



DEPARTMENT OF TRANSPORTATION

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NEWS

FEDERAL RAILROAD ADMINISTRATION

WASHINGTON, D. C. 20590

SPEECH PREPARED FOR DELIVERY BY JOHN W. INGRAM, ADMINISTRATOR,
FEDERAL RAILROAD ADMINISTRATION, AT THE COMSTOCK CLUB,
SACRAMENTO, CALIFORNIA, NOVEMBER 12, 1973

I appreciate this opportunity to address the Comstock Club. You have a national reputation as a forum of major importance, and I am honored by your invitation to speak.

Like just about everyone else from Washington these days, I come to you with word of a crisis. We have the Mideast Crisis, the Energy Crisis, the Constitutional Crisis, the Pollution Crisis, and various other disasters that are dutifully written up on the front page of the Washington Post. I'm here to talk about the Railroad Crisis, which is usually relegated to the financial page of the paper, but it's a very real and very prominent crisis nonetheless. It is a matter of grave consequence to the basic economy of the Nation -- and despite the fact that current problems bear the title "Northeast Rail Crisis," this is something that affects every corner of the Nation.

I believe the official title of my remarks here asks the question "Does a Rail Crisis in the East Cause a Crunch in the West?" We could say that another way -- "Can the Industry that Opened up the West Close Down the Northeast?" You bet it can. It can close down everything.

Let me start off with a few figures.

Sixty-six percent of all the fresh vegetables grown in California -- much of it right here in your lush valleys with its rich soil -- are shipped by rail to Eastern markets. The railroads carry 73 percent of all the apples, pears, grapes, cherries and other fresh fruit, and 82 percent of all California citrus, to consumers in the East. Canned goods also are a big export business. Northern California, along with the Pacific Northwest, supplies the whole country with lumber: 29 percent of all the lumber and 36 percent of all the plywood are destined for the Northeast.

Other California products exported by rail to Eastern markets range from wine to automobiles -- the latter assembled from auto parts brought by rail into your state.

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The railroads you see in California -- the Southern Pacific, the Union Pacific -- the Western Pacific and the Santa Fe -- can carry all these products and commodities just so far. Eventually, the cars have to be coupled to trains headed for the Eastern seaboard, and these trains eventually have to travel on tracks owned by the bankrupt Northeastern carriers.

The same is true in reverse.

As I mentioned, auto parts made in Detroit are shipped by rail to California's assembly plants. So are finished autos for California car dealers. Tractors and other farm machinery come from Peoria, Illinois, and other major heavy machinery manufacturing centers. Steel rail and concrete pipes needed for California construction arrive from Pittsburgh. Household appliances -- refrigerators, ranges, television sets, you name it -- are shipped into California by rail and even sold by the carload. The Union Pacific also reports big shipments of general merchandise -- clothing and hardware -- for California's consumers -- and even livestock and meat products. The Western Pacific, in addition to the manufactured goods I mentioned, carries beer and liquors and agricultural feed products such as corn and milo; tobacco, candy, tinsplate -- the works. The Santa Fe's waybills include furniture, paper products, chemicals and plastics. The Southern Pacific lists a thousand-and-one commodities and reports it has 90,000 freight cars or 850 train loads moving in both directions every day.

All this just goes to show that the bulk of the commerce into and out of California is by rail.

California has a direct interest and a financial stake in a workable solution to the problem of bankrupt railroads in the East. These railroads, even though they are 2,000 or more miles away, have a direct bearing on California's economy, on your corporate welfare, and your personal standard of living.

Like it or not, the problems of the bankrupt Eastern carriers are your problems, too. Maybe you're not "your brother's keeper," but you surely are his fellow sufferer. Your way of life depends on the survival of your brother in the East -- and I don't mean the Penn Central Transportation Company, or any other specific railroad on the financial rocks, but an effective and efficient railroad core network, by whatever name.

It might be wise at this point for me to hold up for a minute and recount a little bit of history. It gives us all a better perspective of the problem.

When railroads were invented in the early 19th Century, they were the only form of mechanized transportation. Most of the industry in the United States was located in the East -- along with most of the natural resources that had been discovered and tapped at the time -- and a vast network of rails was built to connect almost every city and town. It was a matter of pride and economic necessity to have a railroad, and speculators were all too glad to get state or local assistance in building those rail lines.

Now, in the age of the Interstate Highway, the jet aircraft, the pipeline and the Federal system of inland waterways, railroads have become no more than one of the options.

And in the Northeast -- with its financial institutions, it's so-called "think tanks," its research centers and universities -- the primary products of many companies gets shipped out not in freight cars but in briefcases. It's not so much a matter of economic necessity to have a branch line in your small town -- although, I'll admit, we still run into problems when it comes to the matter of local pride. But that's another issue.

