



FEDERAL RAILROAD ADMINISTRATION

WASHINGTON, D. C. 20590

REMARKS PREPARED FOR DELIVERY BY JOHN W. INGRAM, ADMINISTRATOR,
FEDERAL RAILROAD ADMINISTRATION, AT THE TRANSPORTATION COUNCIL
ROUND TABLE FORUM, NEW YORK CHAMBER OF COMMERCE, NEW YORK,
NEW YORK, FEBRUARY 14, 1974

I appreciate this opportunity to be with the Chamber's Transportation Council Round Table Forum. And it's always an interesting occasion to come to the Nation's largest city served exclusively by bankrupt or state-owned railroads!

I welcome the opportunity to discuss rail freight with people who care about rail freight; it's a somewhat sad fact that, even though every man, woman and child in the Nation depends upon the Nation's railroad system to sustain our way of life, not too many of them take the time to realize the fact. This group -- of shippers, carriers and members of the financial and investment community -- is pretty well aware of the efficiency and importance of railroads, so I can dispense with the 10-minutes I usually have to devote to history lessons. (You'd be amazed at the number of speeches I have to give pointing out that people who earn a three percent return aren't really your average robber baron.) This group understands that the Northeast Rail Crisis was (in fact is) a very real crisis. You're aware of the volume of freight that moves into and out of the port of New York, the produce terminals of New York, the merchandise warehouses and factories of New York. And you know that the metropolitan area simply could not survive without its rail facilities.

You must also be aware that the facilities here are not the very best; the service is not the very best; and the problems of providing rail service in such an area are not the easiest.

Before I get into any detail as to what New York needs and can expect, let me comment for just a moment on the Federal role in the railroad situation.

I'm trained as an economist, and I've also worked on railroads -- from brakeman to Vice-President. I am a strong devotee of free enterprise; I tend to sympathize to some degree with those who say "that which governs least governs best." I am not -- in any way -- an advocate of nationalization of our railroads. Despite 30 months in the sheltered atmosphere of Washington, I am not the sort of government official who

thinks that government can succeed in performing a task simply because it's the government.

At the same time, I recognize that in a Nation of 210 million people with a GNP of over a trillion dollars, government has a very sizeable role to play in assuring that the public interest is protected. When a closedown of the Penn Central would result in a shutdown of the auto industry, which would mean a sudden halt to the steel industry, which would mean national economic chaos -- then I feel that government must work to prevent a shutdown of that rail service.

Of similar importance -- in an industry that is already as closely regulated by government as transportation, the government has to accept a certain amount of responsibility for the financial health of the industry being regulated. And, if I may quote one quick paragraph from President Nixon's radio address on transportation last Saturday afternoon, "nothing has hindered the economic health of our Nation's rail systems more than the outmoded and complex Federal regulations which govern those systems. These regulations have prevented the railroads from maintaining a competitive position with other forms of transportation."

The Federal Railroad Administration functions as the advisor to the Secretary of Transportation on matters of rail transportation policy. We are the industry's advocate in the halls of government, not its adversary. We have certain statutory responsibilities in the areas of rail safety and high speed ground passenger transport, but our major mission is to foster the creation and implementation of a rational rail transportation policy. We don't regulate rates or routes; the ICC does that.

The Department's unwritten creed under Secretary Brinegar -- and Secretaries Volpe and Boyd before him -- is that each mode should be used for what it does best. That sounds like what Washington cynics call a P.G.O.: a "penetrating glimpse into the obvious." But, because of the regulatory strictures on the industry, railroads have not always been free to do that which they do best.

We're seeking to change all that.

The Northeast Rail Reorganization legislation -- which I assume you are acquainted with -- was just a first step in putting railroads back where they should be. It was designed to cope with an immediate problem. The solution it proposes, and that is just underway now, provides for continued rail service in areas where rail service is economic, and it allows for the discontinuance of rail service where such service is

obviously a waste of transportation resources. It's a good bill (although rather complex) and we are convinced that, with good planning and good management, the Consolidated Rail Corporation has as sound a future as any successful American corporation.

But, as I said, the Northeast rail reorganization should not -- and cannot -- stand alone.

Railroads, as you know, are not monolithic organizations. With a few minor exceptions, virtually every railroad counts on other railroads for a sizeable portion of its revenues. The reason America's railroad system has worked as well as it has -- and one of the reasons that rail rates in this country are proportionately lower than rail rates in other countries -- is because of standardization of equipment and interconnection of facilities. You can indeed, as Robert Young of the New York Central used to point out, have a pig ride from coast to coast without changing cars. (And to Amtrak's credit, people can do the same thing now -- which they couldn't do in Young's day.)

At any rate, strong railroads in only one section of the country don't stay strong very long if the rail systems elsewhere in the Nation are falling on hard times. That is why, for instance, the Northeast rail bill was co-sponsored by a Democrat from Washington State and a Republican from Montana -- and was, in large degree, drafted by lawyers for the Union Pacific Railroad in Omaha. They know that they need sound railroad systems here in the Northeast where the greatest density of consumers is.

So, why isn't it enough to just fix the Northeast problem? Don't we read newspaper stories about the so-called "strong" railroads in the West and the South? True enough -- we do read such stories. But those railroads are just relatively strong. Compared to the electronic, petrochemical and agri-business industries, railroads do very poorly, indeed. They don't attract much outside capital because a three percent return on investment doesn't look so hot when you have a corner bank willing to pay more on a straight savings account. Lack of new capital means gradual deterioration of the physical plant, which means a deterioration of service, which leads to a drop in revenues, which makes you all the less attractive to potential new capital.

So, if rails play such an essential role in the Nation's economy, it is, indeed, the government's obligation to see that railroads do business in an atmosphere that will encourage substance and growth.

This Administration has no desire to solve the rail problem by covering it over with layers of taxpayers' money. Rather, our proposal for the rail industry at large involves two major initiatives. First, we place the full faith and credit of the U. S. Treasury behind qualified railroads when they seek loans in the private sector. The government guarantees give the railroads access to capital; the railroads in turn give the government assurances that the loans will be used for the express purpose of improving the railroad.

Second, we must at last shift the focus of our regulatory concerns. We must, in the Federal government, face up to economic realities. The Federal regulations which helped create the problem in the first place must be changed. We sorely need a modernization of regulatory practices, to allow railroads to experiment with rates, service offerings and managerial creativity. Railroads need the regulatory "elbow room" to do that which they do best, which is to move heavy tonnages over considerable distances with efficient usage of energy and minimal impact on the environment.

Gentlemen, you couldn't find a better mode of transportation for the Twentieth Century if you had to invent one -- yet railroads are still subject to 19th Century regulation stemming from the days when railroads were the only way to go.

These two initiatives -- access to capital and freedom from archaic regulations -- constitute the major thrust of the President's Transportation Improvement Act of 1974 which was formally submitted to the Congress yesterday noon. Also in the Act is a \$35 million appropriation to set up a freight car control and scheduling system -- so we can develop methods of getting better utilization out of the rolling stock fleet that already exists. As the President said last Saturday, "the joining of our Nation with railroads opened a whole new era of economic growth for America -- now we must make it work again."

Let me mention the bill to you once more. Once it is in the hopper on Capitol Hill, you might want to write your Senators or Congressman for a copy. It's the Transportation Improvement Act of 1974 -- already known as the "TIA." It's a revolutionary bill, in a way, because it calls for sharp change. But it's a responsible bill throughout -- because it calls for things that need to be done. I hope it will have your support.

And now, quickly, because I think we can get more from a question-and-answer session than from me giving a long speech, let me touch upon our recent rail services report and what it means to Metropolitan New York.

