerable controversy on this subject -- we estimate the losses to the railroad industry resulting from below-cost rates at about $600 million a year.

The present rate structure appears to exhibit the characteristic that across-the-board percentage increases in rates do not produce equivalent percentage increases in revenues. In part as a result of a statement we filed with the ICC last November (Exhibit I), that agency decided that the problem required further study and ordered Ex Parte 270, Investigation of Railroad Freight Rate Structure, on December 11, 1970. A copy of the pleading of the Department in that case is submitted for the record (Exhibit XI).

Another approach to achieving a more effective rate structure for the railroads has been suggested by the Council of Economic Advisers in their Economic Report to the President. This approach, by way of lessened regulation of the railroads, is complex because there are both a number of separate "deregulatory" steps that can be taken and because each of these steps can be phased rapidly or slowly. There is no question in my mind, however, that adjustments must be made to the current Federal system of economic regulation to bring it into tune with the realities of today's transportation market.

Plant Utilization

Another major problem facing the industry is the poor utilization of the railroad plant. Simply stated, the existing railroad plant far exceeds the needs of present and projected traffic. Today, we still have 90 percent of the line-miles (in fact, 90 percent of the track as well) that we had in 1939. This trackage predates the construction of 44,000 miles of our Interstate Highway System, the eightfold increase in pipeline mileage and ton-mile capacity, and the decline in intercity rail passenger service from two thirds of the passenger volume to less than 10 percent. In spite of the dramatic change in intercity transportation requirements, the rail plant has remained essentially the same.

Unproductive branch lines constitute a substantial drain on railroad resources, and, in many instances, their shippers would seem more economically served by other modes. As the Rock Island's experience showed, substitute truck services under rail tariffs can be as popular with shippers as with the railroads. Nonetheless, these uneconomical branch lines remain in place. A Brookings study way back in 1933 estimated the light density route mileage which then existed constituted 58,000 of the 239,000 miles in the system. Today, more than half of that 58,000 miles remains.

Duplicate main lines are also part of the problem. Estimates of the utilization of main line capacity range from 20 percent to 30 percent. Exhibit XII shows that if our actual rail system worked as one

coordinated system, 80 percent of the ton miles could move over less than 40 percent of the route miles.

A particularly incredible but factual illustration of this problem is found where the bankrupt Central Railroad of New Jersey runs side by side with the bankrupt Lehigh Valley between metropolitan New York and Scranton, Pennsylvania. A third marginal carrier, the Erie-Lackawanna, operates another parallel line competing for the same traffic. It is impossible to justify these costs and plant capacity.

This excess line capacity is also directly related to the estimated $1.8 billion of deferred track maintenance which now exists. And, the implementation of uniform track standards under the Railroad Safety Act of 1970 is expected to further increase the cost of retaining the rail plant at its present size.

Obsolete and inefficient terminals are also a problem. Literally hundreds of switching and storage yards have been built to handle rail traffic. Many of these have now been surrounded by urban development and could better function elsewhere as consolidated facilities.

The St. Louis riverfront is only one example of this. For over 100 years, the Mississippi riverbank has been occupied by rail yards. Nine railroads have facilities on the riverfront. Ten others use the area for interconnections. These obsolete facilities severely restrict rail services through St. Louis (which serves as a major interchange

point for five percent of the Nation's rail traffic) and result in extremely high operating costs.

Similarly, a major cause of the leveling off of growth of piggy back traffic (TOFC/COFC) is the number of small and inefficient intermodal rail facilities. Many of these facilities are no longer adequate to handle higher traffic volumes at reasonable cost.

The railroad industry's structure contributes to the continuation of the excess plant that exists. More than 75 percent of a given carrier's traffic must be shared with one or more additional carriers (Exhibit XIII). This means that rates, costs, and the quality of service for the majority of rail traffic are jointly established by the participants. For example, there are over 3,000 different routes published by the B&O (53), PC (99), and Reading (over 3,000) between Philadelphia and St. Louis. Some of these routes apply via Buffalo or Detroit, across Lake Michigan to Milwaukee, and then south; others apply via Virginia and Kentucky.