My point is, there is an awful lot of surplus railroad in the Northeast quadrant of the Nation. For a number of varying reasons, this is old and archaic railroad. It hasn't been maintained properly. Parts of it are safe only at restricted speeds. In fact, the Penn Central railroad (those initials "P-C," by the way, stand for "Patience and Charity") came into my office last month claiming that 6,901 miles of their railroad were unsafe for operation at any speed -- and asked us to relax our rules so they could continue to provide vital services over these neglected ribbons of rust. We did in fact grant them a few exemptions from the new safety standards (which they had known were coming for two years) and they have continued operations under strict provisions after a sort of chaotic 12-hour shutdown of about 2,000 miles of railroad on October 16th. At any rate, much of the rail and roadbed in the Northeast has deteriorated and needs a lot of fixing. A third point is that over the years the railroads of the Northeast signed a lot of labor agreements that had little relationship to the efficient use of manpower. As various technologies improved, or as the operation of the railroad altered with the source and the type of business, the manpower standards remained unchanged -- and as a result there are a great many extra employees on the payrolls of railroad companies in the Northeast.

To bring our history lesson up to the present, we are now faced with a situation where seven Class I railroads and one Class II connecting line are bankrupt. One of them, the Penn Central, should probably be called "super-bankrupt" since it's well on the way to simply running out of cash. That's about as bankrupt as you can get.

What would you do if you managed a corporation that was physically over-extended, overstaffed, under-capitalized and in the hands of a receiver? (Or in this case, trustees.)

Would you close down the unprofitable portions of the business? Would you raise the rates to generate more revenue? Would you lower the rates to generate more volume? Would you lay off excess employees? Would you consider liquidating the business -- chalking it up as a hopeless venture?

Well, if you're a railroad, you can't do any of these. At least not without checking first with the provisions of the Interstate Commerce Act of 1887 -- a magnificent piece of 19th Century law based on the precept that railroads are the only form of mechanical transportation anywhere, and because they are monopolies have to operate according to the "public convenience and necessity."

That law has been amended a few times, I'll admit. In fact it was just updated 33 years ago -- before jet aircraft, before the Interstate Highway System, and before the great influx of Federal dollars into our inland waterway system.

Let me tell you a little story about the abandonment of unprofitable branch lines. One weekend last summer I was headed for Rehoboth Beach, Delaware, to enjoy the Atlantic Ocean. You have to drive across the Eastern Shore of Maryland to get there, and I asked my staff to list a few of those Eastern Shore branch lines that the Penn Central wants to abandon. I wanted to see them for myself -- perhaps count the boxcars on the sidings to see if there really was a shortage of business. I drove to the area, checked my maps, and simply couldn't find anything that looked like a railroad. On Monday morning I hollered a little at my staff for having sent me off on a wild goose chase, but they stuck to their guns. So we went back -- this time with property maps and a surveyor.

We found that branch line, all right. At one place it was directly under a junk yard full of wrecked cars. At another point the highway department had covered the tracks with at least eight inches of pavement. And just off the road we found a six-inch wide tree growing between the rails. That line had been completely forgotten, yet grown men were arguing before the Interstate Commerce Commission that that stretch of track was vital to the Nation's economy!

Obviously, there are a few institutional changes that need to be made in the way the government looks at railroads.

That's enough history. Summing up, we are faced with the fact that eight railroads in the Northeast -- railroads that carry part of the load in delivering products from all over the country -- don't make money for their stockholders. Their main line services, for the most part -- and their industrial, interchange, and team tracks (for the most part) -- carry enough traffic to make money. In fact, some sections of the Penn Central have higher traffic densities than anywhere in the world. The Northeast consumes a lot of stuff. That's where the people are. What we really have to do is identify the vital parts of the Northeast rail system -- extract them from the wreckage of the bankrupt lines -- and put them to work for the good of the Nation, the good of the region, and the good of the investors who have confidence in a resurgence of railroads in the Northeast. We have to be rational about how many people it will take to operate the new system. We have to be rational in deciding that perhaps you don't really need three railroads paralleling each other between Buffalo and Cleveland (two of them, incidentally, are bankrupt lines). We have to set priorities for upgraded maintenance -- rebuilding, if necessary. And we have to do it now.

How close are we to doing just those things? I'm happy to say that we're closer today than we were a week ago.

Just last Friday, the House of Representatives passed (by the sizeable margin of 306 to 82), a piece of legislation designed to straighten out the Northeast rail situation once and for all.

The objectives of this bill are objectives that the Administration agrees with fully. In a nutshell, Congress will appropriate sufficient funds (probably on the order of \$85 million) to provide interim funding for the continued operation of the bankrupt lines over the near future. The bill creates another Federal agency, this one called the Federal National Railroad Association, or "Fannie Rae." Fannie Rae will, in turn, delineate those portions of the Northeast rail system that should remain in service and be incorporated into one or more private companies. Fannie Rae will take over the needed portions of the bankrupt lines, paying for them with stock of the new company or companies. The new company, tentatively being referred to as the Northeast Railroad Corporation, will then operate the best parts of the bad system -- and will make money doing it. It will be initially financed with \$1 billion in government-guaranteed tax exempt bonds. Creditors of the bankrupt lines will have stock in the new railroad, and that stock will have as much value as the stock of any solvent corporation can be expected to have.