This 1,000-page report did make page one of the Times, but not with a very big headline. I'm not an editor, but I suspect there were a couple of reasons for its one-column treatment. First of all, it tells New York good things rather than bad things and good news doesn't always sell papers. Not one inch of railroad in the City of New York (that's all boroughs) was identified as being potentially excess. Over on the Jersey Shore, not one inch of railroad essential for port services has been recommended for deletion. If our recommendations are followed by the new United States Railway Association (which will do the actual planning job), Metropolitan New York will have all the railroad tracks it can use.

A second major point in our report is the recommendation that New York City and Newark be served by competing railroads for traffic to the West and to the South. We are well aware that there had been some concern that, if all the bankrupts were to be taken over by one new corporation, cities like New York, Newark and Boston would be captive markets to that corporation. No longer would shippers have a choice between the Penn Central, the Erie-Lackawanna and the Lehigh Valley for shipments from the Jersey Shore to Buffalo, for instance. Our report strongly recommends that USRA provide for continued competition in this market. I can't second-guess what USRA is going to call for, of course. And there is still the very strong possibility that some of the eight bankrupt railroads might be able to re-organize conventionally and be successful competitors to the government-created railroad that will emerge.

There is also the strong possibility that other railroads in the Northeast might be invited to come into the New York market over trackage rights or, perhaps, even through outright purchase of various lines. None of these matters have been resolved -- and none will be resolved -- until the lengthy planning process is complete and Congress has given its blessing to the system design that comes some 20 months or so from now.

The important factor is that the planning process has started. Something is being done about the Northeast Rail Crisis. It is a plan that does not grab bales of money from taxpayers in order to save a failing company.

It creates something new; something better; something viable, profitable, and most of all rational.

We have great hopes for the rails of the Northeast, just as we have confidence in a bright future for all the railroads of the Nation that go where the traffic is. We have been given a challenge and an opportunity, as the President said, "to make it work again." I think it will be exciting and worthwhile.

And now I look forward to answering any questions you may have.



DEPARTMENT OF TRANSPORTATION

NEWS

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REMARKS PREPARED FOR DELIVERY BY JOHN W. INGRAM, ADMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION, AT THE NEW YORK SOCIETY OF SECURITY ANALYSTS, NEW YORK, NEW YORK, FEBRUARY 14, 1974

I am going to presume, for the sake of brevity, that most of you here have followed the developments concerning rail systems in the Northeast over recent months. You are aware that a legislative proposal for coping with the fate of bankrupt railroads was passed by sizeable margins in the House and Senate, and was signed into law by President Nixon on January 2nd. The business pages have been rife with the continuing story of the complex details involved in planning a solvent railroad from the wreckage of the bankrupts. The establishment of the United States Railway Association, the issuance of a 1,000-page report by FRA and the Secretary of Transportation, the creation of an R.S.P.O. (Rail Services Planning Office) within the ICC, and speculation as to which American captain of industry will be called upon to be chairman of U.S.R.A. all are making news these days.

All of this has brought railroading to the forefront in recent days; indeed, we're not just on the business pages any more -- we're frequently on page one. Last week I even traveled to upstate New York to address the 400 people at the annual awards banquet of the Syracuse Jaycees! (I point that out because last year, unless it was a railroad-oriented group, the Federal Railroad Administrator sometimes gave his speeches in very small rooms.) At any rate, railroads have become a glamour item, if not yet a glamour stock.

Because of my assumption that you're pretty well up to date with what's going on in the Northeast, I would like to direct my remarks this afternoon to the horizon rather than to current events.

We feel that the salvation of the rail system in the Northeast would be somewhat academic if we were to stop at that point. One of the main reasons for saving the Northeast rail lines was the fact that the solvent lines in the South and West interchange so much freight with the bankrupt lines. It isn't much good to load grapefruit on the Seaboard Coast Line in Florida if they could get only as far north as Washington -- missing the vital Northeast markets. There's no point in sending plywood from Spokane to New York if the railroad can only bring it as far as Chicago. A rail system in the Northeast is a necessary thing to our economy, and we simply couldn't let it shrivel up and die.

Well, that equation works two ways. Once we get a strong healthy rail network here -- let's make sure that the lines in the South and West don't find themselves in financial embarrassment. They need traffic that originates here in the Northeast. I remind you that while railroaders point with pride to relatively-successful operations like the Southern Pacific, the Santa Fe, the Union Pacific and the Southern, those lines still fall into the category of relatively-successful enterprises. Next to profitable firms in other industries, they cast a very short shadow indeed.

So, the Northeast rail legislation has to be just a first step. If we are to have good railroads in this Nation, moving the products that need to be moved to keep the economy going, then a larger and more important step needs to be taken. We have to improve the economic climate for all the railroads. We have to allow the railroad industry to swing at least one leg into the Twentieth Century.

Four week ago (January 10th, to be exact), Transportation Secretary Claude Brinegar unveiled a very broad piece of railroad legislation, the Transportation Improvement Act of 1974. This bill is aimed at improving the regulatory climate and the financial health of the entire rail freight system. The key objective of this legislation is to take preventive action now, to avoid a later replay of the Penn Central problem on a national scale.

First, a few facts. Last year, the rail industry had total operating revenues in excess of \$13 billion. Yet, despite this volume of business, many railroads were not able to generate sufficient earnings to make needed improvements in track, roadbed or facilities, or to acquire an adequate number of freight cars. Return on capital for the entire industry was a discouragingly low three-percent.

The railroads, though always vital to our economy, now take on an even greater importance in light of their fuel efficiencies and favorable environmental effects.

The bill that the Department has proposed will help the railroad industry -- and, in turn, the Nation's economy -- in three ways.

First: the bill authorizes up to \$2 billion in Federal loan guarantees to assist railroads in making needed investments in track, terminals and rolling stock. The loans would have to contribute to the establishment of a rational, efficient national railroad transportation system; that is to say, we would not look too happily on a request for a loan guarantee that would enable a railroad to diversify even further. Also, a railroad requesting the loan must have the ability to repay it. And finally, the particular project being financed must be a good investment in terms of projected return and improved efficiency.

That's "phase one" (if I can use a questionable phrase) of our effort.

The second "prong" (a better word): calls for an updating of the Interstate Commerce Act of 1887, removing those outdated regulatory constraints that unnecessarily restrain competition and adversely affect the rail industry's economic performance. We want (and I can't stress this too strongly) for each mode to do that which it does best. That might almost sound like what we in Washington sometimes call a P.G.O. -- a "Penetrating Glimpse into the Obvious." But the fact remains that, because of archaic regulatory practices that stem from the days when railroads were virtual monopolies, there are many areas where railroads cannot compete, yet should be leading the pack. Our proposed amendments would be directed toward giving rail managements the needed authority to manage, to be able to innovate with new freight rates and services, and to more quickly adjust their operations to changing economic conditions. This would be a tremendous step forward -- really a radical change from the current modus operandi -- and would give the railroad industry the opportunity to operate competitively. This bill makes such good common sense that even the trucking industry has mounted no formal opposition; and for those of you who have money tied up in trucking companies, I remind you that transportation demand is increasing at such a rate that there's business enough for everyone, now and in the future.

The third prong of the TIA is the only part of the Act that calls for an actual expenditure of taxpayers' dollars. Here we call for the authorization of \$35 million to design and implement a national program for the efficient scheduling and control of freight cars. There are some 1.7 million freight cars in the country, and they aren't being used half well enough. Most cars, for example, spend most of the time -- 85 percent or more -- waiting to be moved. With today's sophisticated communications and computer capabilities, surely we can utilize these cars better. Get more bang for our buck.

Those are the highlights of the bill -- the "TIA," or "Transportation Improvement Act of 1974." We think its chances are quite good -- for several reasons.

Number one, it makes sense. That's not always enough justification for getting legislation passed anywhere, but in this case we have an attentive audience. Congress is attuned to the railroad industry this year. Congress wants the railroads to succeed. Congress wants no more Penn Centrals. This is evident in the tender loving care Congress bestows upon Amtrak, in the quick and efficient passage of the Northeast rail bill, and in the initial wave of reaction that came with the

introduction of the TIA. Railroads are environmentally sound, railroads are fuel-efficient. Railroads are economical, railroads are vital. Congress knows it, and Congress is with us.

