OFFICE OF THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

DEPUTY
UNDER SECRETARY

DEC 23 1969

Honorable Robert P. Mayo
Director, Bureau of the Budget
Washington, D. C. 20503

Dear Mr. Mayo:

Enclosed is our draft of a "Rail Passenger Service Act of 1970", a summary and section-by-section analysis of the proposal, and a short paper discussing the rail passenger service problem.

The package is not complete in all respects, but we believe it will suffice for purposes of circulation at this time. For one thing, section 207 of the bill respecting the applicability of the Interstate Commerce Act and other laws has not been translated into statutory language. Instead, a general outline of the intended scope of the section is presented. In addition, we have not prepared a Speaker letter. We hope to be able to send you these materials in a day or so.

Sincerely,

Charles D. Baker

Charles D. Baker

Enclosures

DRAFT
12-18-69

A BILL

To provide for the establishment, operation, and maintenance of a national rail passenger system, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Rail Passenger Service Act of 1970".

TITLE I -- THE BASIC NATIONAL RAIL PASSENGER SYSTEM

Sec. 101. Congressional Findings. The Congress finds that there is a particular need for the provision of modern, efficient, intercity railroad passenger service in certain high-density, short-haul corridors and on certain long-haul routes, as part of a balanced transportation system; and that, to identify clearly this need, it is necessary to designate a Basic National Rail Passenger System.

Sec. 102. Designation of System. (a) The Secretary of Transportation shall prepare, in cooperation with the Interstate Commerce Commission and other interested Federal agencies and departments, and submit to the Congress within 60 days after the date of enactment of this Act a report which designates the Basic National Rail Passenger System (hereafter in this Act referred to as the "Basic System"). The report shall specify those points between which passenger trains should be operated and the minimum service needed between such points, and identify all routes over which service may be provided. The determinations as to the points to be served, the minimum service to be provided, and the routes over which that service may be provided shall be made in the sole discretion of the Secretary, but he shall consider such factors as the potential profitability of the service, its

importance to overall system efficiency, the adequacy of other transportation facilities serving the same points, and the opportunities for provision of faster and more convenient rail service at lower costs. The Basic System described in the Secretary's report shall be established for the purposes of this Act upon the date the report is submitted to the Congress and shall not be reviewable in any court.

(b) The Basic National Rail Passenger System shall constitute a minimum national rail passenger network. However, in any proceeding under section 13a of the Interstate Commerce Act (49 U.S.C. 13a), the fact that a service between two points is not within the Basic System shall create a presumption that the continuation of the service is not required by the public convenience and necessity and will constitute an undue burden on interstate commerce. This presumption may be rebutted only by a clear showing that no other means of public transportation are available and that the estimated costs of continuing the service will not be disproportionate to the estimated revenues to be received. In any proceeding under section 13a involving service between two points within the Basic System, it shall be conclusively presumed until January 1, 1974, that the service is required by the public convenience and necessity and does not constitute an undue burden on interstate commerce.

TITLE II -- CREATION OF A RAIL PASSENGER CORPORATION

Sec. 201. Creation of Corporation. There is authorized to be created a rail passenger corporation for profit whose purpose is to provide intercity rail passenger service. The corporation will not be an agency or establishment of the United States Government. It shall be subject to the provisions

of this Act and, to the extent consistent with this Act, to the District of Columbia Business Corporation Act. The right to repeal, alter, or amend this Act at any time is expressly reserved.

Sec. 202. Process of Organization. The President of the United States shall appoint incorporators, by and with the advice and consent of the Senate, who shall also serve as the board of directors for 180 days following the date of enactment of this Act. The incorporators shall take whatever actions are necessary to establish the corporation, including the filing of articles of incorporation, as approved by the President.

Sec. 203. Directors and Officers. (a) The corporation shall have a board of directors consisting of individuals who are citizens of the United States, of whom one shall be elected annually by the board to serve as chairman. Seven members of the board shall be appointed by the President of the United States, by and with the advice and consent of the Senate, for terms of three years or until their successors have been appointed and qualified, except that the first two members of the board so appointed may continue in office for terms of one year, and the next two members for terms of two years. Any member appointed to fill a vacancy may be appointed only for the unexpired term of the director whom he succeeds. Three members of the board shall be elected annually by those stockholders who are common carriers engaged in the transportation of passengers by railroad and subject to Part I of the Interstate Commerce Act (hereafter in this title referred to as "rail carriers"), and three shall be elected annually by the other stockholders of the corporation. The members of the board appointed by

the President or elected by stockholders who are rail carriers shall take office on the 181st day after the date of enactment of this Act. Election of the remaining members of the board shall take place as soon as practicable after the first issuance of Class B stock by the corporation. Pending election of the remaining three members, six members shall constitute a quorum for the purpose of conducting the business of the board.

(b) The corporation shall have a president, and such other officers as may be named and appointed by the board. The rates of compensation of all officers shall be fixed by the board, and they shall serve at the pleasure of the board. No individual other than a citizen of the United States may be an officer of the corporation. No officer of the corporation may receive any salary from any source other than the corporation during the period of his employment by the corporation.

Sec. 204. Financing of the Corporation. (a) The corporation is authorized to issue and have outstanding, in such amounts as it shall determine, two classes of capital stock, each of which shall carry voting rights and be eligible for dividends. Class A stock may be issued to and held by only a rail carrier. Class B stock may be issued to and held by any person other than a rail carrier. The shares of Class B stock initially offered shall be sold at a price and in a manner to encourage the widest distribution to the American public.

(b) At no time after the initial issue is completed shall the aggregate of the shares of Class A stock of the corporation owned by a single rail carrier, directly or indirectly through subsidiaries or affiliated companies,

nominees, or any persons subject to its discretion or control, exceed 49 per centum of such shares issued and outstanding.

(c) At no time may any stockholder who is not a rail carrier, or any syndicate or affiliated group of such stockholders, own more than 10 per centum of the shares of Class B stock of the corporation issued and outstanding.

(d) No dividends may be paid on any share of stock issued by the corporation for five years following the date of enactment of this Act.

(e) The corporation is authorized to issue, in addition to the stock authorized by subsection (a) of this section, nonvoting securities, bonds, debentures, and other certificates of indebtedness as it may determine.

(f) The requirement of section 45(b) of the District of Columbia Business Corporation Act (D.C. Code, sec. 29-920(b)) as to the percentage of stock which a stockholder must hold in order to have the rights of inspection and copying set forth in that subsection shall not be applicable in the case of holders of the stock of the corporation, and they may exercise such rights without regard to the percentage of stock they hold.

Sec. 205. General Powers of the Corporation. The corporation is authorized to own, manage, and operate intercity rail passenger trains, to conduct research and development related to its mission, and to acquire the physical facilities, equipment, and devices necessary to rail passenger operations, whether by construction, purchase, or gift. To carry out its functions and purposes, the corporation shall have the usual powers conferred upon a stock corporation by the District of Columbia Business Corporation Act.

Sec. 206. Assumption and Discontinuance of Rail Passenger Service.