The legislation does not dip deeply into the Federal till. It does not nationalize the railroads, which is the last thing you should want. Nationalized railroads in other countries

lose money at even a faster rate than the privately-owned Penn Central ever has. Nor does the legislation "bail out" anyone. It's not a giveaway -- it's a rational solution.

There are, as you can imagine, several aspects of this legislation that are less than perfect. We attempted, on Friday afternoon, to have several portions of the bill amended -- for instance, those that gave what we thought were excessive benefits to workers displaced by the takeover. After all, a guaranteed income of \$30,000 a year did seem a bit much. (The House didn't agree.)

We also sought to "tighten up" the act a little bit so that compensated creditors couldn't come back in several years and reopen a case saying that they didn't get enough for their assets in the takeover of the bankrupt lines.

The amendments that we did not get in the House we'll try for in the Senate, and if we still have minor problems you can be assured that we'll work closely with the Conference Committee after Senate passage if need be. But the main point is this: there is legislation aimed at solving the Northeast Rail Crisis -- and that, I suspect, is more than you can say for most of the crises that have been bouncing off Capitol Hill in recent months.

I hope you get the impression today that I am optimistic about the future of railroads in this Nation. When I accepted the post of Federal Railroad Administrator two years ago, some of my friends suggested that it was sort of like being appointed Social Director on the "Titanic." Not so. We have gained ground, and we will gain more. Your fellow Californian, Transportation Secretary Claude Brinegar, has probably learned more about railroads in the past six months than he ever cared to learn, but he is one heck of a quick learner and has provided us with solid leadership in untangling some very complicated Congressional knots.

Congress itself -- as you can see by the lopsided vote in the House last week -- is showing that it recognizes the necessity of a good rail freight system, and that it no longer looks upon all railroad executives as robber barons.

We are well on the way to getting the problem in the Northeast fixed, and now we can move ahead with the task of insuring efficient, reliable and cost-effective rail transportation throughout the rest of the Nation.

The Northeast rail bill -- and this is significant -- was sponsored by a Congressman from Montana (Dick Shoup) and one from the State of Washington (Brock Adams). Most of its

provisions were originally recommended by one of your great Western railroads, the Union Pacific. They care what happens back in the East, because they know it affects what goes on here in the West.

Government -- through the Department of Transportation and the Federal Railroad Administration -- is working to coordinate progress within the free-enterprise framework that has made this Nation great. Archaic railroads, as I have noted, are being given the opportunity to make themselves into modern railroads. Archaic regulations will be our next target -- allowing 20th Century corporations to provide 20th Century service. Mankind has yet to devise a more efficient method of moving large quantities of goods over long distances than by using steel wheels on steel rails. The friction is low, the rollability is good, the power demands are comparatively small. The railroads are here to stay -- but if by some disastrous sin of omission at government policy-making and lawmaking levels we load railroading down with disincentives, then it will be chaos that is here to stay. I hope each of you will join with us in working toward the goal outlined by President Nixon almost two years ago, in his State of the Union Message delivered in January 1972. He said, and I quote, that "by encouraging competition, flexibility and efficiency among freight carriers, we can save the American people billions of dollars in freight costs, help curb inflation, expand employment and improve on the balance of trade."

You know as I do that all of these things are needed. I am sure you trust, as I trust, that all of these goals will be met.

Thank you.

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FEDERAL RAILROAD ADMINISTRATION

WASHINGTON, D. C. 20590

REMARKS PREPARED FOR DELIVERY BY JOHN W. INGRAM, ADMINISTRATOR,
FEDERAL RAILROAD ADMINISTRATION, AT THE NATIONAL ASSOCIATION
OF RAILWAY TAX COMMISSIONERS' CONFERENCE, HOUSTON, TEXAS,
NOVEMBER 13, 1973

I am delighted to have this opportunity to be with you. Houston, like several other Texas cities, has a reputation for wealth -- and bringing the Federal Railroad Administrator here is sort of like leading a hungry dog past a meat wagon!

And even if it weren't for the chance to see what oil can do for a city's economy, it is always refreshing to come to a part of the country where the railroads make money too. Thank you for inviting me.

You, as Tax Commissioners of railroads, in a very real sense serve two masters. Your employer, of course, has first claim on your talents and it is your responsibility to see that he pays no more into the governmental vacuum cleaner than he should. At the same time -- you render a distinct service to government and to the citizenry by overseeing part of the process that allows government to operate. You do deliver unto Caesar that which is Caesar's -- and as one of Caesar's employees I appreciate that. Thank you.

I suspect that in other years, under other circumstances, you could rightfully expect the Railroad Administrator to appear before you and talk about various tax reform proposals. I would have had my Office of Economics do some pretty deep research, and I would make an attempt to tell you -- the experts -- something about your own business. Risky as that might be in normal times, I'm not even going to attempt such a thing today because you and I have a much more significant problem to consider.