Maintaining excessive route choices for shippers has a significant impact on the rail costs incurred and service provided. Excess plant capacity, excess through and local train service, and excess interchange locations and facilities are the necessary outcome of attempts to service these fluctuating traffic volumes.

It is apparent that the problem of plant capacity has more than one cause, and it also has more than one solution. Some argue for more

flexible ICC procedures to abandon uneconomic lines. The ICC itself blames railroad management for a lack of initiative. And rail mergers have been both promoted and cursed as a solution.

Whatever the mix of causes, the 1980 need will demand solutions to these problems. The issue becomes a question of how to concentrate rail traffic flows on a network of well-maintained lines without highway grade crossings which can justify high maintenance standards, modern terminals, reduced gradients, and improved alignments. How well this is accomplished will also have a major impact on rail service.

Service Reliability

Railroad service reliability is a problem of long standing. Freight car shortages and unreliable transit times have been discussed in what often seems a perpetual way. While the ICC has taken various steps in this area, such as the development of mandatory car service rules and changes in per diem and demurrage, the problem is still with us. Given the decline in freight car ownership over the last decade, it is not likely to get better under the existing scheme of things.

There is no doubt that additions to the car fleet must continue, both to replace obsolete equipment and to handle the growth in traffic. The question is how much capacity should be added. That brings me to what seems to be a very basic problem: equipment utilization. The Nation's 1.8 million car fleet moves loaded or empty only 12 percent of the time. It is loaded about 60 percent of the time, and therefore engaged in moving freight roughly only 7 percent of the time (Exhibit XIV).

From preliminary estimates, 30 percent of the average freight car's time is spent in classification and interchange, 40 percent in loading and unloading, 13 percent in waiting to be loaded, and 5 percent out of service. This certainly suggests some opportunities for applied technology, as in the development of new car control systems, as well as marketing and rate making. Even though freight car utilization (expressed in net ton miles generated per ton of capacity) has increased 25 percent since 1960, further improvement is necessary (Exhibit XV). This means better management of car inventory through the national application of a computer control system, the reduction in idle time at interchanges, and the limitation of loading and unloading time to that amount reasonably necessary. Of course, it also means having an adequate locomotive supply available to handle the traffic.

I have mentioned transit time unreliability. For the railroad industry as a whole, a sample survey reveals only one car in three will arrive on the day it is scheduled to do so. In contrast, the trucking industry has an 85 percent to 90 percent on-time delivery record, and consignees obviously prefer on-time deliveries. Thus, railroad performance needs to be improved, but doing so through Federal involvement raises the critical question of the extent to which representatives of the public interest should be involved in the basic railroad managerial process.

Another aspect of this problem is reflected in the industry's unwillingness to invest in certain types of equipment. Because the rate structure encourages hauling high-value commodities requiring specialized equipment, the industry has no incentive to buy or utilize general purpose equipment. Over the past decade the boxcar fleet has decreased by 157,000; gondolas by 76,000; hoppers by 94,000; and stock cars by 20,000. On the other hand, covered hoppers have increased by 64,000; flat cars by 20,000; and refrigerated cars by 35,000. This means, of course, that there are fewer general purpose cars available to provide the service required and adds to the burden of servicing an increasingly specialized fleet.

The shippers also contribute their fair share to the service problem, for example, by holding cars for storage and loading and unloading, and by bunching up demand. 1969 figures on cars of revenue freight loaded indicate that car loadings were greater during the third and fourth quarters (737,000) than during the first half of the year (554,000), and a similar situation exists with carloadings of metal ores (1,230,000 loadings for the second half versus 789,000 for the first). This kind of demand peaking causes the railroads real problems in providing the required equipment.