A thriving rail industry provides many jobs -- jobs with a future; a beleaguered rail industry provides only opportunities for featherbedding (yes, it's still with us) and an ultimate cessation of new employment.

A thriving rail industry -- going where the freight is, and not off into the boondocks on some long-unused branch line -- can be a warehouse to the auto industry, a conveyor belt for the steel industry, a production line for forest products, a moving, flexible pipeline for chemicals, and a boon to the entire economy.

In our society -- with a proper balance of both government involvement and government non-involvement -- the railroad can be the best thing that ever happened to free enterprise.

Despite that national average of three percent return on capital that I mentioned, there are good railroads in this country -- doing what they're supposed to do. We think we know how to help them do their job even better. The ones that are doing well (I think I identified them as the ones that do "relatively" well), do so because they have been in a position to maintain their properties. They have been the ones that have been able to attract some new capital since World War II. If one relates total capital expenditures to total capital investment in railroads, it is the ones with the highest proportion of new capital that have done the best. The correct conclusion is that the old capital is worn out and obsolete -- and that with the exception of valuable rights-of-way, it is the new capital that is keeping those profitable railroads' necks out of the water.

Now there must be an even newer dose of capital throughout the industry. For the first time since World War II, the railroads have the opportunity to attract both new capital and new traffic. We are forging the legislative tools to do just that; we anticipate an expeditious handling of these legislative proposals; we look forward to a day in the quite near future when railroads will be respected for what they are and valued at what they're really worth. It's an industry you will do well to watch.

My remarks have been somewhat general; I've tried to give you a quick overview of what's going on. I look forward to trying to answer any questions you may have.

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REMARKS PREPARED FOR DELIVERY BY JOHN W. INGRAM, ADMINISTRATOR,
FEDERAL RAILROAD ADMINISTRATION, AT THE PACIFIC RAILWAY CLUB,
SAN FRANCISCO, CALIFORNIA, MARCH 7, 1974

I am delighted to have this opportunity to be with you. 1974 is shaping up as the year of the rebirth of railroading in this country, and I welcome this opportunity to talk about the challenges and opportunities that are on the way.

I am honored by your invitation to speak. The Pacific Railway Club is recognized as an outstanding organization nationally -- not just here on the Coast -- and I am well aware of the distinguished roster of speakers who have preceded me here at your annual dinner meetings over the years.

I might note, also, that it is heartily refreshing to come to an area -- and a state -- that has no bankrupt Class I railroads! In the Northeast, of course, we have seven of them; and your fellow Californian, Secretary of Transportation Claude Brinegar, has learned more about railroads in the past 12 months than he ever really cared to know. But he has done a magnificent job of coordinating proposed solutions to the Northeast rail crisis. He has fought hard to prevent a legislative solution that would really be nationalization in disguise and has helped arrive at a solution that is perhaps the last best hope of free enterprise railroading not just in the Northeast, but throughout the Nation.

As I am sure most of you are aware, President Nixon on January 2nd signed into law the "Regional Rail Reorganization Act of 1973." In a nutshell, this provides for the creation of a solvent railroad in the 17-state northeastern quadrant of the Nation -- formed out of the best parts of the wreckage of the bankrupt lines. The creditors of the bankrupt properties will be compensated with stock in the new railroad, the Consolidated Rail Corporation, and we feel very strongly that the CRC will be as profitable a venture as any well-managed corporation in the country. The traffic demands are there, the business is there, the people are there. The area served could conceivably stretch from Maine to St. Louis and from Lake Michigan to Chesapeake Bay, depending on which of the bankrupt properties find themselves unable to reorganize under conventional procedures.

What we hope to pull together -- and as of today we are moving ahead on schedule -- is the sort of "super railroad" that my young colleague here at the head table, John Barriger, has been promoting for a number of years. (In fact, John probably talked about "super-railroads" when he addressed your annual dinner meeting in 1962.) I am delighted that John is here -- and on our Federal Railroad Administration team -- as we get underway with this most worthwhile task.

I'm not going to spend all my time at the podium this evening describing the Northeast rail crisis to you; after all, you didn't buy a dinner ticket in order to hear last month's news. I have another topic that I would like to discuss in greater detail. But there is one item of news that I think is worth mentioning. CRC will operate a railroad system that has been designed by a government agency. Now there are two ways to look at things that are creations of the Federal Government. You can either hark back to Columbus -- who didn't know where he was headed, didn't know where he was when he got there, and when he got home couldn't tell anyone where he had been, and did it all with a government grant -- and you can hark upon that time-worn description of the camel as being a horse designed by a government committee. Or -- you can look at some of the very solid accomplishments of the Federal Government -- such as putting men on the moon in ten years time and, indeed, government support and determination in opening up the West 100 years ago. In other words, with determination and outstanding management, the government is perfectly capable of getting a job done. The United States Railway Association, created by the legislation, is the agency that has the responsibility of putting CRC's plant and financing together. So far, two executive announcements have been made for USRA. "Pete" Cruikshank, President of the Denver & Fort Worth, has been named Vice President for Planning and Coordination. Pete is young, energetic, and highly-regarded in the industry. He's been very active in the Burlington Northern organization and before that on the Great Northern.

The other executive appointment I mention with a twinge of regret, because USRA is getting one of my best men. Jim Hagen, who has served admirably as FRA's Associate Administrator for Policy and Plans and then as Associate Administrator for Economics, will become the new agency's Vice President for Operations and Facilities Planning. Jim's background is with the Southern (which I happen to feel is a very fine railroad), and prior to that he was with the Missouri Pacific.

These are top men. Top railroad men -- as well as fellows who understand the ways of government. My point is, of course,

that the team charged with designing a "super-railroad" for the Northeast is a team highly qualified to get the task done. More announcements of top personnel are coming out weekly, and we look to USRA to be a real powerhouse operation.

But -- as I said -- I didn't come all the way to California to talk all night about what's going on in the Northeast. I am not minimizing the importance to you of a healthy Northeast rail system; you need it as a feeder of business to you -- you need it as a forwarder for your transcontinental shipments. But the Northeast rail crisis came about for reasons that are peculiar to the Northeast -- things like competitive parallel branch lines on either side of small creeks going to little towns out in the middle of nowhere. You don't have so much of that here in the West. The Northeast rail crisis came about, also, because of the high cost of doing business at disjointed locations in urban areas. Philadelphia, for instance, has a multitude of freight yards (18 operated by Penn Central, three operated by the Reading and two by the Chessie System). There's a maze of duplicative trackage in Philadelphia. It's often parallel, and some of it even runs down city streets. If you think that's sort of like the Belt Railroad here, just imagine a couple of dozen Embarcaderos with freight trains creeping over them most of the day. Greater Philadelphia covers about 150 square miles, but four Class I railroads operate within the area with about 500 miles of line haul trackage and more than 300 miles of yard and siding trackage. These rails once served a large number of shippers, but because of the complexity of the situation, a lot of the business has gone to trucks. A lot of the trackage isn't really worth keeping in operation. For example, Penn Central has more than 1,800 users on its trackage in Philadelphia, but only 36 of them account for more than half of the traffic generated. Obviously, there's much too much track in Philadelphia. I have gone into some detail on this just to point out that you don't really have Penn Central-type problems here in the West.

But you do have problems.

Estimated figures for 1973 indicate that the average rate of return on investment for the railroad industry was about 3.17 percent. For Eastern lines it was .64 (sixty-four hundredths) percent, for Western lines 4.27 percent, and for Southern lines 5.58 percent.