I want to discuss with you -- as I have with a number of industry groups in recent months -- the very critical nature of the Northeast railroad situation. I do this, because it's your bread and butter.

The so-called "Northeast Rail Crisis" is certainly not a sectional problem, as I am sure you are well aware. The

interdependence of the railroads, however, is not well understood outside the industry. Here in this room we are only too well aware of what would happen to the railroads in the West for example, if the seven bankrupt railroads in the Northeast suddenly shut their doors.

The seriousness of the situation cannot be overstated. Seven Class I railroads, as well as one Class II line, are in bankruptcy. Their services are not only essential to the prosperity and well-being of the people and industry in the Northeast, they are essential to the well-being and prosperity of the Nation as a whole.

Our aim is to provide for a workable solution to the Northeast rail crisis, one that will be permanent and lasting, not stopgap and inadequate. We have been working closely with the Congress to achieve these ends, and the bill that passed the House last Thursday is a start in the right direction.

There are, as you might expect, some points where we are in disagreement. Indeed, Secretary Brinegar said last Friday that he might recommend a veto of the bill if certain changes are not made in the Senate. But I am confident our differences can be resolved because the overall objectives of the bill -- which is being discussed by the Senate Commerce Committee at this very moment -- are the same objectives the Administration is aiming for.

I am talking, of course, about HR 9142 -- referred to around Washington as the Shoup-Adams Bill. This is the legislation that calls for a Federal National Railroad Association (Fannie Rae) which will delineate a core system of necessary rail services for the Northeast, and will establish mechanisms for financing such a private, for-profit system. The Bill goes on to create a Northeast Railroad Corporation which would operate the reincarnated system as a free enterprise venture.

This is the sort of objective we applaud wholeheartedly. This Administration wants privately-owned and operated railroads to be able to earn a decent dollar in return for providing decent service -- service that is vital to the economic health of the Nation.

There is no question that rail service must continue in the Northeast. Forty-two percent of the Nation's population lives in the Northeast quadrant, and that is where you find the major centers of our all-important automobile, steel and machine industries. The geographic zones served by the bankrupt properties account for more than 50 percent of the Nation's total industrial production.

A widespread rail transportation crisis in the Northeast would most certainly precipitate economic chaos of major proportions, and would shake the Nation to its roots. Last month -- at 12:01 on the morning of October 16 -- the Penn Central withdrew some 1,790 miles of track from service, claiming that the track was unsafe for operation at any speed. That was only a "mini-crisis" compared to what could happen, yet hundreds of shippers were affected and an untold number of carloads were frozen to the tracks until we could conduct a public hearing and grant the Penn Central a limited interim waiver from some of our track safety standards.

My point is that last month's "mini-crisis" did, at least, accomplish one thing. It got us a little attention. A great many members of Congress suddenly heard from irate constituents who happen to ship or receive freight by rail. Elected officials, as you well know, put grease on the wheel that squeaks. The wheels were squeaking back in the districts, and Congress sat up and paid attention. I think that's one of the reasons the Shoup-Adams bill swept through the House by a four to one margin last Thursday. When you can get Congress' attention, and point out the seriousness of a given situation, Congress will respond with responsibility and dispatch. (Indeed, sometimes they vote for more than you really want!) When an industry, and especially its customers, can enunciate a problem clearly and well, the Congress will take heed.

And that means, gentlemen, that whether you are a railroad tax commissioner, a chairman of the board, an operating vice president, or even a rank-and-file worker on a way freight, if you want this industry to survive and prosper within the free-enterprise system, you've got to make your thoughts known to Congress.

Railroad tax commissioners realize this, I know. You do become involved in the legislative process. But only (so far) in your own narrow field. I say that the industry must stand together, whether the individuals involved happen to live in the Northeast, Northwest, Southwest or wherever. The time has come for this industry to present a solid front to the Congress, and if we don't do it now we may have missed our last chance.

I get quite nervous when I see rational, responsible grown men stand up on Capitol Hill and suggest that nationalization might not be so bad after all.

Just from the one aspect of taxation, everyone in this room knows what would happen to the economy of the Nation (and the cost of rail freight) if the government were not only running the railroads but losing tax revenues as well.

Unreal as it may seem, there is still a lot of educating to do regarding the value of railroads to the community. I'm not talking about the "value" that is represented by the service provided -- I'm talking about value to a community in terms of cash. Tax dollars. In too many parts of the country (not just the Northeast, where the New Haven Railroad stopped paying property taxes some years ago), I suspect there is a general feeling among politicians that railroads take more than they give. In fact, I don't just suspect this -- I know it to be true.

The 19th Century image of railroad executives as robber barons has been perpetuated in our folklore to this day.

But it just isn't so. You know it and I know it; but a great many people don't know it, and a great many of them are state and Federal legislators, local and municipal decision-makers.