ROLE OF LABOR AND MANAGEMENT

No discussion of the problems facing the railroads can be complete without a recognition of the need for self-assessment on the part of both

railroad labor and management. Each face many unique situations -- the solutions to which frankly are beyond Federal action or relief and require internal remedial action.

It is gratifying to note that industry spokesmen acknowledge their responsibility. The ASTRO Report acknowledged that "The industry must reckon with its own shortcomings . . . At the very least, the industry should be able to resolve by itself matters of internal managerial responsibility. The creation of arbitration machinery for intra-industry disputes is a necessary first step and should be exploited at every possible opportunity".

Likewise there is no doubt that responsible union leaders recognize the need for this kind of self-appraisal within their ranks. They are equally as meaningful a part of the industry as is railroad management and share in its stake for the future. I understand that two labor-management task forces created last July will soon issue reports on their joint analysis of track and roadway and terminal delay problems. Hopefully, there will be much more of this type of cooperation. The Federal Government will continue to look for ways to bring together the kind of labor-management teamwork that is so necessary for the well-being of this industry.

CRITERIA FOR LEGISLATIVE MEASURES TO ADDRESS PROBLEMS OF THE RAILROADS

We have sketched the demands facing the rail system in 1980, and the major problems besetting the rail industry that will hinder the development of the rail system we will need.

Now I want to describe the principles which I believe should be kept in mind in considering the type of legislative measures that would deal appropriately with such major problems.

Any legislative proposals should address what we consider the major causes of the industry's economic problem -- the inability of the industry to attract sufficient capital for modernization and outmoded regulatory laws and policy. In general, we favor an approach that is intended to return the industry to an earnings level that will enable it to attract private capital.

An environment is needed in which a privately-owned and operated railroad system can exist and prosper. Direct Federal financial support should be considered only as a last resort, and if required, it should be carefully evaluated and certainly held to a minimum.

To the extent rail legislative proposals might create inequities for other modes of transportation, those non-rail modes should also be included in the proposals in the interest of fairness and equality where possible and appropriate.

Finally, any regulatory changes that are proposed should be consistent with the tenor of the Administration's lessened regulation proposals, and we believe that railroad regulatory revision should be appropriately paced and directed to specific identifiable problems of the industry.

Alternatives that have been suggested to us by a variety of sources and which we are examining include the following (I do not claim this list is all inclusive, nor do I suggest that any or all will be found upon full examination to be appropriate for Federal pursuit):

1. On a long-range basis, lessened regulation. This includes a zone of flexibility of rates (high and low) and increased carrier discretion vis-a-vis entry and exit.
2. Feasibility of demonstration projects for such things as TOFC/COFC and yard improvement.
3. Encouragement of research, development and systems analysis to improve the system of freight car control.
4. Elimination of discriminatory taxation.
5. Examination of the pooling concept as it relates to car utilization, and in addition, an examination of the rules of per diem and demurrage as they impact on this problem. The objective is to get a system that produces cars moving loaded with freight -- not necessarily back to the owning railroad.
6. Examination of short-run and transitional problems.

I believe that the things I have discussed today indicate that the government is grappling with the gut policy and program issues. And I think it is accurate to state that historically the government has not always done this.

We need a profitable, efficient, high-service level, private rail industry. We don't need a Federal system nor a Federally-supported system. To get from where we are to where we need to be calls for industry skill and imagination -- management and labor alike -- and government realism in regulation and legislation. We are moving, and we will get there.

Mr. Chairman, that concludes my prepared testimony. Now I will be happy to answer any questions the Committee may have.