I would warn the railroads of the West not to bask in any great feeling of complacency. Those of you who are associated with that handful of American railroads that earn well above your region's average rate of return should be especially wary of over-confidence. The three things that makes the railroad system in America work as well as it does are: (1) distance (we are a big country); (2) standardization of equipment; and,

(3) interconnectivity. You can be the strongest railroad in the world -- with a 20-percent return on investment if you can imagine such a thing -- but your worth would plummet overnight if you came to a dead-end at the terminal yards. If America's railroads are not "super-railroads" in every corner of the Nation, then no railroad will be a "super-railroad."

The Northeast Rail Reorganization program would become simply an academic exercise if the Northeast railroads had no place to go once they reached St. Louis or Chicago. All the railroads of the Nation must arrive at a position where they can compete fairly -- where they can do the best possible job they were designed to do -- where they can earn a fair rate of return for investors -- where they can make effective use of the Nation's energy and transportation resources. This will not happen if the government does not act; it will not happen if we sit back and look with satisfaction upon the partial job that will have happened in the Northeast quadrant.

I stated that government must act. I do not say this in the sense that government must step in and do something; rather, government must act by stepping back and stopping some of the actions that have created an extremely tenuous situation in America's premier mode of transportation.

Look at the facts: railroads are 100-percent regulated by the government. Washington tells you how much to charge for your services; tells you where you must make those services available (whether there's a demand or not); and, in a few recent cases, government has stepped in and told you how much you must pay your help.

The trucking industry, on the other hand, is only about 50-percent regulated.

The barge industry has hardly any regulation at all.

I don't have to point out that the profitability of each of those three modes of transportation is in inverse ratio to the amount of regulation.

The railroads are in trouble, and it started when the Interstate Commerce Act of 1887 was signed into law. I submit that any industry that's been in trouble for 87 years ought to get a little relief from the perpetrators!

The rail industry's troubles are not related simply to regulation, however. The problem has been ignored for so long that an easing of regulatory constraints alone would not be enough to get this industry back on the track. We need modernization of regulation; we need the ability to get better utilization of facilities already on hand -- and most of all, the railroads need access to capital.

This Administration has proposed legislation that will help the rail industry arrive at each of those goals. Not just the bankrupt railroads, but all the railroads.

Our legislation -- the Transportation Improvement Act of 1974 -- was first introduced by Secretary Brinegar in January. It was mentioned by the President in the State of the Union Message in February -- and again, in greater detail, in the President's message on transportation on February 13.

The Transportation Improvement Act of 1974 is designed to improve the regulatory climate and the financial health of the entire rail system.

Total operating revenues for all the railroads in 1973 was something like \$13 billion. In excess of that, in fact. Yet, despite this volume of business, many of the railroads were not able to generate sufficient earnings to make needed improvements in track, roadbed or facilities.

Despite an increase in carloadings of something like ten percent, the railroads were not able to earn sufficient profit to allow them to reinvest money into needed capital repair projects.

Despite the even-greater importance of the railroads in light of their fuel efficiencies and favorable environmental effects, the railroads were not able to be nearly as efficient as they need to be. They are an invaluable asset to the Nation, but in many respects they are a wasted asset. This country doesn't want bad railroads -- can't really afford average railroads -- and must have great railroads.

The Department of Transportation has proposed the Transportation Improvement Act of 1974 in an effort to help the Nation have great railroads. "Super-railroads," if you will. And we propose to do it without nationalization -- without dipping into the taxpayers' pockets.

First, our bill authorizes up to \$2 billion in Federal loan guarantees to assist railroads in making needed investments in track, terminals and rolling stock. The loans would have to contribute to the establishment of a rational, efficient national railroad transportation system. In other words, we wouldn't guarantee the full faith and credit of the U.S. Treasury for a loan that would be used to underwrite a non-railroad diversification. We would insist that the railroad requesting the loan have an indicated ability to repay the loan; and the project being financed must be a good investment in terms of projected return and improved efficiency.

This will get money to places where money is needed -- and do the job that needs to be done.

Second, the Transportation Improvement Act will face up to the problem of over-regulation. We would amend that 87-year old piece of yellowed parchment, removing outdated regulatory constraints that unnecessarily restrain competition and adversely affect rail's economic performance. We want to give rail management the ability to manage, to be able to innovate with new freight rates and services and to more quickly adjust their operations to changing economic conditions.

Third, we propose the authorization of \$35 million (the only actual Federal outlay called for in the bill) to design and implement a national program for efficient scheduling of freight cars. With today's sophisticated communications and computer capabilities, we can get a far better "bang for our buck" from freight cars already in the fleet. A number of railroads -- especially here in the West -- now have their own car control and scheduling systems. We want a national system -- so that a grain harvest in the West can take advantage of a temporary surplus of cars in the East, and vice versa. This group is well aware that, of the Nation's 1.7 million car freight fleet, most cars spend most of their time (85 percent or more) waiting to be moved. Railroad cars earn money when they are being operated in trains, going somewhere carrying a load.

These are the highlights of the proposed legislation. We feel that its provisions are vital to the continued health of the rail system -- or more specifically, vital to any sort of health in railroads.

I began my remarks by saying that I am optimistic about the industry -- that I look for 1974 to be a turning-point year. That's not simple rhetoric.

If something is to be done in Washington to correct the situation that Washington largely created, then it will take the calm and considered judgement of the Congress to get something done. I maintain that the Congress is in just such a frame of mind to do just that.

In creating Amtrak and saving passenger service -- in passing the Northeast Rail Reorganization legislation by sizeable margins -- and by being initially receptive to the new legislation I have described this evening, Congress has gone on record as wanting an effective rail system in the Nation.

Congress has recognized that railroads are more than just passenger trains -- more than just things that block grade crossings. Congress has recognized that, if rail freight goes down the drain, the economy follows soon after.

I think this Administration can take some of the credit for fostering this new Congressional awareness. It goes back through Secretaries Boyd and Volpe, and currently with Secretary Brinegar.

Now we solicit your help. Now we want you to tell the railroad story -- itemizing the problems, as well as the proposed solutions. Now we want the industry to get together as a united front, seeking that which is best for railroading at large.

Now is the time for the industry that opened up the West to make sure that the West stays open -- with effective and efficient service, safe transportation, reliable response to shippers' needs, and concern for the economy that bolsters us all.

The railroads can do this. I think they will. I think the Western railroads can be pace-setters again for the Nation.

Again, my thanks for inviting me to be with 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 CHICAGO CHAPTER,
TRANSPORTATION RESEARCH FORUM, CHICAGO, ILLINOIS, MARCH 20,
1974

I'm delighted to be here. TRF, as you well know, is one of my favorite organizations. I can come here and learn, rather than expound, and since I know so many of you on a first-name basis, I can be sure that you will follow my remarks with a few pointed questions. It's good practice for Congressional testimony.

I saw the flyer that went out announcing this luncheon, and noted with interest that my office claimed I would discuss the Northeast Rail Reorganization Act, the DOT Rail Service Report, the Consolidated Rail Corporation, and the Transportation Improvement Act of 1974 and the status of Congressional support for revitalized railroads in America. They must have great confidence in my ability to talk fast.

Your good Senator Dirksen used to tell the story of the country preacher who one Sunday morning found one lone farmer in the pews -- but went ahead and gave the full sermon anyway. After the service the parishioner allowed as how the message could have been shortened a bit, given the circumstances. But the preacher said "even if only one of God's flock comes to the trough, then he too shall be nourished and sustained." To which the farmer replied -- "yes, but if I go out to feed the hogs and only one of them shows up, I sure don't give him the whole load!"

I assure you I won't give you the whole load today.

I'd like to summarize what's been going on in the Northeast rail reorganization project -- and bring you up to date generally on the changes that are taking place in railroading.

(There's one change, incidentally, that deserves mention. For years, the job of calling out train crews to their work assignments was handled by young men known as "call boys."

Now, with womens' lib, a few young ladies have been hired for those tasks on several railroads. I'm pleased to report that they are known as "call-persons.")