You men have a story to tell to the decision makers of American government. You can tell those communities precisely how valuable a solvent railroad is to their welfare. Virtually every municipal government of any size in the Nation has some sort of Industrial Development Commission; many cities have their own industrial parks. They entice corporations to build in those industrial parks -- often with very attractive special inducements. They want the property improved to upgrade the tax base; they want the factories to provide employment. And, of course, they want the railroad. They want it to provide transportation services to those factories. But how often do those industrial development commissions take that extra step in the thought process and think of the railroad property itself as a major revenue producer? In the West, perhaps, some "enlightened" tax assessors do just that. (Sometimes they get a little too "enlightened," I know.) But by and large -- and especially in the East where the plague of the bankrupts has taken place, tax assessors all too often look upon the railroad as a burden and not an asset.

This will change. It will have to change. Railroads, which are the most efficient mode of heavy-duty transportation there is, can and will be as profitable as any other major industry.

Some railroad city, someday, will enjoy the wealth of a Houston or a Dallas. The wealth will be there because the railroad is there -- just as oil built the foundations of this great city we are in today.

Such change, however, won't come just with the last-minute salvation of our Northeast railroad system. It will come with a change in the way railroads do business. And the change will come only from the Congress of the United States.

Within a week or so the Department of Transportation will submit to the Congress an overall railroad improvement package.. I am not at liberty to discuss specific proposals in the act, but the act does, indeed, call for sweeping change. It calls for a basic change in the way railroads are regulated, calls for changes in the way railroads are taxed, and calls for changes in the way basic transportation services are provided to the Nation. It will be legislation that will require the fullest possible help and assistance from people who care.

It will call for a great deal of squeaking wheels throughout the Nation -- squeaky wheels that will be heard in Washington by the people in Congress who cast the votes.

I have at least one expert in my office -- a fellow by the name of J. W. Barriger who knows just a little bit about railroads -- who claims that if we enact a sound transportation policy that will allow the railroads opportunity for competitive equality with the other modes, we will see amazing things happen. Within less than a decade, we will see railroads that provide service in half the transit time at half the cost. We can shave from five to ten billion dollars from the transportation costs of the American economy. Railroads can be modern along with the rest of the world of industry, and not continue to limp along under restrictions and regulations of the 1890's. I believe him. I think we can do it. I think we can convince the Congress.

It's the next big push after the final "trimming up" of the Northeast Emergency Rail legislation. It will be a tough one. We'll need your help and the help of everyone in the industry.

I think we'll get it, and I thank you in advance.

Thank you for asking me to be with you today.

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DEPARTMENT OF TRANSPORTATION

NEWS

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FEDERAL RAILROAD ADMINISTRATION

WASHINGTON, D. C. 20590

REMARKS PREPARED FOR DELIVERY BY JOHN W. INGRAM, ADMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION, AT THE WHARTON SCHOOL TRANSPORTATION PROJECT LECTURE, UNIVERSITY OF PENNSYLVANIA, PHILADELPHIA, PENNSYLVANIA, NOVEMBER 19, 1973

Thank you for inviting me to be here. I appreciate having the opportunity to participate in these seminars. And besides that, this trip has given me another opportunity to ride the Metroliners! (Which I hope you use. It saves fuel.)

I am delighted that a school as prestigious as Wharton has a Transportation Project, and that you are concentrating in these seminars on transportation's most critical challenge -- finding a method of coping with the bankruptcy of nearly all rail transportation in the most populous quadrant of the Nation. The other way of describing the situation is to ask "can the industry that opened up the West close down the Northeast?" And the answer, of course, is that it sure can.

I would be bringing coals to Newcastle if I spent much time describing to this audience the basic need for rail transportation. While the man in the street may take freight cars for granted, the man in the market cannot. Any student of finance knows that distribution of raw materials and goods is an inherent part of doing business; and any student of the daily newspapers knows that today it is mandatory that we have to settle for more than what is handiest, we have to seek out that which is best. The simple fact that railroads can move roughly twice the ton-miles while using half the fuel of competing modes indicates that there is no sensible alternative to a continued and expanded utilization of our rail freight facilities.

It is ironic, then, that the rail crisis in the Northeast has been somewhat concurrent with the energy crisis now threatening us all.

I have been asked to give some historical perspective to the Northeast rail crisis, and then discuss Government's approach to a solution of the problem. The historical part is quick and easy.

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The simple fact is, that in the 19th Century when railroads were the only form of mechanized land transportation, railroad lines were built every which way here in the Northeast. This is where the people were; this is where industry was; and the hills just west of here were where the natural resources were ripe for the plucking (or mining or chopping or drilling). Railroads were built as if there were no tomorrow -- and now, unfortunately, tomorrow has arrived.