(a) On or before the 150th day following the date of enactment of this Act, and on or after the 546th day following the date of enactment of this Act, the corporation is authorized to enter into contracts with a rail carrier to relieve the carrier of responsibility for the rail passenger service which that carrier provides between the points within the Basic System. In consideration of being relieved of its responsibility by the corporation, the rail carrier shall pay to the corporation each year for three years an amount equal to one-third of whichever is the lesser of the following:

(1) 50 per centum of the fully distributed passenger service deficit of the rail carrier as reported to the Interstate Commerce Commission for the year ending December 31, 1969; or

(2) 200 per centum of the avoidable costs of the rail passenger service the rail carrier operated during the period January 1, 1969, through December 31, 1969, between the points within the Basic System designated by the Secretary.

The rail carrier shall receive Class A stock in an amount equivalent in par value to its payment to the corporation. In the event that the rail carrier and the corporation cannot agree as to the amount of the avoidable costs of the rail carrier, the matter shall be referred to the Interstate Commerce Commission. The Commission shall decide the issue within 30 days following the date of referral and its decision shall be binding on both parties.

(b) The payments of a rail carrier to the corporation under this section may be made in cash, or by the transfer to the corporation of rail passenger

equipment, or by the provision of service to the corporation subsequent to the consummation of the contract, as the rail carrier and the corporation may agree.

(c) No later than the 181st day after the date of enactment of this Act, the corporation shall begin the provision of rail passenger service between points within the Basic System previously served by rail carriers with which it has entered into contracts under subsection (a) of this section. At no time before January 1, 1974, may the corporation allow the service it provides between those points to fall below the minimum service prescribed for the Basic System. The corporation may provide service in excess of that prescribed in the Basic System if consistent with prudent management.

(d) On and after the 181st day after the date of enactment of this Act, the corporation shall provide service in excess of the minimum service prescribed in the Basic System if the provision of such service is requested by State, regional, or local authorities and those authorities agree to reimburse the corporation for any future operating loss associated with the service.

(e) After December 31, 1973, the corporation may change or discontinue service to any point within the Basic System whenever it finds a change or discontinuance to be necessary to the maintenance of the corporation on a sound financial basis. At least 90 days prior to the change or discontinuance of any service under this subsection, the corporation shall mail to the Governor of each State in which the train in question is operated, and post in every station, depot, or other facility served thereby, notice of the proposed change or discontinuance. The corporation shall offer an opportunity for presentation of written or oral views to all interested parties at least 60 days prior to the change or discontinuance. The

corporation may not change or discontinue the service if, within 30 days prior to the end of the notice period, State, regional, or local authorities request continuation of the service and agree to reimburse the corporation for any future operating loss associated with the service.

Sec. 207. Applicability of the Interstate Commerce Act and Other Laws.

(The main purpose of this section would be to describe the relationship of the Interstate Commerce Act to the corporation. First, it would state that the corporation would be relieved of all Federal and State economic regulatory requirements, including freedom from rate regulation, except for the following Interstate Commerce Act provisions:

1. Section 2 as it relates to discrimination and rebates.

2. Section 3(1) prohibiting undue preferences and prejudices.

3. Section 3(5) relating to the compulsory use of terminal facilities.

4. Section 5 as it relates to traffic rights and pooling.

5. Section 5(a) relating to antitrust exemption for certain inter-carrier agreements.

6. Sections 6(1), (3), (5) through (7), (9), and (10) relating to the filing of tariffs, charges and rates, adherence to rates, etc.

7. Sections 20(1) through 20(12) respecting accounting systems and statistical reports (excluding the requirement to submit an annual report to the ICC).

8. Section 20c relating to the recordation of railroad equipment trust agreements and other evidences of equipment indebtedness.

Second, it would state that the corporation is subject to existing rail safety laws.

Finally, a provision will be included granting the Commission some measure of power to compel rail carriers to grant the corporation trackage rights.)

Sec. 208. Protective Arrangements for Employees. In carrying out its functions under this title, the corporation shall provide fair and equitable arrangements, as determined by the Secretary of Labor, to protect the interests of employees who are affected by any action authorized by this title. Such protective arrangements shall include, without being limited to, such provisions as may be necessary for (1) the preservation of rights, privileges, and benefits (including continuation of pension rights and benefits) to such employees under existing collective bargaining agreements or otherwise; (2) the continuation of collective bargaining rights; (3) the protection of such individual employees against a worsening of their positions with respect to their employment; (4) assurances of priority of reemployment of employees terminated or laid off; and (5) paid training or retraining programs. Such arrangements shall include provisions protecting individual employees against a worsening of their positions with respect to their employment which shall in no event provide benefits less than those established pursuant to section 5(2)(f) of the Interstate Commerce Act. Any contract entered into pursuant to the provisions of this title shall specify the terms and conditions of such protective arrangements. Consistent with the purposes of this section, and whenever it is practicable to do so, the corporation shall contract with rail carriers for the rehabilitation and repair of its rolling stock.

Sec. 209. Sanctions. (a) If the corporation engages in or adheres to any action, practice, or policy inconsistent with the policies and purposes of this Act, or if the corporation or any other person violates any provision of this Act, obstructs or interferes with any activities authorized by this Act, refuses, fails, or neglects to discharge his duties and responsibilities under this Act, or threatens any such violation, obstruction, interference, refusal, failure, or neglect, the district court of the United States for any district in which the corporation or other person resides or may be found shall have jurisdiction, except as otherwise prohibited by law, upon petition of the Attorney General of the United States, to grant such equitable relief as may be necessary or appropriate to prevent or terminate any violation, conduct or threat.

(b) Nothing contained in this section shall be construed as relieving any person of any punishment, liability, or sanction which may be imposed otherwise than under this Act.

Sec. 210. Reports to the Congress. (a) The corporation shall transmit to the President and the Congress, annually and at such other times as it deems desirable, a comprehensive and detailed report of its operations, activities, and accomplishments under this Act.

(b) The Secretary of Transportation shall transmit to the President and the Congress, one year following the date of enactment of this Act and biennially thereafter, a report on the state of rail passenger service and the effectiveness of this Act in meeting the requirement for a balanced national transportation system.

TITLE III -- FEDERAL FINANCIAL ASSISTANCE

Sec. 301. Federal Grants. There are authorized to be appropriated to the Secretary of Transportation for payment to the corporation, the following amounts, which shall remain available until expended:

(1) For the purpose of assisting in the initial organization and operation of the corporation, the establishment of improved reservations systems and advertising, the upgrading of roadbed and signals, and the conduct of research and development and demonstration programs respecting new rail passenger services, $15,000,000 for fiscal year 1971; and

(2) For the purpose of assisting the corporation in the development and demonstration of improved rolling stock for use in corridor service, and in the acquisition of equipment for use in the provision of service in accordance with subsections (d) and (e) of section 206, $25,000,000 for fiscal year 1971.

Sec. 302. Guaranty of Loans. The Secretary of Transportation is authorized on such terms and conditions as he may prescribe, to guaranty any lender against loss of principal or interest on securities, obligations, or loans issued to finance the purchase by the corporation of new rolling stock for use in corridor service. The maturity date of such securities, obligations, or loans, including all extensions and renewals thereof, shall not be later than 20 years from their date of issuance, and the amount of guaranteed loans outstanding at any time may not exceed $60,000,000. The Secretary shall prescribe and collect from the lending institution a reasonable annual guaranty fee. There are authorized to be appropriated such amounts as necessary to carry out this section.

Section-By-Section Summary of A Bill

To provide for the establishment, operation, and maintenance of a national rail passenger system, and for other purposes.