That's just another bit of proof that the railroads are not the fallen women of the transportation industry.

Indeed, if railroad transportation is getting sexy, it's doing so in a wholesome kind of way. Railroads are getting more newspaper space, more broadcast time, more magazine articles and more Wall Street interest than they have in many a year. And, instead of books and articles entitled "To Hell in a Day Coach," "The Great American Motion Sickness," or "The Wreck of the Penn Central," we are getting positive reports -- optimistic reports -- tales of hope and promise.

We have seen sharply increased Congressional interest in viable rail properties -- witness the sizeable margins by which the Northeast Rail Reorganization Act passed. State governments, which in the past had only been up-in-arms about rail service, are now approaching the matter of rail service in a responsible reasoned manner. Illinois is a good example of this. The Illinois Department of Transportation -- while wanting as much rail service as possible -- has gone on record as admitting that someone will have to pay for whatever service is provided, and when you're dealing with state officials, I must say that's something of a breakthrough!

The White House is eager to see the survival and improvement of the Nation's railroads as well. In his transportation speech that was broadcast to the Nation on February 9, President Nixon said (and I quote) "Today our railroads are more necessary than ever. They make extremely efficient use of fuel with little negative effect on the environment and they deliver nearly 35 percent of the Nation's freight at low cost. The essential tracks are there, the system that criss-crosses the country with a web of steel rails is in place. Now we must make it work again."

That is precisely what we're doing.

The Northeast Rail Reorganization Act, signed by the President on January 2nd, established the U. S. Railway Association, which in turn will delineate the routes and the financing for a new railroad to be called the Consolidated Rail Corporation. C.R.C. (or ConRail, depending on whose newspaper you read) will be constructed from the best parts of the bankrupt lines in the Northeast. It will be lean and efficient. It will be designed from the start as a money-maker -- it will not have facilities in locations where rail

service is not required but it will have outstanding facilities where such installations are needed. It will utilize the best of the motive power, the best of the rolling stock, and the best of the personnel now in service on the bankrupt lines. I won't go into great detail, because I suspect most of you are quite well aware of what the Act calls for.

The Regional Rail Reorganization Act lists some very specific stepping stones to be "hopped upon" throughout the restructuring process. The first was the preparation by FRA and the Department of Transportation of the Secretary's Rail Service Report. That "magnum opus" came out one day ahead of the February 1st deadline, and runs a little over 1,000 pages. Needless to say (since it's a Government publication) it was followed in a few weeks by an eight-page errata sheet. This report, basically, is a catalog of all the existing rail lines in the 17-state Northeast region. It shows how many carloads of freight originated and terminated throughout the region during calendar 1972, the last year for which complete figures were available. It shows where that freight came from and where it went. And it showed quite a bit of mileage that doesn't carry much freight at all. In fact 25 percent of the route mileage in the region was identified as being "potentially excess." That's 15,575 miles out of the 61,184 miles in the Northeast quadrant of the Nation. As you might expect, this designation of "potentially excess" has not sat extremely well with various mayors, governors, Chamber of Commerce people, editorial writers, news commentators, state legislators, county executives and others who guard the public interest. They have hollered long and loud, in fact. And we are delighted.

They have put the importance of railroads back on the front page; they have aroused the public interest in the necessity for railroads.

Of course they have emphasized our identification of 25 percent of the route miles as potentially excess; they have not mentioned too loudly that the 75 percent that should remain carries 96 percent of the business! But I guess that's to be expected. At any rate, they have been moved to action and that's what the railroad situation in the Northeast requires lots of: action.

They have been moved to show up in droves at public hearings conducted by the Interstate Commerce Commission's new Rail Services Planning Office. (I have read with interest the news-clips on the Chicago hearing, and look forward to seeing the transcript.) Congress knew precisely what they were doing in making the Northeast rail reorganization a seven-step planning process. The ICC hearings have given local and state officials --

as well as shippers and receivers -- an opportunity to bring the year-old figures in our report up to date. The hearings have given city officials the opportunity to show that they are, indeed, putting in plumbing and pavement for an industrial park alongside a heretofore unused branch line. The hearings are getting people to deal in fact rather than fiction; the hearings put the burden on rail users to prove that they're using rail -- and if they are using rail well enough to make it economic, we want USRA to have that information in hand when they sit down at the maps with their marking pens. Even after the preliminary plan is drawn up at USRA, there will still be a long way to go. The ICC holds another round of hearings, DOT will review the plans, and only then will the Final System Plan emerge. That will be reviewed also, and then it's subject to an up or down vote by the Congress. If Congress votes "no," then it's back to the drawing boards. So you see the Final System Plan will be one that is as accurate as possible.

Even so, there are other factors involved. If a state or community sees continued service as desirable on a line that is admittedly unprofitable, a Federal-State subsidy program is available to cover the deficit. The state pays one-third of the losses and the Federal Government pays two-thirds. Beyond that, there's a program of Federal loans for the outright purchase of branch lines by states or municipalities.

The ultimate system that is envisioned is one of strong mainline service -- better than the Nation has ever had -- between the major cities of the Northeast. These will be fed by equally strong branch lines that go out to where the traffic is. The system will be supplemented by weaker branch lines that operate under the subsidy program.

The establishment of C.R.C. is not really a job that requires railroad expertise. After all, the rails are already there. The basic management task facing USRA is a job of analysis and planning. It is a job of identifying markets and matching them up with facilities already in place. It's a management job, not a railroad job. I think that so far we are off to an excellent start. Day before yesterday we announced the new president for USRA, Edward Jordan of California. He's a man with a record of management successes in a variety of industries. He's already got a solid grasp of the challenges and is ready and eager to do the job well. Three Vice Presidents have been named. One is "Pete" Cruikshank of the Fort Worth & Denver; another is Jim Hagen, who was my Associate Administrator for Economics; the third is Alan Dean, who is a former Assistant Secretary of DOT and a man with a solid understanding of how to get things done in Washington. The Chairman and the Board of USRA are due to be nominated by President Nixon any day now (perhaps today or tomorrow) and staffing throughout the ranks is well underway. USRA is coming together quickly as an effective, efficient operation.

Our first real judgement of just how effective they are will come when the Preliminary System Plan is produced sometime around the end of September.

USRA will only work if it has hard information to work with. I sincerely hope that everyone who is directly affected by various plans for Northeast railroads will make sure that USRA has all the information it needs.

But that's only part of what's going on in railroading these days. It's not enough just to reorganize the Northeast. The trauma that befell railroads in that part of the country could well spread across all the railroads of the Nation if we did not take concurrent action to raise the competitive ability of the industry as a whole. And Congress has made it quite clear that it would look with disfavor on ever having to face a Northeast rail crisis again, anywhere else in the Nation.

It's fashionable, in the industry, to treat the Northeast lines as something different and apart from the rest of America's railroads. It is extremely dangerous to think that way. The bankrupt lines in the Northeast did not get that way because they contracted a disease that everyone else was immune to; they didn't get that way simply because they were malformed at birth. They didn't get that way just because of management -- or just because of labor. They failed because they were the weakest members of a clan that is afflicted with a very serious illness, and it's the weakest ones, of course, who crumple first.

America's railroads are suffering from a very severe dose of government regulation.

There's no other way to put it.

I'm not being disloyal by saying that. Simply because I'm doing a hitch with the Feds doesn't mean I have to align myself with everything the government has ever done. And I say very honestly -- and with great conviction -- that unfair government regulation of the railroads' ability to compete may well put railroads out of business as a private industry.