Back in the 19th Century, when the railroads enjoyed both monopolies and monopoly profits, the consumer was, indeed, subject to a number of abuses. Your history texts are very correct; there was, indeed, a band of robber barons abroad in the land -- and they squeezed pennies from widows, orphans, farmers and other defenseless prey. An aroused citizenry and a responsive Congress came through with the Interstate Commerce Act of 1887, finally, and the nefarious railroad financiers were finally under some sort of public control. Their monopolies -- and the monopoly profits that always accompany true monopolies -- were curbed and controlled. Happily, they were not confiscated -- as happened in a number of otherwise-civilized nations.

Through the early decades of the 20th Century, the railroads -- though regulated and controlled -- still enjoyed the lion's share of the market for mechanized land transportation, and most, if not all, of the corporations continued the service that had been so vital to the creation of the Nation.

The early 20th Century, in fact, was, indeed, the Golden Age of Railroad. The Pennsylvania Railroad -- under the guidance and leadership of some dedicated and responsible men -- called itself the Standard Railroad of the World, and it was probably right.

On Friday nights the Broadway Limited and the 20th Century Limited would race side-by-side through Chicago's suburbs, often in six sections, heading for New York on an 18-hour schedule.

Those were the days of the long slow freights that whistled in the night, and young boys dreamed of one day sitting at the throttle of one of those great machines that represented the epitome of the Industrial Revolution.

Of course, during those years, there were a number of portions of railroads that failed to show a profit. Branch lines, light density track, commuter service -- were individually in the red almost from the start. But that Interstate Commerce Act of 1887 had pointed out very

specifically that there were certain railroad services that fell into the category of "public convenience and necessity," and any loss incurred in satisfying public needs would certainly be covered by other very profitable portions of the railroad. That worked. For a while. And indeed, when there were indications that it wasn't working, Congress was willing to adjust and amend the Interstate Commerce Act of 1887 in order to stay in tune with the times. And here's where we ran into the seedling that grew into the straw that has finally now been placed on the camel's back. The last time the Act was updated was in 1940. You don't need to be a genius to recognize that this was prior to the Interstate Highways system, the jet aircraft, or expanded Federal concern for inland waterway improvement. Since 1940, the demand has changed, the competition has changed, the markets have changed, costs have risen, funds for routine maintenance of the properties have withered away, and (and this is quite important) America's expectations have changed.

This last point is significant. We live in a society of increased expectations. It is very American to want to be very modern. It is part of our lifestyle to want a pastel telephone rather than a black one -- even though the voices sound the same on either instrument. It is part of our society's profile that we want to keep up with the Joneses -- and if Jones likes to brag about his new truck, we have a tendency to go out and buy a bigger truck rather than look to the economic efficiencies of something old and stodgy like a railroad.

At the same time, unfortunately, enlightened railroad management was a long time in coming. I can't honestly say that present day railroad management is the exact epitome of the 20th Century's modern American businessman. Traditionally, on a railroad, you worked your way up. Very slowly and very deliberately. While the rest of American industry was starting to be infiltrated with "whiz kids" ten or fifteen years ago, the railroad industry still took great pride in its male secretaries, its typewriter drop-cloths, its old oaken desks and even occasionally a green eyeshade. I'm not necessarily knocking individuals. As I heard a Congressman say not too long ago, some of my best friends are old-line railroaders. Some of these people know more about the actual operation of railroad trains than anyone else in the world. Sometimes, however, finding black ink on the bottom line hasn't been their major concern. They'd deliver the freight and someone in the front office would check the tariff books and see what the remuneration might be. If the Interstate Commerce Act had led to a tariff that returned revenue that was less than cost, well that's something for an even higher front office to worry about. After all, the freight had finally gone from "Point A" to "Point B."

There was quite a time period when very little new blood came into railroading. Young men and women who started out at the bottom quickly saw that it would be 40 years before they were promoted to decision-making positions -- and they abandoned the industry for greener pastures. Only recently has the railroad industry seen any infusion of youthful enthusiasm -- and while it's beginning to show, I'm not all that sure that their reasons are very proper. I met one young man, a recent Cornell engineering graduate, who is in charge of one of the Penn Central's larger yards somewhat west of Philadelphia. I asked him why he chose railroading, and why (for heaven's sake) the Penn Central? His very honest answer was that there's no one left on the Penn Central, and he was able to move into a position of responsibility by default. (I'm delighted to say, incidentally, that we are all lucky. He seems to be doing a good job.) But there is this arrival of young blood in railroading, and despite the dangers of inexperience, I say it's all to the good.

But to get back to the history lesson -- with a change in the competition we failed to see a change in the rules of the game. With a change in markets, we saw more flexible modes of transportation ready to chase after new traffic, while the railroads were locked into their own rights-of-way on the other side of town.

And during all of this, we have seen an even more intensified fight than ever before to get enough capital and traffic to rationalize the rail system.

That's what is needed now -- a rationalization of our rail system. What we don't need is a way to prolong inbred inefficiency. We don't need sustenance for the status quo. What we need is a new "status" in Northeast railroads. We don't necessarily want to save the Penn Central, the Reading Company, the Central of New Jersey, the Lehigh Valley, the Boston and Maine, the Erie-Lackawanna, the Ann Arbor, or even the Lehigh and Hudson River Railway. What we do want to do is take the best parts of those bad systems and drag a viable railroad (or railroads) out from under the wreckage of the bankrupts.