TITLE I

Section I. Short Title. This section states that the bill may be cited as the "Rail Passenger Service Act of 1970".

Section 101. Congressional Findings. This section contains findings of Congress respecting the need for intercity railroad passenger service in certain areas, and the need for the designation of a basic national rail passenger system.

Section 102. Designation of System. Subsection (a) of section 102 directs the Secretary of Transportation to submit to Congress within 60 days after the date of enactment of the bill a report designating a Basic National Rail Passenger System. The report is to specify those points between which passenger trains should be operated and the minimum service needed between such points. It also is to identify all routes over which that service may be provided.

Subsection (b) of section 102 states that, in any proceeding under section 13a of the Interstate Commerce Act, the fact that a service between two points is not within the Basic System shall create a presumption that the continuation of the service is not required by the public convenience and necessity and will constitute an undue burden on interstate commerce. This presumption may be rebutted only by a

clear showing that no other means of public transportation are available and that the estimated costs of continuing the service will not be disproportionate to the estimated revenues to be received. It also states that in any proceeding under section 13a involving service between two points within the Basic System, it shall be conclusively presumed until January 1, 1974, that the service is required by the public convenience and necessity, and does not constitute an undue burden on interstate commerce.

TITLE II

Section 201. Creation of Corporation. This section authorizes the creation of a corporation for profit whose purpose is to provide intercity rail passenger service. The corporation would not be an agency of the United States Government.

Section 202. Process of Organization. This section directs the President of the United States to appoint incorporators, by and with the advice and consent of the Senate, who would take whatever actions are necessary to establish the corporation.

Section 203. Directors and Officers. Subsection (a) of section 203 establishes a board of directors for the corporation. Seven members of the board would be appointed by the President, by and with the advice and consent of the Senate, three members would be elected by stockholders of the corporation who are rail carriers, and three members would be elected by the other stockholders of the corporation.

Subsection (b) of section 203 provides for the appointment by the board of a president and other officers of the corporation.

Section 204. Financing of the Corporation. This section authorizes the corporation to issue two classes of stock each of which would carry voting rights. Class A stock would be issued to and held by only rail carriers. Class B stock would be issued to and held by persons other than rail carriers. The corporation also could issue nonvoting securities, debentures, and other certificates of indebtedness.

Section 205. General Powers of the Corporation. This section authorizes the corporation to own, manage, and operate intercity passenger trains, to conduct research and development related to its mission, and to acquire the facilities and equipment necessary to rail passenger operations.

Section 206. Assumption of Rail Passenger Service. Subsection (a) of section 206 authorizes the corporation to contract with any rail carrier to relieve the carrier of responsibility for the rail passenger service the carrier provides between the points within the Basic System. It requires that such contracts provide for the payment by the rail carrier to the corporation each year for three years of an amount equal to one-third of whichever is the lesser of the following: (1) 50 per centum of the fully distributed passenger service deficit of the rail carrier for 1969, or (2) 200 per centum of the avoidable costs of the rail passenger service the rail carrier operated within the Basic System during 1969.

Subsection (b) of section 206 specifies certain methods by which payments of a rail carrier may be made under subsection (a).

Subsection (c) of section 206 requires the corporation to begin no later than the 181st day after enactment of the bill service between points within the Basic System previously served by rail carriers with which it has entered into contracts under subsection (a). The corporation is prohibited through December 31, 1973, from allowing the service it provides between those points to fall below the minimum service prescribed under section 102.

Subsection (d) of section 206 requires the corporation to provide service in excess of the minimum service prescribed under section 102 if a State, regional, or local authority agrees to reimburse the corporation for the operating loss associated with the service.

Subsection (e) of section 206 establishes procedures by which the corporation may change or discontinue service to any point within the Basic System after December 31, 1973.

Section 207. Applicability of the Interstate Commerce Act and Other Laws. This section has not been drafted as yet. A narrative of its intended scope is set forth in the accompanying draft bill.

Section 208. Protective Arrangements for Employees. This section requires the corporation, in carrying out its functions, to provide fair and equitable arrangements, as determined by the Secretary of Labor, to protect the interests of employees who are affected by any action authorized under Title II of the bill. Consistent with the purposes of the section, the corporation would be required, when it is practical to do so, to contract with rail carriers for the rehabilitation and repair of its rolling stock.

Section 209. Sanctions. This section provides, among other things, that if the corporation engages in practices inconsistent with the purposes declared in the bill, or if the corporation or any other person violates any provision of the bill, the United States district court for any district in which the corporation or person resides or may be found shall have jurisdiction, upon petition of the Attorney General, to grant such equitable relief as may be necessary or appropriate to terminate the conduct or violation.

Section 210. Reports to Congress. This section requires the corporation to make annual reports to the President and the Congress respecting its operations. It also requires the Secretary to make periodic reports to the President and the Congress on the state of rail passenger service and the effectiveness of the bill in meeting the requirement for a balanced transportation system.

TITLE III

Section 301. Federal Grants. This section authorizes the Secretary of Transportation to make payments to the corporation in the following amounts: (1) $15 million to assist in the initial organization and operation of the corporation, the establishment of improved reservations systems and advertising, the upgrading of roadbed and signals, and the conduct of research and development and demonstration programs respecting new rail passenger services; and (2) $25 million to assist the corporation in the development and demonstration of improved rolling stock for use in corridor service, and the acquisition of equipment for use in the provision

of service subsidized by State, regional, or local authorities under section 206.

Section 302. Guaranty of Loans. This section authorizes the Secretary to guaranty lenders against the loss of principal or interest on obligations or loans issued to finance the purchase by the corporation of new rolling stock for use in corridor service. The amount of guaranteed loans outstanding at any time could not exceed $60 million.

THE PLACE OF RAIL PASSENGER SERVICE IN THE NATIONAL TRANSPORTATION SYSTEM:

A Report and Recommendation

Department of Transportation
January 10, 1970

Foreword

This report is principally intended to assist the Administration in arriving at a sound, timely decision with respect to its policy for rail passenger service. Prepared by the Department of Transportation primarily for the staffs of the White House, the Bureau of the Budget, and the Council of Economic Advisers who are concerned with the rail passenger service problem, the report has benefited from conversations with Budget Bureau staff analysts.

Part I analyzes trends in intercity passenger transportation, indicating the character of potential traffic growth, and the changing relative positions of the modes. Mounting rail passenger deficits are considered in relation to the general financial condition of the railroads.

Part II deals with the central policy goals and issues. It considers future passenger transportation requirements and then turns to the contribution which can be made by appropriately structured, qualitatively-improved rail service. Primary emphasis is placed on the problem of moving large numbers of persons in short-haul "corridors" now and in the future. The section concludes with an assessment of factors pertinent to the definition of a Federal role for rail passenger service.

Part III describes the political situation faced by the Administration in making its program decision, and includes a review of legislative action already well under way in the Congress.

Part IV summarizes several alternative policy approaches that have been suggested. A critique of the proposals is provided, a critique which is framed in terms of the operating characteristics of rail service implicit in the proposals and their conformity with an appropriate Federal role.

Part V concludes the document with a presentation of the program recommendations of the Secretary of Transportation, namely the formation of a private-public corporation (Railpax) to provide rail service and offer an objective test of its future potential.

Additional material is provided in the appendices.