DEPARTMENT OF TRANSPORTATION | NEWS

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EXCERPTS FROM REMARKS BY ASSISTANT SECRETARY CHARLES D. BAKER, POLICY AND INTERNATIONAL AFFAIRS, BEFORE THE FAA 1971 PLANNING REVIEW CONFERENCE, SHORT-HAUL TRANSPORTATION SESSION, WASHINGTON, D. C., APRIL 29, 1971

This morning I have been asked to make a few comments on the Department of Transportation's multi-modal policies and its position on requirements and needs for the short-haul transportation system. I also understand I am to relate these to the recent rail passenger legislation and the Northeast Corridor Project the Department has undertaken over the past several years. What are the Federal government policies with regard to multi-modal transportation? (And here I think it important to point out that not all policy is conscious and explicit. Some policy--take for instance the ICC regulation of the railroads--has evolved over the years until it has become accepted implicitly as policy.)

Where do we begin? Over the past couple of years I've heard a number of transportation policy spokesmen (myself included) talk of "fostering balanced transportation". It has, in fact, become a Department credo. What exactly do we mean when we speak of "balance" in transportation? It certainly does not mean, as some imply, an arbitrary fostering of a grocery cart full of traveler and shipper alternatives. Take international travel as an example. To all intents and purposes it is now (and has been for some time) strictly an air transportation concern, and Federal policy is obviously not to try and reverse the tide and get people off airplanes and on ships.

Well, then, what is a policy of facilitating balance in transportation? Certainly one aspect is reducing artificial (institutional) barriers, like some economic regulations which interfere with one particular mode's performing up to its potential. And it is a policy which attempts to insure balanced availability of Federal financial support based on user charges, unless special circumstances prevail. I view the Airport/Airways Development Act, the Highway Program, and our forlorn waterway user charges in this light. The Public Transit Act and Railpax--or is it Amtrak--are special cases, of which more in a minute. This policy is assisting "regional groups" in overcoming institutional barriers when multiple jurisdictions present planning problems, and it's also providing leadership in cutting the edge of R&D expenditures -- the KC-134/707, the Navy Connie, and more recently the TACV and the SST (at least we tried), to mention only a few.

And increasingly a policy of providing balance--or equal positions at the starting line--means recognizing other less easily measured costs, for instance, those to the environment and to society as a whole, from noise pollution to community disruption.

In an entirely different area, Federal policy clearly supports transportation planning and analysis activities to highlight prospects and probabilities. The Northeast Corridor Project--undertaken by my office-- and the Section 134 analysis of the urban transportation planning process--conducted by the Office of the Assistant Secretary for Environment and Urban Systems--are examples of activities underpinned by this policy.

But why the policy and its products? Perhaps most important is to shed light (for industry or the various levels of local and State government) on where the chips look best, where capital investments have the best chance of success. For a given intercity pair, or a network, does STOL, CTOL, TACV, or conventional rail transportation look best? What are the consequences of investing in one as opposed to another--in building highways, let's say, rather than developing the rail system? What will be the consequences to the other modes and what are the prospects for damaging the environment by the increased automobile usage that will result? Knowing where the chips look best also helps the Federal government determine how it can best focus its resources and achieve the greatest possible return for people who use and are affected by transportation. Now, of course, this type of analysis sometimes produces some balloon puncturing. If you've analyzed all the alternatives, and it appears that some zealot's zeppelin redevelopment program is really a dog when the social, environmental, and economic costs are all tallied, this gets said. And the zealot doesn't like it. But there isn't any policy that says people have to like you, me, or the Federal government. And often they don't. So be it.

As implied above, policy vis-a-vis funding sources for Federal support of transportation has increasingly been in favor of self-sustaining, user-funded programs via user charges, fares, and tariffs. For example, in 1956, we determined that the user would pay for highway development; and in 1970 we legislated increased reliance on user charges for aviation. And even in the urban transportation grant program where special social circumstances prevail policy has been that we would not provide operating subsidies and that operating expenses should be covered by the fare box.