So here's what's happened so far in Washington along those lines:

Ten days ago the House of Representatives passed (by the sizeable margin of 306 to 82), a piece of legislation designed to straighten out the Northeast rail situation once and for all.

The objectives of this bill are objectives that the Administration agrees with fully. In a nutshell, Congress will appropriate sufficient funds (probably on the order of

\$85 million) to provide interim funding for the continued operation of the bankrupt lines over the near future. The bill creates another Federal agency, this one called the Federal National Railroad Association, or "Fannie Rae." Fannie Rae will, in turn, delineate those portions of the Northeast rail system that should remain in service and be incorporated into one or more private companies. Fannie Rae will take over the needed portions of the bankrupt lines, paying for them with stock of the new company or companies. The new company, tentatively being referred to as the Northeast Railroad Corporation, will then operate the best parts of the bad system -- and will make money doing it. It will be initially financed with \$1 billion in government-guaranteed bonds. Creditors of the bankrupt lines will have stock in the new railroad, and that stock will have as much value as the stock of any solvent corporation can be expected to have.

The legislation does not dip deeply into the Federal till. It does not nationalize the railroads, which is the last thing you should want. Nationalized railroads in other countries lose money at even a faster rate than the privately-owned Penn Central ever has. Nor does the legislation "bail out" anyone. It's not a giveaway -- it's a rational solution.

There are, as you can imagine, several aspects of this legislation that are less than perfect. We attempted to have several portions of the bill amended -- for instance, those that gave what we thought were excessive benefits to workers displaced by the takeover. After all, a guaranteed income of \$30,000 a year did seem a bit much. (The House didn't agree.)

We also sought to "tighten up" the act a little bit so that compensated creditors couldn't come back in several years and reopen a case saying that they didn't get enough for their assets in the takeover of the bankrupt lines.

The amendments that we did not get in the House we are trying for in the Senate, and if we still have minor problems you can be assured that we'll work closely with the Conference Committee after Senate passage if need be. But the main point is this: there is legislation aimed at solving the Northeast Rail Crisis -- and that, I suspect, is more than you can say for most of the crises that have been bouncing off Capitol Hill in recent months.

I hope you get the impression today that I am optimistic about the future of railroads in this Nation. When I accepted the post of Federal Railroad Administrator two years ago, some of my friends suggested that it was sort of like being appointed Social Director on the "Titanic." Not so.

We have gained ground, and we will gain more. Transportation Secretary Claude Brinegar has probably learned more about railroads in the past six months than he ever cared to learn, but he is one heck of a quick learner and has provided us with solid leadership in untangling some very complicated Congressional knots.

Congress itself -- as you can see by the lopsided vote in the House -- is showing that it recognizes the necessity of a good rail freight system, and that it no longer looks upon all railroad executives as robber barons.

We are well on the way to getting the problem in the Northeast fixed, and now we can move ahead with the task of insuring efficient, reliable and cost-effective rail transportation throughout the rest of the Nation.

Government -- through the Department of Transportation and the Federal Railroad Administration -- is working to coordinate progress within the free-enterprise framework that has made this Nation great. Archaic railroads, as I have noted, are being given the opportunity to make themselves into modern railroads. Archaic regulations will be our next target -- allowing 20th Century corporations to provide 20th Century service. The railroads are here to stay -- but if by some disastrous sin of omission at government policy-making and lawmaking levels we load railroading down with disincentives, then it will be chaos that is here to stay. I'll be glad to take any questions you may have.

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FEDERAL RAILROAD ADMINISTRATION

WASHINGTON, D. C. 20590

REMARKS PREPARED FOR DELIVERY BY JOHN W. INGRAM, ADMINISTRATOR,
FEDERAL RAILROAD ADMINISTRATION, AT THE BUSINESS MEN'S LUNCHEON,
HILTON HOTEL, BALTIMORE, MARYLAND, NOVEMBER 20, 1973

I am delighted to have this opportunity to be with you. Let me be quick to compliment the organizers of today's activities for showing an acute awareness of the problems in rail freight transportation and for helping cast a little more light on those problems as they affect your city. In too many communities across the Nation the freight train -- and rail freight service -- is considered about as exciting as the local waterworks. But, just as people never miss the water 'til the well runs dry, people tend to take rail freight for granted until it stops. We are, today, definitely threatened with a stopping of those services you saw on your tour this morning.