CONTENTS

I. TRENDS IN INTERCITY PASSENGER TRANSPORTATION

The postwar record of U.S. intercity passenger transportation reveals two principal characteristics: rapid growth and shifts among the modes. In 1948 the volume of intercity passenger transportation, reflected in passenger miles, was about 40% of what it is today. For every three passenger miles recorded just 10 years ago there will be more than four this year. As we look ahead, taking into account population expansion (there will be 25 million more Americans alive at the end of the 1970's than there were in 1969) and economic growth (the 1980 GNP, in 1968 dollars, will exceed $1.5 trillion, 50% bigger than the current level of $950 billion), intercity passenger transportation will be half again greater than it is now.

Significant though these aggregates are, the change in the distribution of transportation among the modes that has been taking place in the postwar years is equally significant for purposes of assessing future Federal transportation policy. Among public carriers the most dramatic indicia of change are reflected in the decline of rail service and the explosive growth of air transportation. However viewed, the rail mode has declined sharply. The railroads currently account for only about a third of the passenger miles they reported two decades ago and only about a half of their traffic in 1958. Meanwhile the nation's common carriers as a group almost doubled the volume of their business, although they only held even their share of the total intercity market. Accounting for just about all of this gain have been the airlines.

As traffic has fallen, the railroads, once the principal form of public intercity transportation, have encountered growing deficits from their passenger operations. Fully-distributed rail passenger losses now amount to nearly $500 million, avoidable costs equal approximately a quarter of a billion dollars, and actual cash drain amounts to about $150 million. In 1968 the passenger service avoidable loss amounted to 50.7% of the industry's net income and 2.5% of freight revenues. Elimination of the deficit would have a major favorable effect on the net income position of the industry, and perhaps on freight rates as well.

The serious impact of the deficit can be expected to intensify unless the industry is relieved of the growing burden of passenger service. The trend of deficits on a solely related cost basis shows a rapid increase -- from $9 million in 1963 to $190 million in 1968 (See Table 1).

TABLE 1

Railroads' Net Income and The Passenger Deficit

Historic Summary

Year	Net Income (millions)	Passenger Deficit (Solely Related Basis) (millions)	Percentage of Net
1963	$652	$ 9	1.3
1964	698	18	2.5
1965	815	43	5.2
1966	904	31	3.4
1967	554	138	24.9
1968	493	190	38.5

The cross subsidy of passenger service by freight traffic has an impact on overall (all modes) freight transportation efficiency. The following points are relevant:

(1) Market place selection of mode is distorted to the extent rail rates are higher than necessary;

(2) The effect on the net income position of the rail carriers encourages flight of capital from the industry. The recent and quite dramatic move on the part of many major rail carriers toward diversification reflects a growing pessimism on the part of the financial community for the prospects of making an adequate return in the rail industry;

(3) The rail industry historically has been dependent on internal cash flow and borrowing to modernize operations; because of poor earnings equity financing is not available. The passenger deficit has a significant impact on internal cash flow and contributes to the low earnings which in turn limit the industry's ability to modernize service and facilities. The vicious circle is therefore complete.

Additional information on the railroad financial situation is provided as Appendix A.

Thus, in a period of rapid economic expansion and of greatly increased intercity personal transportation the railroads have seen their position as a common carrier almost totally eroded, with serious financial consequences. From the standpoint of overall policy most of the growth in intercity transportation has, as a parallel, been reported by those modes (airlines, automobiles, buses) which have received the benefit of substantial government investment assistance, often on a subsidized basis.

II. FEDERAL TRANSPORTATION POLICY GOALS AND REQUIREMENTS

Given the steep decline of rail passenger service as a factor in intercity passenger transportation, one must face the central question: Should this fact be accepted as a simple reflection of inexorable economic, technological and social forces and its ultimate result, namely, the virtual or total demise of intercity rail service, anticipated in the manner of a historian, or should steps be taken to test and determine the role that rail passenger service can play in meeting future intercity transportation requirements? In pondering the latter alternative, it must be appreciated that without major change in the nature of rail service, the record amply demonstrates that rail movement will continue its secular decline. Without some new approach, reflecting an understanding of the characteristics of rail transportation and of the intercity passenger market, it would be absurd for the Federal Government to give any serious consideration to the potential future contributions of this mode of transportation. Fresh organizational and managerial approaches will be vitally needed; the routes over which passenger trains are operated must be carefully pruned and thoroughly restructured; new investment must be made in passenger equipment; and the heavy regulatory constraints that have traditionally been imposed on transportation carriers must be severely moderated. Change, then, is essential if rail service could even conceivably become a positive factor in intercity transportation in the U.S.

But to return to the basic question, what goals of our national transportation policy might be served through implementation of a rail passenger program of this type? What are our objectives in proposing a new and innovative Federal role?

The summary goal of our national passenger transportation policy is to insure the existence of an efficiently functioning network of passenger services attuned to the demands of those who travel. The network should be:

1. Operationally efficient, so as to optimize the nation's travel bill. The object is not to minimize total cost of present travel, but to enable a pattern of trade-offs between high quality services and low cost services such as will best serve the economy.

2. Adaptive, so as to meet peak demands, exigencies of weather or national emergency, and sharp growth in demand in specific markets.

3. Comfortable, convenient, and safe, factors which are reflected in the overall efficiency of system and the price patrons will pay for services.

4. Market oriented, so that user demanded services are provided, users pay the costs of what they consume, and government involvement is limited to sponsoring the organizational arrangements necessary to implement the components of the network, and providing financial assistance in instances where external benefits of a certain type of service exist, i.e., where there are benefits to the public above and beyond those for which users should be charged.

Future Transportation Requirements

Today in the U.S. about 70% of our 200 million people live in urban areas. In another 10 years our population will increase by close to 25 million and by then an even larger proportion, close to 80%, will live in cities. This continued trend to urbanization is complemented by another characteristic, namely, megalopolization. In more and more areas of the country cities located relatively short distances apart are becoming interconnected in fairly well-defined regions or "corridors." The best known is in the Northeast, running northeast from Washington through Baltimore, Philadelphia, New York to Boston. Its population is around 35 million, situated in 25 major urban areas. It is a common error, though, to think of corridors only in terms of the New York-Washington-Boston complex. There are in fact a number of corridors or intercity groupings in other parts of the U.S. In what can be termed the southern Great Lakes -- a belt stretching eastward from Chicago to Pittsburgh and, on the north, Buffalo -- there is a population of more than 18 million. In terms of population density within urbanized areas in a common geographical area there are several other corridor complexes. One stretches up and across New York State, another is in California. Significant urban corridors are also emerging in Florida, the Southeast, in Texas (from Dallas-Fort Worth southward through Austin to San Antonio and Houston), between Chicago and St. Louis, and in the far Northwest.

Each of these urbanized corridors has certain common features, with considerable transportation significance. Population density is high; there are several cities, close together but not abutting; the distance from one major urban center to another may range from as few as 25 miles to perhaps 350 miles. Transportation patterns are complex, but a large percentage of the travel in the corridor both originates and terminates within its boundaries. In a sense the corridor may be viewed as a market all by itself, but it is not isolated. People in large numbers travel to New York from Boston and Washington, but they also arrive from Los Angeles, London, and

3. Comfortable, convenient, and safe, factors which are reflected in the overall efficiency of system and the price patrons will pay for services.