It's been a long time since passage of the Interstate Commerce Act of 1887 -- 87 years, in fact. And, with the exception of two wartime booms, railroads have been going downhill for 87 years. Certainly the rise of highway transport had something to do with that -- as did the invention of the jet aircraft and the development of our inland waterways. But there are a few things that railroads do better than anything else -- such as the massive movement of bulk commodities -- and open competition with other modes would have allowed the railroads to make a fair return on a dollar and given them the funds for maintaining and upgrading their properties. But railroads have not been allowed to compete imaginatively. Railroad management

has not been allowed to manage creatively. And access to capital has diminished shockingly. The Rock Island is not bankrupt -- yet they have told us that they will soon file a formal application with USRA for a \$100 million loan. They do this because they can't get the money on their own. There are other lines -- and for their own sake I won't identify them until they choose to identify themselves -- who are rapidly finding themselves in similar situations.

The message is that railroads can't get capital, they can't compete properly, and they are regulated far beyond necessity. They can't afford to make necessary improvements in tracks, terminals and equipment -- and the result has been a steady deterioration of service on all but the very strongest lines.

To modernize and revitalize the entire system of rail transportation, the President has sent to Congress the Transportation Improvement Act of 1974.

This proposal would authorize \$2 billion in Federal loan guarantees. These aren't public handouts -- far from it. Rather, this is aimed at helping the railroads compete economically with other methods of transportation and thereby support themselves without Federal assistance or takeovers.

But this cannot happen until we adjust the Federal regulations which created the problems in the first place. We want those regulations thoroughly overhauled -- to the railroads' advantage, and to no one else's serious disadvantage. After all, there should be enough business coming along to keep everyone going. Railroads should not be required to provide service while charging non-compensatory rates. Nor should railroads be prevented from competing because of artificially elevated rates. If a railroad can do a certain job better and cheaper, it should be allowed to do just that. At the same time, we want to eliminate the practice of discrimination through taxation which has further contributed to the economic problems of the railroads.

A third section of the Act calls for a \$35 million government-sponsored system of car location and control. The average railroad freight car spends 85 percent of its time sitting still. If we knew where they were, we might get better utilization, and thereby ease the crunch of the perennial boxcar shortages that have been plaguing the industry for so many years.

Those are the highpoints of the TIA. Initial reception from Congress has been good, and we hope for expeditious hearings.

There is one other area of change in railroading that should be of interest. I refer to electrification.

We have just released the report of our government-industry Task Force on Electrification, and it contains the strong suggestion that government begin to move ahead in finding ways to help finance railroad electrification projects. The petroleum crisis alone should be enough to get us moving in this direction, despite the quite obvious efficiencies that are inherent in an installed system. The problem, of course, is initial investment. It's tough to urge a railroad to put wires up over its tracks when they are having trouble enough in keeping the tracks themselves in safe operating condition. But the long-range efficiencies and economies of electrification are readily apparent for heavy density mainlines. We want to find a way to get those wires strung up -- a way to break off from the traditional reliance upon diesel fuel -- a way to make effective use of the Nation's electric generating plants during the hours of midnight to 6:00 a.m. (Which is when so much of the freight moves anyway.) I suspect that some sort of government support of rail electrification is in the not-too-distant future.

That's a sort of a nutshell report of what's going on in Washington at FRA. We are enjoying our new-found popularity and respectability; we are working closely with Congress; we are striving each day to become an effective advocate for railroading in the halls of government. The challenge is exciting and the results are rewarding. We think that with full cooperation from all involved, American railroads can one day be restored to the prominence they enjoyed in the past and will be an asset to the economy, not a millstone.

I thank you for inviting me to be with you, and look forward to your questions.

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DEPARTMENT OF TRANSPORTATION

NEWS

FEDERAL RAILROAD ADMINISTRATION

WASHINGTON, D. C. 20590

REMARKS BY JOHN W. INGRAM, ADMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION, AT THE 10TH ANNUAL MEETING OF THE DATA SYSTEMS DIVISION OF THE ASSOCIATION OF AMERICAN RAILROADS, ATLANTA, GEORGIA, SEPTEMBER 18, 1974

Thank you very much for this invitation to be with you. We had the pleasure of lunching together a year ago at this time, at your joint meeting in New York, and it's always flattering to be invited back for a repeat performance. I must have said something right.

Last year, as some of you may remember, I presented you with a sort of "progress report" on our dealings with the Northeast rail crisis, and expressed strong support for a piece of legislation then being debated on Capitol Hill. Congress passed that bill by sizeable margins -- it was signed into law on January 2nd of this year -- and the reorganizing agency (the United States Railway Association) has gone to Congress asking for \$8 million more dollars and 120 more days in order to get the job done right. Also, in the interim, a couple of Federal courts have questioned the basic constitutionality of the Act, the creditors of the bankrupt railroads have engaged some high-priced (and very capable) New York lawyers to watch out for their interests, and close to 50,000 separate pieces of testimony have been collected by the ICC's Rail Services Planning Office, which seem to boil down to "modernize the system but don't take away our branch line."

While I, perhaps, tend to couch this information in a small bed of cynicism (which is just my skeptical nature), we at the Federal Railroad Administration are genuinely pleased with developments. If USRA needs more money and more time, it's a reflection of the size of the problem and the care that must be used in solving the problem.

If the courts want a thorough assessment of the constitutionality question, that's great; let's resolve the matter before the planning goes too far.

If the creditors want what's due them, that's understandable and proper. There should be no unjust taking of anything.

And, if the Federal government can collect 50-thousand separate statements urging the continuation of rail service, that's probably the best public relations event in rail-roading since people stood in line to buy railroad stock almost 150 years ago.

Overall, I am confident that the wheat will be separated from the chaff, that reason will win out over emotion, and that, before it's too late, we will, indeed, see a "Conrail" system providing efficient private-sector rail transportation in the Northeast and doing it at a profit over a safe and sound right-of-way. It will take a little longer than expected (and the new ten-percent rate increase helps the bankrupt lines hang in there a little longer), and it will, perhaps, cost a little more money. But, the solution to the Northeast situation is still within our grasp.

I did not come here today, however, to simply say "I told you so" in relation to my remarks last year in New York. Don't kid yourself into thinking that a solution to the Northeast rail crisis is a solution to the American rail crisis. There's a bigger problem than what's going on in the Northeast, and it's a problem the industry must face up to -- solidly.

I haven't discussed this with Steve Ailes yet, but, if the railroad industry in America should die and be buried one of these days, it will be his lot as President of the Association of American Railroads to write an appropriate epitaph. My candidate for the somber words on the gravestone is (quote) "I told you I was sick."

Be that as it may, I am not forecasting the imminent demise of America's railroads. But, I must, in all seriousness, allow facts to fall where they may and concede that the possibility certainly exists.

Last month the Federal Railroad Administration had no choice but to order the shutdown of what amounted to all 415 miles of the Penn Central between Chicago and Louisville. As you know, we were required by the Federal Rail Safety Act of 1970 to establish and enforce safety standards on the Nation's railroads. Our standards are, admittedly, quite flexible. We allow you to have a rather rotten railroad (if I can be so indelicate) as long as speeds are kept to a minimum over bad stretches of track. Indeed, you need only one sound crosstie every eight feet and you can still limp along at 10 miles an hour, just as an example. In Indiana, however, we found 1,329 separate instances where the track failed to meet even these minimal conditions and we had to order a "zero mph" speed limit along there until the track had been fixed.

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It's conceivable that some people would tolerate such a situation if we were dealing with a light-density branch line winding out to the boondocks. But, this was mainline track -- track that carries Amtrak trains -- track that carries hazardous materials -- track that passes through cities and towns in the heartland of America. Admittedly, this was track owned and operated by a thoroughly bankrupt company. Maintenance funds are hard to come by for that company -- and shutting down a railroad isn't the way to get that company back on its feet. But we had no choice.