On your tour you saw a fairly good cross-section of what sort of rail freight moves in and out of Baltimore: the Chessie System's coal and oil terminal at Curtis Bay, the Western Maryland's piggyback facility at Fort Covington, the Chrysler Corporation's export staging area, and the fruit and produce terminal on the Penn Central. I leave it to you to imagine what would happen if rail service to these four points alone were to come to a sudden halt. I doubt very much if alternate modes of transportation could pick up even half the load -- and if they could, they'd be consuming twice the fuel. In this connection, I saw an interesting figure the other day that is relevant (even though it doesn't involve Maryland). Twenty percent of the Nation's tins -- the metal used in beverage, fruit and vegetable cans, is produced at a steel plant in West Virginia. The vast bulk of the tins is shipped out by rail, most of it to Cleveland. If rail service were to come to a halt, that tins would have to move to Cleveland by truck. It would require seven semi-trailers per mile in both directions 24-hours a day, seven days a week, just to serve that one minor portion of the Nation's economy.

Here is another example. The automobile industry, as you are probably aware, is now operating in what one auto executive calls a "zero inventory economy." In other words, auto parts are made in Detroit, loaded into freight cars, taken by rail on tight schedules to assembly plants throughout the Nation, spotted at unloading docks right at the start of the assembly lines, and when each shift comes to work they

get their materials out of those freight cars. At the other end of the line, automobile rail carriers are waiting to move those finished products to places such as the export staging area you saw this morning. If the railroads were to shut down, so would the auto industry. If the auto industry were to shut down, so would the steel mills. If the steel mills were to shut down, so would the economy. And, of course, if the economy shuts down, so does Baltimore -- and all the mortgages in this room start getting called in.

I hope you don't think of me as an alarmist. Actually, I'm a pretty easy-going person. I've spent my entire professional career working for America's railroads in one capacity or another and that -- I can assure you -- gives a man a thick skin and a readiness for almost anything. But the state of America's railroads, primarily (at the moment) those in the Northeast, should be a matter of deep concern for every man, woman and child in the Nation.

The Northeast rail crisis, if unmet, could jar this Nation to its very roots.

I am delighted to report that a solution is on the way -- and I'll discuss in more detail just what that solution involves in a moment. First, let's take a quick look at history. "Why," you are correct in asking, "is there a Northeast railroad crisis?"

The Penn Central is the keystone to the problem. (And that's not a pun.) While the merger that created Penn Central brought together two intrinsically strong rail systems, it also brought together the problems of those two rail systems -- and when those problems were lumped together, they intensified and grew. The Penn Central has too much track and too much manpower. The railroad exists in a quadrant of the Nation that has undergone sharp industrial changes over the past 30 years. Heavy industry is now just as much at home on the Colorado plains as it used to be in the Pittsburgh suburbs. Ocean shipping tends to be just as happy in the warm water Port of New Orleans as it is at the ports of the North Atlantic. Technology now enables railroads to move just as much freight over a double-track main line as it once moved over four tracks. America's consumers have created a world of increased expectations, and they like the idea of having things delivered to the door, not to the freight station. We enjoy the convenience of the "one man - one truck" philosophy of transportation. We have seen huge consumer markets grow in the West, and the demise of the Northeast as the gateway to the entire Nation. We see ocean-going ships being loaded in Chicago, thanks to the St. Lawrence Seaway. We see an Interstate Highway system linking virtually every major market in America. We see inland waterways, jet airplanes,

private automobiles. In short, we see a rail system in the Northeast that was built when railroads were the only form of mechanized transportation, and we see companies trying to operate that system when the world has changed to one of many options in transportation.

In any other business, the plant would have been cut back. Manpower levels would have been lowered in accordance with the need for personnel. Capital investment would have been adjusted to meet the needs of the business. We would have had a "rationalization" of the business, tailoring production to demand, and moving with changing markets. But in the American railroad scene, this couldn't be done. The Interstate Commerce Act of 1887, passed by a concerned Congress as the result of abuses of the monopoly of railroading, established some very firm parameters within which the railroad industry was forced to operate. As the Nation's only totally-regulated mode of transportation, the railroad industry fast found itself trying to match yesterday's capabilities to today's demands. The railroad business has changed -- but the Act hasn't.

That's another way of saying that there's a totally different ball game in transportation these days, but they're still playing by the old rules.

As a result, the Penn Central has become an inefficient operation. In the same boat are other rail systems in the Northeast -- the Central of New Jersey, the Lehigh Valley, the Erie Lackawanna, the Boston and Maine, the Reading, the Ann Arbor (in Michigan, but still in the Northeast quadrant). These are all railroads that were built big in the past, when they were needed in every city and town, but which are now redundant in many respects. The physical plant is still there -- and it's been running down for a number of years. The manpower is still there, too, although it hasn't had half as many trains to run as in the past.

The solution is really quite clear. You do the same thing George Allen has done with the Redskins in Washington for the past couple of years. You may have "over the hill" material, but you take the best of your veterans -- the most productive part of your lineup -- and put them together into a team (or a system) that will get the job done efficiently and get you into the Super Bowl. The solution in the Northeast is to take the "over the hill" railroads -- take the best parts -- and put these vital links into a game plan that can lead to a championship. That's what's going on in Washington right now.

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Thank you.

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