4. Market oriented, so that user demanded services are provided, users pay the costs of what they consume, and government involvement is limited to sponsoring the organizational arrangements necessary to implement the components of the network, and providing financial assistance in instances where external benefits of a certain type of service exist, i.e., where there are benefits to the public above and beyond those for which users should be charged.

Future Transportation Requirements

Today in the U.S. about 70% of our 200 million people live in urban areas. In another 10 years our population will increase by close to 25 million and by then an even larger proportion, close to 80%, will live in cities. This continued trend to urbanization is complemented by another characteristic, namely, megalopolization. In more and more areas of the country cities located relatively short distances apart are becoming interconnected in fairly well-defined regions or "corridors." The best known is in the Northeast, running northeast from Washington through Baltimore, Philadelphia, New York to Boston. Its population is around 35 million, situated in 25 major urban areas. It is a common error, though, to think of corridors only in terms of the New York-Washington-Boston complex. There are in fact a number of corridors or intercity groupings in other parts of the U.S. In what can be termed the southern Great Lakes -- a belt stretching eastward from Chicago to Pittsburgh and, on the north, Buffalo -- there is a population of more than 18 million. In terms of population density within urbanized areas in a common geographical area there are several other corridor complexes. One stretches up and across New York State, another is in California. Significant urban corridors are also emerging in Florida, the Southeast, in Texas (from Dallas-Fort Worth southward through Austin to San Antonio and Houston), between Chicago and St. Louis, and in the far Northwest.

Each of these urbanized corridors has certain common features, with considerable transportation significance. Population density is high; there are several cities, close together but not abutting; the distance from one major urban center to another may range from as few as 25 miles to perhaps 350 miles. Transportation patterns are complex, but a large percentage of the travel in the corridor both originates and terminates within its boundaries. In a sense the corridor may be viewed as a market all by itself, but it is not isolated. People in large numbers travel to New York from Boston and Washington, but they also arrive from Los Angeles, London, and

Tokyo. The densely populated urban corridor, then, presents a highly heterogeneous transportation phenomenon -- with discrete transportation problems, each with their own peculiar properties and solutions.

As the nation's population increases -- from its present 200 million to 225 million by 1975, to 250 million by 1980, and an estimated 320 million by the year 2000 -- our urban corridor population is going to grow, indeed even more rapidly. Some demographers predict that by the turn of the century the Northeast region stretching from Washington to Boston will contain a fourth of all our people. That means 80 million people, as compared with the 35 million or so who live in this urban megalopolis at the present time. Similarly, about 12-15% of the population will live in the central strip from Chicago to Buffalo and Pittsburgh; that works out to perhaps as many as 50 million people. On the West Coast the San Diego-Los Angeles-San Francisco corridor is likely to have about as many people within its confines as in the central U.S. If allowance is made for the growth of the other urban corridors that were mentioned -- in the Southeast, in Texas, and elsewhere -- the likelihood is that by the year 2000 at least 200 million Americans will reside in one or another of these metropolitan corridors.

Corridor Transportation Requirements

To put the transportation issue in better perspective, consider the situation in the Northeast Corridor, centered, as it is, around New York. This will help show how improved rail service might help meet, in an economically effective way, future transportation demands. Today we have a serious air congestion problem in and around New York. The practical annual capacity of the three major New York City airports has been reached. With an interval of bad weather or a fairly minor communications difficulty, serious delays can occur, and delays are a common experience. The FAA estimates the present capacity of the three New York airports at about 800,000 annual operations, a figure that just about matches up with the current volume of operations. This factor has forced the Department of Transportation to take steps to ration the available space of these airports so as to minimize lengthy delays for commercial air travelers. This will help alleviate the problem -- for a while. Eventually, however, some more basic solution must be found.

To suggest what such a solution might be, it is well to examine the character of air travel into and out of New York. Right now the number of air carrier operations into and out of New York from Washington, Baltimore, and Boston approximates 120,000 a year. Some 6 million passengers will travel this year to and from New York by air from or to Boston and Washington. On the average about 16,500

people arrive and depart daily at the New York airports en route to or from Washington/Baltimore and Boston aboard nearly 350 separate flights, each of which uses about the same amount of airspace and runway capacity as a plane coming from across the country or around the world. The lesson is that a large amount of the air traffic into and out of New York now involves movement to other corridor points that are located little more than 200 miles distant, and are preempting capacity which might otherwise by used by aircraft operating over long distances where air transportation provides its most effective and most economic role.

To see the prospective contribution that modern train service could provide in the corridor, close attention must be given to air transportation. At the principal hubs in the Northeast, airport congestion has already become a serious and well-publicized problem. But it is not confined solely to the Northeast, for similar rationing procedures have had to be placed in effect in Chicago and Washington. Further, this same situation is emerging in other parts of the country. At Los Angeles, Boston, San Francisco and St Louis existing airport capacity has all but been saturated, according to a recent report of the Civil Aeronautics Board. By 1975 air travel demand is expected to exhaust available airport capacity at Atlanta, Philadelphia, Miami, and probably Cleveland. A sizable proportion of the domestic air traffic at each of these principal hubs consists of travelers making relatively short flights within the relevant corridor complexes.

This situation is most striking in the Northeast. At Boston, for example, 56% of total domestic air traffic using this terminal originated or terminated its journey within the Northeast Corridor. At Washington the comparable figure was 40% and at New York, despite the large amount of transcontinental traffic, the figure was 25%. A fuller breakdown is presented in Table 2. Based on 1968 data, Table 3 shows both the number of air passengers at corridor cities and the commercial flights required to serve these numbers of passengers, assuming average load factors. As can be seen, for example, 2.8 million passengers traveled by air between Washington and the other 8 identified points in the Northeast in 1968, using nearly 52,000 flights. The number of such flights at New York alone was nearly 100,000. This volume of relatively short-haul corridor traffic contributes importantly to the congestion problem experienced at the major hub terminals. It is this congestion which has intensified the demand for additional airport and airway capacity, something which can be provided under existing circumstances only with large amounts of Federal aid offset, but only in part, by user charges.

What is true of New York and of the Northeast Corridor is also characteristic, though not yet in quite so pronounced a manner,

of other parts of the United States. Approximately 30% of air passengers flying into or out of the major hub terminals in California, ranging from Sacramento and San Francisco in the north to San Diego in the south, is composed of travel within the California Corridor.

Projected Corridor Travel Demand

It is when we look ahead and take into account anticipated air traffic growth that intracorridor travel demand assumes even greater practical significance from the standpoint of national transportation policy. The fact, noted earlier, that the corridors (treated as megalopolitan regions) will absorb even a larger proportion of the nation's growth in population that contributes to this facet of the large problem. Estimates of air transportation in the Northeast Corridor show that at the commercial airports in New York City the number of passengers by air will rise to approximately 42 million by 1975. These figures, striking in themselves, must be converted into anticipated aircraft operations in order to assess their relationship to airport capacity. What this shows is that the anticipated peak hour number of scheduled commercial aircraft operations at the three New York airports could amount to over 300 operations by 1975. These figures far exceed peak hour capacity of the New York airports, currently calculated at 160 operations under instrument flight rules. It is evident that something must give: either aircraft operations must be reduced and air traffic curtailed, which a few think possible and most think inconceivable, or capacity increased, through the construction of new and extremely costly major airports or through the addition of extra runways and highly expensive, automated control of the air terminal areas to permit somewhat fuller utilization of runway capacity. There is, though, a third alternative -- namely to shift a portion of the substantial anticipated increased traffic within the Northeast Corridor and in the other urban corridors of the United States, to alternative forms of transportation, notably to surface transport. It is at this point where the prospective role of rail transportation becomes exceedingly relevant.