I am alarmed at the problem -- and I am alarmed about the future health of the railroad industry -- because I am not thoroughly convinced that this is an affliction peculiar only to bankrupt railroads. Our track inspectors -- only 40 of them, nationwide, so you can't expect detailed analyses of track -- report back to Washington that, generally speaking, all of America's railroad tracks seem a little worse off this year than they were a year ago. Our economists, looking at rail companies' reports on maintenance expenditures, trace a very real pattern of deferral of maintenance -- even on roads that are nominally solvent and successful. The industry trade press, generally a good barometer, concurs that spending for track maintenance on 25 representative railroads has fallen sharply behind the generally accepted rate. The current edition of Modern Railroads (which would like to say good things about the industry) shows that 1973 spending is off 11-percent in terms of 1955 dollars.

And, it's not just outsiders, such as the FRA and the trade press, who are viewing this situation with alarm. Listen to what Bill Johnson, Chairman of the Executive Committee at Illinois Central Gulf, said at the Salzburg Memorial Lecture at Syracuse this past Spring: "The industry needs a prompt infusion of funds for reducing deferred maintenance on roadbed and equipment. No one knows the amount, but everyone knows it to be tremendous...the deficiencies are well known...".

So my fears are not necessarily those of an alarmist government official or a headline-seeking journalist. Railroads in this country, with a few notable exceptions, are beginning to let their systems go to pot. Some are in a more advanced state of deterioration than others. Some of the better lines, of course, are utilizing deferred maintenance as an acceptable way of getting through one year's problems; they have every intention of going back and catching up before the slow orders come out and service deteriorates along with the track.

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But the number of permanent slow orders is increasing. The number of outlawed train crews -- those who have been on continuous duty for the maximum 12 hours and have to stop, no matter where they are -- is increasing. Locomotive availability is falling off. Operating department frustrations are on the increase. All the signs of "crummy" railroading are appearing -- all over the country.

All in all, it's a pretty dismal picture. You don't like it any more than I do. Nor do any of your colleagues in the industry.

Several responses have been proposed. Some say we should hire a whole army of Federal inspectors, swoop down on the railroads and order them into compliance or summarily shut them down.

Others say we simply need to expand our ongoing program of fining violators. After all, we collected close to a million dollars in fiscal 1974.

Others say we simply ought to take over the railroads lock, stock and barrel and run the whole operation the way we run the Postal Service -- or the Pentagon.

These are simplistic responses; they are headline-getting responses; and they are wholly inadequate responses. They fail to ask two important questions: (1) How do you get needed rail service when systems are shut down? And, (2) If we do expropriate the rail system and turn it into a new and daring government venture, who pays the bill? After all, the fixed plant now in existence is worth anywhere between 50 and 100 billion dollars.

I don't think that our economy, especially in its present state would be well served by having the government make a massive purchase of this nature -- especially when all we would be doing is buying the problem.

No, if salvation is to come to the railroad industry, it should not, in my opinion, come from the great Federal eagle swooping out of the sky depositing whatever it is that eagles deposit on the downtrodden. Rather, the railroad industry has to be finally given a chance to make it on its own -- to earn an honest living, pay an honest wage and do it at a reasonable profit. Very simply, the railroad industry needs access to cash.

Uncle Sam can help in this regard, and can do it without buying out the railroad industry.

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What is needed -- and what we have proposed -- is a revolving account of \$2 billion worth of loan guarantees for the industry. Railroads, as you know, cannot go to the money market today to borrow the large chunks of cash that are needed for rebuilding and revitalizing the industry. The money lenders, very properly, do not deem our industry a good risk. But, if those loans are guaranteed by the government -- a co-signing of the note, so to speak -- the security to the lender goes up markedly. And the interest rate drops sharply. This money, along with the recent 10-percent rate increase under Ex Parte 305, should start the rebuilding process off on the right foot. As plant is improved and service gets better, operating economies thus achieved will make the railroads even more viable. As they become more viable, we will begin to get back to where railroads were a couple of decades ago -- and the government can be reasonably assured of repayment of the loans. We will insist, of course, that the proceeds of the loans be used exclusively for the improvement of transportation services -- equipment and facilities.

At the same time, our legislative package calls for substantial modernization of regulatory procedures. Almost all reasonable participants in this debate recognize that competitive situations have changed since the last major revision of the Interstate Commerce Act -- and that things like the Interstate Highway System, the jet airplane, the development of inland waterways, and a national determination to conserve fuel resources must all be read into a new equation of how railroads go about serving potential customers. I can't say today precisely what changes may come about -- but I think the atmosphere in Congress and in transportation, as well as among shippers, is such that some change will be achieved. We have reached the point where any change is a plus. The railroad industry simply cannot survive when it earns a government-regulated 3.2-percent return on investment. Change will come. The third part of our package, as I am sure the Data Systems Division is aware, involves a government-funded scheme for car control and location. I won't go into detail on this item, because, frankly, there are no details yet. Let me say simply that we are not proposing to go into competition with programs now underway in the AAR; rather, we want to propose something that will complement and help efforts now underway. Do not look upon us as competitors in this venture. Look upon us as willing friends who want to invest about \$35 million in a program that will be acceptable to all.

This legislation is now under consideration by the House Committee on Interstate and Foreign Commerce. We get rumblings from the Senate side as well, and I am reasonably confident that we will have something ready for the President's signature early next year.

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That won't be a moment too soon.

If this Congressional initiative is to succeed, then we all must work at this together. It is not enough for the FRA, or the Department of Transportation, to go it alone. It is not enough for the AAR alone to carry the ball. Your supply and equipment industry alone will never bring about the results that are necessary. And nothing will happen without the concern of the public and the subsequent action of the Congress.

So far the teamwork is good. The spirit is here. The goal can be reached. But the story must be told over and over again.

There are those who dislike my making public statements to the effect that the physical integrity of America's railroads is going to hell. They say it's a bit unseemly for a man whose main job is to be government's chief advocate for railroading. But, if we do not tell it like it is, then we will never get things the way they ought to be.

We can do it, and working together, I think we will.

Thank you.

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DEPARTMENT OF TRANSPORTATION

NEWS

FEDERAL RAILROAD ADMINISTRATION

WASHINGTON, D. C. 20590

REMARKS BY JOHN W. INGRAM, ADMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION, AT THE ANNUAL CONVENTION OF THE ASSOCIATION OF RAILROAD EDITORS, KANSAS CITY, MISSOURI, SEPTEMBER 25, 1974

I am delighted to have this opportunity to be with you, and I am highly honored to be included with such distinguished speakers as Dick Grayson and Bill Usery. I feel sort of like a thorn between two roses.

I have looked upon this speech as a special challenge. The odds are -- especially with the trade press -- that you're on our mailing list and you have a passing acquaintance with what I've been saying in other speeches in other places. And you may already have an inkling of what they're talking about in the bar of the Chicago Traffic Club where, I understand, I was referred to last week as "the Don Rickles of the railroad industry."

I'll try not to disappoint you too much today.

When I accepted this job three years ago I could get a crowd's attention by telling them that being named Federal Railroad Administrator was sort of like being appointed Social Director on the "Titanic." Now that I'm well past the average length of tenure for Presidential appointees in Washington, I have to deny that I'm leaving FRA to go to Amtrak as Assistant Vice President for Profit-Sharing.

Don Rickles, as you probably know, has been hired by one of the rent-a-car companies to do their advertising; he's identified in their billboards as "America's toughest critic." If I'm being identified in Chicago (and other places) as a tough critic of the railroad industry, I hope the industry -- and you -- realize that there's no malice involved. No one enjoys and appreciates railroading as a mode of transportation more than I do. Yet, perhaps, as Federal Railroad Administrator, I've had the opportunity over the past three years to see things as they really are.

Let me give you a couple of examples. First of all, our copy of Railway Age arrived last week in a plain brown wrapper. I know the industry likes to hide everything under a bushel, but that's going a little far.