How does all this ethereal stuff relate to our actual activities? Let's take the rail passenger legislation as an example since Ron Pulling told me to. Historically, the railroads (unlike the highways, waterways, and to a lesser degree aviation) haven't required Federal investment to keep pace with demand. Now we perceive a demand for rail service not being met elsewhere. What do we do? In my view the rail passenger legislation is a real attempt to maintain the policy of economic viability and hopefully it is a one-shot deal and not a program of sustained non-user charge Federal financial support. So I think that while a special situation has occurred, our policies have been adhered to.

The airport/airways legislation is another case. Here, the Federal government has perceived a demand for long-term Federal support (10 years) and so a long-term program is set up. And, as you all know, user charges are a part of it.

I mentioned earlier that one approach to facilitating balance in transportation is by removing artificial barriers like regulation. One of the provisions of the rail passenger legislation places control for setting rail passenger fares in the hands of "Amtrak" management. I think this is a golden opportunity to experiment with some of the economic theory we've been bandying about, for now management can set fares according to market demand. Let's not be bound by artificial barriers. And lest you accuse me of saying one thing on the ground and another in the air, I want to point out to you that the Department took a similar position in the recent CAB domestic passenger fare investigation. Here, we advocated that the CAB allow domestic carriers more--to hear CAB tell it, a lot more--flexibility in setting fares. We proposed that the Board establish a "zone of reasonableness" within which range the carriers would set whatever rates they considered appropriate.

So much for the hors d'oeuvres. What about a few balloons--punctured and otherwise. Our Northeast Transportation Project suggests several things. First, that in the near term, the 1970 to 1980 period, increasing congestion at urban CTOL terminals in the Northeast Corridor could preclude sufficient growth of both long- and short-haul traffic as we now know it to meet air travel demands. Why? Obviously increasing public sensitivity to adverse impacts of current air systems has constrained expansion of the air system, while increased demand for long-haul domestic and international air service has added to the requirement. So what's the answer? It appears to me at the moment that in the Northeast Corridor over the next decade an improved and expanded high-speed ground transportation system is a strong bet. Others favor a new type of short-haul air service, new as contrasted with what we generally have now. (For example, STOL with perhaps different runway usage and perhaps locations.)

Post-1980? It appears that VTOL, STOL, TACV, and faster trains are all good prospects. There are significant R&D risks associated with both new air and high-speed ground transportation systems, but with continued analysis to assure that we have the

information necessary for rational decisions on long lead-time investments and with strong R&D programs, these various systems are all candidates for meeting long-term transportation requirements.

Now let me make a few parting generalizations about short-haul air transportation overall. The school definition for short-haul is a trip in the 150 to 300 mile range. Here in the east we tend to think primarily in terms of the Boston/New York City/Washington corridor syndrome (and understandably so, that's where the most passenger trips are), but there are other short-haul operations that are relevant. There's the feeder-type of trip from a small to a large city, say from Bangor to Boston. And then there's the trip between two fairly closely situated smaller cities--for example, Fresno and Bakersfield. And what do we have servicing them? The trunks and increasingly the locals have jet-powered fleets capable of carrying upwards of 90 passengers. Except in large-city-to-large-city "corridor" operations perhaps we would be better off with 24-seat type vehicles. And I don't necessarily mean STOL or VTOL. In general, the economics suggest that except when runway length is severely constrained, conventional aircraft may be the best answer.

What air vehicles do we need for most of the short-haul traffic? Not to mention, who is going to do it--trunks, locals, or third levels? If we can honestly address the capacity/type of service issues we can also come to grips with the runway and vehicle performance questions. Is STOL synonymous with short-haul? What are the system economics of short-haul, smaller capacity? CTOL? What can be expected of VTOL?

These remarks are something of a smorgasbord of policy views, learnings from studies, and observations on short-haul air systems generally. Some of the issues have been addressed already in the course of this conference. A couple will be hit specifically before the morning is out. Harvard was once described as a great university because its students brought so much to it and took away so little. There's no question that all you participants here are bringing a great deal to the Department through your involvement in this conference. Hopefully, however, you'll also feel you have gotten something useful to take away.