Diversion of Air Travelers to Improved Rail Service

Analysis conducted by the Department of Transportation shows that it is possible to divert large amounts of intracorridor intercity travel from the air mode to rail service if the latter is provided on a reasonably reliable, somewhat faster, and qualitatively more attractive basis. Fortunately, this prognostication, presumed correct by a number of studies and surveys, is now backed up by actual experience.

TABLE 2

Air Travel in the Northeast Corridor

City assumed to be incorporated into high-speed ground transport system (1)	Total 1965 air passengers to/from all U.S. cities (2) (thousands)	Intracorridor 1965 air passenger travel	
		total (3) (thousands)	percent of column 2 (4)
Portland, Maine	124	88	71%
Boston, Mass.	4,628	2,581	56
Providence, R.I.	444	247	56
Hartford, Conn.	859	308	36
New Haven, Conn.	11	8	73
New York, N.Y.	16,316	4,004	25
Trenton, N.J.	4	1	25
Philadelphia, Pa.	3,117	619	20
Wilmington, Del.	18	5	28
Baltimore, Md.	1,351	292	22
Washington, D.C.	5,373	2,124	40
Richmond, Va.	390	144	37
TOTAL	32,635	10,421	32%

SOURCE: Civil Aeronautics Board: "Airline Traffic Survey" (1965).

TABLE 3

NUMBER OF PASSENGERS, OUTBOUND AND INBOUND, TO LISTED CITIES*
Ten Percent Sample for Six Months Ended June 30, 1968
(adjusted for complete year)

	Wash.	Prov.	Phil.	N.Y.	Hart.	Bos.	Balt.
Balt.	9,620 (180)	11,120 (210)	24,420 (450)	268,600 (5,050)	26,120 (490)	117,480 (2,220)	
Bos.	494,720 (9,300)	3,760 (71)	363,700 (6,900)	2,438,920 (46,000)	27,040 (510)		
Hart.	98,140 (1,850)	3,020 (57)	59,160 (112)	218,640 (4,120)			
N.Y.	1,915,420 (36,200)	221,820 (4,200)	120,600 (228)				
Phil.	178,300 (3,360)	38,940 (735)					
Prov.	57,920 (1,090)						
Total	2,754,120 (51,980)	336,580 (6,400)	785,120 (14,800)	5,184,000 (98,000)	432,120 (8,200)	3,445,360 (65,000)	437,360 (8,300)

*Scheduled airlines only. Numbers in parentheses are the number of annual flights required, assuming 53 passengers per flight occupancy rate.

Last year the Penn-Central Railroad, urged by the Federal Government and in anticipation of the initiation of a major and intensive demonstration project which will shortly be initiated, began its Metroliner service between Washington and New York. Although this service has been only moderately well promoted and while the number of trains being operated between these two cities has been limited (only three per day until October 26), the actual results are impressive. Table 4 summarizes the results. In the first 11 months of Metroliner operation, as can be seen, the number of riders using New York-Washington corridor service rose 496,000 from 6.35 million to 6.85 million. The results are even more significant for the New York-Washington link -- the long-haul segment that is in direct competition with air. In November 1969, total ridership increased by 24,000 (53% from New York to Washington and 64% from Washington to New York). Load factors on the Metroliners are very high, averaging close to 80% (actually almost every seat could be sold if it were not for the necessity of reserving certain spaces for passengers boarding at the intermediate stops at Baltimore and Philadelphia). These results are far more favorable than even the most optimistic analysts anticipated and confirm the belief that good, improved rail passenger service can make a go of it in the marketplace, diverting travelers from the airlines and contributing to the alleviation of the assorted problems generally associated with the "congestion" label in aviation.

Similar assessments of intercity transportation in a number of principal corridors have been conducted and the results are shown in Tables 5 and 6. Between New York and Buffalo, for example, it is anticipated that in 1975 existing speed, though qualitatively superior rail service, would carry more than 1,715,500 passengers. If there were no rail service and these travelers were obligated to make this journey by other means of transportation, a substantial number would go by air or by highway. It is this diversion of intercity traffic from air and other modes that imposes demands on Federally-assisted components of the transport infrastructure that makes the availability of rail service especially attractive.

There is one other point that deserves mention, the maintenance of rail access to the center of major cities. Whatever the need for such access may be today, there is little doubt about such need by 1975 or 1980 and beyond. The abandonment and ultimate reestablishment of such access routes would be enormously costly and in some instances, perhaps, impossible. (See Appendix C for additional material on this subject.)

Effect of Rail Diversion on Non-Rail Government Capital Investment

A shift of intercity passenger traffic from other modes, notably air, to rail could, over a period of years, have a favorable impact on government provision of transportation facilities. This point should not be interpreted to mean that total Federal transportation investment would be radically reduced. Intercity traffic susceptible to diversion to improved rail service does not account for a preponderance of intercity movement. But, at the same time, it is significant in amount and it can, especially with respect to air diversion, open up an opportunity to realize overall savings from the standpoint of government investment and yet still provide equally efficient, if not better, intercity transportation. Given the long lead time of capital investment in virtually all forms of transportation facilities the effects of these trade-offs will not be immediately apparent, but taking a view of the problem that is commensurate with the growth and character of intercity transportation the prospective gains are sizable.

Consider the significance of the diversion of passenger traffic to rail from air. As the data elsewhere presented show, congestion at principal corridor air terminals, reflecting a large proportion of intracorridor trips, will become a problem of growing urgency that only can be satisfied through an expansion of existing airport and airway facilities. Whether this is done through new airport construction or through expansion of capacity at existing airports makes relatively little difference, for in either case the investment costs are large. If a significant portion of this short-haul traffic can be shifted from conventional air to rail or to STOL, the need for additional investment in air transportation facilities is curtailed and made less urgent, with consequent savings to the public.

The effect of a diversion of intercity traffic from the highways, by contrast, is not likely to have any significant impact on highway construction. The sheer volume of auto traffic is so great that even if all traffic from all public modes (bus, air, rail) were shifted onto the highways, it would only marginally increase the auto-use related demand for additional highway capacity. Further, the use of the highways, even in less densely populated areas, is largely for short-haul trips. It has been estimated, for example, that highway trips of more than 200 miles constitute only about 6% of all intercity journeys within the Northeast Corridor. For air the picture is starkly different. One study, prepared by Systems Analysis & Research Corporation, shows that as much as $650 million of the total cost of airport development in the Northeast Corridor

TABLE 4

New York-Washington Rail Corridor Traffic
11 months 1968 vs. 11 months 1969
(000)

	1968	1969	Increase
All Service	6,352	6,848	496
Metroliner Only	0	508	508

TABLE 5

Estimated Annual Trips --
Total All Corridors -- Year 1975 1/
(millions)