Second, on page 100 of that issue (the classified ad section), there is a help-wanted ad taking up one-sixth of the page, which is not cheap. The position this anonymous company is trying to fill is headlined across the top of the box: "Derailment Supervisor." What a title! It's as if United Airlines wanted a "crash coordinator," or Seatrain was looking for a "shipwreck superintendent!" Have we sunk so low in the railroad industry that we advertise for Derailment Supervisors the way we look for civil engineers? And the kicker in this ad is that it goes on to say (quote) "plenty of room for advancement!"

Sometimes I think that, compared to me, Don Rickles has it easy.

Mentioning those items is stretching a point -- I realize. And it's sort of unfair to Railway Age. They're a good book and they do a fine job. But there are other matters that come to my attention in Washington that tend to give me a Don Rickles complex.

I saw a copy of Chessie News a couple of weeks ago that mentioned the training program conducted by that company for rate clerks. It sort of casually pointed out that there are three trillion rates in the railroad business, and that it takes two or three years for a new employee to find out what it's all about. Why do we accept that sort of stuff, rather than go to the root of the problem and ask why any American industry has to have three trillion of anything?

Chessie News, which we think is a fine railroad house organ, sort of casually passes on the information to its employees that once these clerks learn the shortcuts, it still costs railroads from six to eight dollars just to figure out the rate for a single carload. Is that really a sane and thoughtful way to do business? And, is it sufficient for any of you to sort of shrug your shoulders and say "well, that's what the government makes us do?"

Don't get me wrong -- I'm not knocking the railroad news outlets and the house organs, and I'm not knocking the industry for putting up with a great many government regulations that border on the ridiculous; I simply want you to understand how it can be that the Federal Railroad Administrator gets a reputation as a somewhat negative personality.

You may find it interesting that a week or so ago -- in chatting with my staff -- I expressed an interest in making my next speech one that talked about what's right with the railroads. After all, it gets a little dreary giving speech after speech listing the number of Penn Central derailments (20 a day, just for the record). It's disheartening to keep

referring -- before audience after audience -- that the railroad industry earned a 3.2-percent return on investment last year, and that no private investor in his right mind would put money into railroads when he can get twice the return at the corner bank.

It's discouraging to talk about the reports that come back from our inspectors in the field -- the men who walk the tracks, inspect the rolling stock, and whose major assignment is to make sure that the railroads are doing a good job of policing themselves. The reports we get say that generally, across the country on solvent as well as bankrupt railroads, the physical condition of the track, roadbed and plant is a little worse than it was the year before.

I told my people that it's about time someone stood up and talked about the necessity for good railroads, the service that is being provided even now, and the heritage that this industry has brought to a Nation of extraordinary commercial and industrial success.

Yet, I'm not sure that's precisely what my role should be. You have Steve Ailes and Dick Briggs at the AAR to make those kinds of statements. You have your own Public Relations offices and Advertising Departments to spread that sort of message. You have sales forces throughout the country who can tell shippers that things aren't really that bad, that the shipment will get through. I think I would be severely remiss in my duties if I did not point out -- with emphasis and a little oratory -- the things all of us have to do if we are to have a top-of-the-line railroad system in this Nation, performing the things it is called on to do.

And, I have found (in Washington at least) that you don't always get peoples' attention unless you have a story of comparative misery, pending crisis and imminent disaster.

Let me, then, suggest that the railroad editors of this country join with me, at least to a small degree. Join with me in the philosophy that we have to tell it like it is, or else we will never get things the way they ought to be.

How many of your house organs pinpoint which Division on the railroad has the worst safety record? How many of you single out which part of your system has the most slow orders? The most outlawed train crews? How many of you consider it even conceivable that productivity within the organization be ranked and published -- with the least productive showing up in print along with the most productive? How many of you would print an interview with a longtime employee who claims that things aren't the way they used to be?

But, perhaps, the industry needs a little of this. Perhaps an industry whose accidents have increased more than 25-percent

in one calendar year has to sit down with everyone in the "family" and see what can be done. Perhaps an industry that has a three-percent return on investment has to speak frankly about the effects of a proposed 35-percent pay increase. Perhaps there is a need to discuss, openly and honestly, the very serious clouds that loom on the horizon for private sector railroading in America.

I think you would be less than honest with your readership if you ignored the very real possibility that railroading cannot continue as we know it today. (I'll get back to the details in a moment.)

I realize that you have a front office to contend with. Yet, I suspect you also have a front office that occasionally asks, "when are you going to print something new and different?". Perhaps, your best response might be "when we can get you to write it."

I know that some of you have done this. Indeed, I know that several railroad presidents make it a point to inform employees as to what's going on in the industry nationwide.

I hope that you would want that message to be harder-hitting.

I don't think you stand vulnerable to the slings of labor; they can't call you crybabies forever. I think your story would, similarly, be treated with honesty and understanding in the general press. I think you would find sympathy and cooperation -- if you shook off the Pollyanna attitude of so many house organs -- the headline that says, "wow, what a great company we have here!".

Don't kid yourselves.

There's nothing great about an industry that has about \$5 billion worth of deferred maintenance hidden in the closet. I won't get into the semantics that a number of your bosses are using these days before the ICC as to exactly what constitutes deferred maintenance and what doesn't. Suffice it to say that the industry, nationwide, is about 150 million crossties behind where it should be, based on an average 35-year life of a tie. Suffice it to say that some 10-percent of the rail still in service today would have been renewed if old rail had been replaced on a constant annual basis of a projected 60-year life. Ten-percent of the rail in the Nation, incidentally, amounts to almost 70,000 miles. That's a lot of steel.

And it is sufficient to say, also, that, of all the railroads in the Nation today, there is probably only one -- maybe two -- that manage to sustain their plant on a year-to-year basis out of year-to-year earnings.

The problem is very simply stated: Railroads don't earn enough money. There's not enough left over after expenses to put back in the plant to maintain the status quo. And, if you don't maintain the status quo, your railroad gradually sinks into the mud.

What do we do about this -- once we face up to it?

There is no question in my mind that the only thing that can save the railroads now is the government.

I don't mean government subsidies, government takeover, or government handouts. Since 1887, the railroads of this Nation have been regulated by Uncle Sam as to how much they'll charge, where they will provide service, what level of service they shall offer, and even (in the past) how many men they'll have working on a train. A lot of this is going to have to change.

Last week, the House Committee on Interstate and Foreign Commerce reported out a bill called the Surface Transportation Act of 1974. It stems from some legislation we drew up last year (and the year before), as well as from legislation drafted by the industry over the past few years. It's not a bad bill. It calls for a certain measure of re-regulation -- allowing railroads to either drop rates to their January 1, 1974 level, or to raise them by as much as seven-percent -- without fearing that the ICC would step in a few months down the line and disallow the rate changes. It helps railroads earn a little more money. But, most of all, this bill sets up a revolving account of \$2 billion worth of loan guarantees for the industry. It enables railroads to get into the money market, borrow at favorable rates, and plow the proceeds of those loans into track and facility improvements. It gives the industry a chance to have a better plant in order to provide better service and, subsequently, earn a better living. It will be good for you, your railroads, the country and the taxpayer.

It represents a fair risk for the government, because the monies derived from the loans will have to be used to build better railroads. It represents adequate safety and security for the lenders, and allows for the loans to be made at reasonable rates of interest. This program will not only do a lot for railroading and a lot for railroad users, it also will be a sizeable step in helping the Nation overall get a handle on the problem of inflation.

I think it deserves the scrutiny and attention of everyone. I hope its provisions are passed along to everyone in the industry.

I've given it to you in a nutshell, of course, because the law prevents me from lobbying. And, because I'm running out of time.

My main point is this: railroaders deserve to know the truth. They deserve to know why they don't get as much rail or as many crossties as they did in the past. They deserve to know why trains run slower; they deserve to know why pay increases come harder.

And they also deserve to know -- must know, in fact -- what is being proposed as a cure.

Telling them is your job.

I hope you do it continuously and well; I hope you fight for the support of the front office; I hope you know that we in Washington want to help you in any way we can.

Thank you.

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