	Auto	Bus	Rail	Air	Total
Rail Service					
NONE	34.59	2.96	0	6.79	44.34
Existing Speed 2/	32.40	2.37	5.57	6.12	46.47
High Speed--High Fare 3/	31.32	2.30	7.30	5.90	46.82
High Speed--Low Fare 4/	29.69	2.17	10.18	5.51	47.55

1/ Excludes Northeast Corridor
2/ 55-65 mph average, 8 per day, fare $1.50 plus 4.2¢ per mile
3/ 80-100 mph average, 12 trains per day, fare $1.50 plus 7.5¢ per mile
4/ 80-100 mph average, 12 trains per day, fare $1.50 plus 4.2¢ per mile

TABLE 6

Estimated Annual Trips --

Individual Corridors -- 1975 1/

(millions)

	Auto	Bus	Rail	Air	Total
New York--Buffalo					
Rail Service					
NONE	6.91	.80	0	1.88	9.59
Existing Speed	6.18	.54	1.72	1.67	10.12
High Speed-High Fare	6.04	.52	2.00	1.63	10.20
High Speed-Low Fare	5.63	.49	2.77	1.51	10.40
Philadelphia--Pittsburgh					
NONE	4.38	.22	0	.43	5.03
Existing Speed	4.01	.22	.43	.36	5.02
High Speed-High Fare	3.94	.22	.53	.35	5.04
High Speed-Low Fare	3.80	.21	.74	.34	5.09
Chicago--St. Louis					
NONE	1.81	.21	0	.56	2.60
Existing Speed	1.77	.15	.33*	.51	2.70
High Speed-High Fare	1.57	.14	.58	.47	2.76
High Speed-Low Fare	1.46	.13	.80	.43	2.82
Chicago--Cleveland					
NONE	2.50	.26	0	.64	3.40
Existing Speed	2.31	.20	.52	.57	3.61
High Speed-High Fare	2.24	.20	.64	.55	3.64
High Speed-Low Fare	2.10	.18	.90	.51	3.70

1/ See footnote 1 on Table 4.

* Demand model estimates lower than existing ridership

	Auto	Bus	Rail	Air	Total
Chicago--Detroit					
NONE	1.80	.14	0	.72	2.66
Existing Speed	1.71	.12	.32	.66	2.82
High Speed-High Fare	1.66	.12	.42	.65	2.84
High Speed-Low Fare	1.57	.11	.60	.61	2.89
Chicago--Twin Cities					
NONE	3.38	.27	0	.90	4.55
Existing Speed	3.25	.20	.52	.82	4.80
High Speed-High Fare	3.17	.19	.68	.79	4.83
High Speed-Low Fare	3.03	.19	.94	.73	4.91
Chicago--Cincinnati					
NONE	2.80	.25	0	.72	3.77
Existing Speed	2.62	.24	.50	.65	4.01
High Speed-High Fare	2.53	.23	.65	.63	4.04
High Speed-Low Fare	2.39	.22	.91	.59	4.11
Cincinnati--Detroit					
NONE	3.47	.21	0	.33	4.03
Existing Speed	3.37	.19	.33	.30	4.20
High Speed-High Fare	3.18	.18	.64	.28	4.27
High Speed-Low Fare	3.03	.16	.88	.26	4.33
Cleveland--Cincinnati					
NONE	5.11	.31	0	.30	5.73
Existing Speed	4.79	.30	.65	.28	6.03
High Speed-High Fare	4.66	.29	.86	.27	6.08
High Speed-Low Fare	4.45	.28	1.18	.25	6.16

	Auto	Bus	Rail	Air	Total
Los Angeles--San Diego					
NONE	1.99	.21	0	.22	2.42
Existing Speed	1.95	.16	.18*	.22	2.51
High Speed-High Fare	1.92	.16	.22*	.21	2.52
High Speed-Low Fare	1.86	.15	.31*	.21	2.54
Seattle--Portland					
NONE	.42	.08	0	.08	.58
Existing Speed	.41	.05	.06*	.07	.60
High Speed-High Fare	.39	.05	.09*	.06	.60
High Speed-Low Fare	.37	.05	.13*	.06	.61

* Demand model estimates lower than existing ridership

could be avoided or delayed by a diversion to rail of most short-haul corridor air transport operations between the region's major airports.

Or take the question of the desirability of a fourth airport at New York and a second major terminal at Chicago. Traffic growth suggests that these facilities will have to be provided in the near future, absent diversion of traffic to other modes. But examination of the costs and political difficulties of doing so indicates that it may literally be impossible to build these facilities. The Alexander Committee Report recognized this circumstance and suggested increasing capacity at existing airports. This can be done to a point, but is also problematic. Only relatively small additions in capacity can be added in this manner, and at the two cities cited above, there are special problems.

If the focus of our thoughts on future congestion in other modes is shifted from relieving congestion (frustrating demand) -- which is probably not possible because demand will always press other traffic into the peak period -- to provision of alternatives, the rail mode is very attractive. To measure precisely the full relative potential benefits of providing improved corridor rail service under circumstances of congestion in airways and highways is impossible at this time. What we must deal with are probabilities, not certainties or refined mathematical calculations. And the probabilities are that improved rail service can make a major contribution to intercity movement that has an excellent chance of being advantageous to the traveling public, the Federal Government, and the concerned industries. To conduct a meaningful national test of selective rail passenger service, however, will require government initiative and a carefully-defined Federal stimulus. It is an effort worth making in view of the likely payoff.

Pertinent Factors in Defining a Federal Program for Rail Passenger Service

In acknowledging the prospective contribution that rail passenger service could make to intercity movement in the nation's urbanized and urbanizing corridors it should be clearly understood that present understanding of the subtle and highly complex world of transportation is not such as to make it prudent for the Federal Government to commit itself to a permanent investment or support role for intercity rail service. Although there is good reason to think that the projections of traffic growth and its distribution among the various modes, if anything, understates significantly the contribution that rail service could make, one can see that over a period of years the

rail mode, in the face of rapid technological change and the dynamics of consumer preference, might, although offered on an improved basis, not prove to be sufficiently attractive to travelers to warrant continued encouragement of this form of transportation. Nonetheless, while conceding this possibility, it would be equally unrealistic not to admit the prospective benefits or the practicalities of making a limited Federal financial commitment to testing, in a comprehensive fashion, rail passenger transportation on an improved character, alleviating and meeting in an economically sensible manner the requirements of intercity passenger transportation. Technologically rail transportation can be adapted, without expensive or elaborate research programs, to providing the kind and quality of service -- in terms of speed, comfort, convenience, and reliability -- that travelers have come to expect. Economically, the operational characteristics of rail transportation mean that high density corridor-type intercity service can be provided to the traveling public at costs that are lower than air transportation. This is especially so when it is kept in mind that for other public forms of transportation there are large amounts of unrecovered capital investment which are made by the Federal Government and which are not reflected in operating costs of the carriers. The encouragement of rail passenger service, therefore, is not a case in which the government would be promoting an inefficient or high-cost form of service. As well, the railroads impose on the government no obligation for making investment in the acquisition and/or construction of right-of-way. There is a sunk investment, as the economists put it, which can be taken advantage of without additional costs and yet without making it impossible to provide good quality intercity rail passenger service. (For further development, see Appendix C.) Taking all of these factors into account strongly urges, from the standpoint of a national transportation policy that is tuned to the growth of intercity transportation and the available alternatives, that the Federal Government could wisely support a program to test a carefully- structured program of improved intercity rail passenger service in the United States.

Such an undertaking, however, makes sense only if a number of criteria can be satisfied. First, it is critical that the test program specifically include assurances that the service that will be provided will indeed be of a substantially higher quality than is now or has recently been provided by the nation's railroads. To perpetuate the present, both in terms of quality service and in managerial initiative, would be a grave mistake. Second, it is vital that a new organizational force, whatever type, be introduced. The railroads, for whatever combination of reasons, have indicated, in many concrete ways, that they do not wish to retain or improve rail passenger service. Only by establishing some institutional mechanism that would permit the

introduction of managers primarily committed to passenger service could the program be a good test of the potential of rail passenger operations. Third, the government's financial commitment should be minimized both in terms of the initial amount of contribution and the risk that it could be come financially entangled in a permanent support program. Fourth, the test of improved rail service must be designed so that it comes to an end, concluding direct Federal involvement and fully exposing intercity rail service to the test of the market. It is by these standards that a Federal program for improved rail passenger service must be judged, but the case for a positive Federal program itself is highly persuasive.

III. THE POLITICAL SITUATION

The question of railroad passenger service has received extensive Congressional attention for some years, but until 1969 it had been extremely diffuse. There was general agreement as to the symptoms but no shared understanding of the problem, the objectives to be fulfilled, or the character of Federal action. These shortcomings, however, have not prevented a growing sense of frustration and a widespread belief in both Houses of the Congress that some action should be taken by the government to reduce or halt the growing number of train discontinuances in the United States. For some members this took a very simple form: impose a moratorium, stopping the wave of train discontinuances, and study the problem to see what might or should be done about it. Others took a distinctive view of the problem and, acknowledging that the railroads are sustaining substantial losses from their passenger operations, urged that the government provide financial support for passenger service. In a few instances, relatively rare to be sure, proposals were advanced calling for government participation in new undertakings that might lead not merely to the perpetuation of old, outmoded forms of rail passenger service but, instead, to the inauguration of vastly improved, higher speed operations. Untangling all of these diverse threads of Congressional response would be a burdensome and time-consuming chore, but it is one that need not be indulged in in any exhaustive manner in view of the imminence of Congressional action. The matrix in Appendix D exhibits the extent and range of legislation that has been put before the Congress in an effort to deal with the problem.

Analysis of Pending Rail Passenger Legislation

Dozens of bills have been introduced in the 91st Congress that concern themselves with the rail passenger problem. In approach and scope they vary widely as the material in Appendix D amply demonstrates. Sorting them out and trying to identify their common points, one finds three principal features that they reflect. The first is a clear effort to slow or halt, for some significant period of time, the current trend to train discontinuances. The imposition of such a moratorium is, indeed, a striking characteristic and suggests the strength of the sense of frustration that many legislators feel, and it also explains why the railroads are generally so anxious to secure support for more positive legislation that offers actual promise of alleviating their financial strain. A second feature is found in the willingness of the Commerce Committees to provide substantial subsidy for rail passenger service. The bill that will emerge from the Senate Commerce Committee calls for the Federal Government to provide assistance equal to 80% of rail passenger operating losses.

A third characteristic, usually though not always accompanied by a subsidy provision, would amend existing legislation to empower the ICC to order railroads to improve passenger service. Accompanying these three basic approaches is a call for additional study of the entire problem. Typically this is coupled with the imposition of a moratorium, although the investigative requirement is also a feature in some of the subsidy bills.

Beyond these approaches, several bills propose procedural or jurisdictional modifications in such areas as revising the 13a procedural timetable, retaining last trains, authorizing judicial review of ICC decisions, permitting ICC attachment of conditions (i.e., required facility retention or minimum passenger service standards) to its orders, and instituting Federal assistance for continued trains. Regional participation in handling the problem is encouraged in various bills which would approve substantial Federal assistance for local planning and/or operation of a rail transportation system, with grants paralleling those provided for in the Urban Mass Transit program.

Despite all of the attention that has been given the rail passenger service issue in recent Congresses, there was insufficient agreement as to the character of the problem or the character of Federal action until the 91st Congress. Reflecting a growing attitude of frustration and annoyance that the Executive Branch of the government and the ICC could come forward with no recommendations to deal with the matter, the House and, in particular, the Senate Commerce Committee, made clear early in the first session of this Congress that there was an urgent need for government response. In hearings conducted during the late summer and autumn of 1969 the key subcommittees served ample notice that they would take up legislation to deal with rail passenger service, unless the Administration submitted recommendations of its own. Early in October the Federal Railroad Administrator appeared before both of the House and Senate Subcommittees to testify concerning this entire subject. While he was not then in a position to advance detailed legislative proposals, he agreed, following appropriate clearance within the Executive Branch, that the Administration would return to the Congress with a recommendation by the end of calendar year 1969.

For whatever reason, the Senate Commerce Committee elected not to wait until January 1 and, during the latter part of November and early December, took up in several sessions a bill, sponsored by Senator Hartke and supported by Chairman Magnuson and several other Committee members, that would provide, over the next 4 years, $435 million in Federal subsidy to sustain rail passenger service. In its key provisions this bill would require the Secretary of Transportation to designate a national rail passenger system and

compensate the railroads providing passenger service over this network with amounts equal to 80% of the avoidable losses they would sustain. Despite Department of Transportation advice urging delay in the consideration of such legislation, based explicitly on its substantive deficiencies, the Committee, in executive session, approved the bill and ordered it reported to the floor. Only the absence of a quorum has temporarily nullified the effectiveness of this action. It is fully expected, by all of those who have been in contact with the Senate Commerce Committee, that, when Congress reconvenes on January 19, the Committee Chairman, Senator Magnuson, will promptly call an executive session, gain a quorum, and secure approval of the subsidy bill. Early, favorable Senate floor consideration is expected to follow. Meanwhile, in the House the Committee on Interstate and Foreign Commerce has also advised the Department that rail passenger service, focusing on a subsidy measure comparable to that that will emerge from the Senate, will be taken up early in the second session. There are some indications that, when the Senate votes on the subsidy bill, the House Committee will proceed expeditiously to adopt a similar measure in order to expedite final Congressional action.

From this review of the situation several key facts can be distilled: Congress is not merely prepared to act decisively on the rail passenger service problem, it is acting. And the action it is taking is not well calculated to achieve the policy objectives or to conform with the criteria spelled out in the earlier discussion. It is an expensive subsidy approach that offers to provide no meaningful test of improved rail service, that indeed offers no real probability that there will be any significant improvement in the quality of service, that introduces no new managerial initiative, that will continue to cost the railroads substantial sums of money, and that promises to ensnarl the Federal Government in a subsidy program that is certain to have a long life and a large price tag. But these criticisms, forcefully made as they have been, are unlikely to divert Congress from taking definitive action in support of the subsidy program. The chances are very great, therefore, that by the spring of 1970 Congress will have adopted a multi-hundred million dollar subsidy program that perpetuates rail passenger service, but does not test its potential contribution to intercity transportation, and that will bring to the public, not better service, but only an additional demand on the Treasury.

Given this outlook the Administration's options reduce essentially to four. First, it can exert such influence as it may have to block passage of the pending subsidy legislation. Chances for success are slim, given the mood of Congress and the intense desire of the Committees to adopt a bill early in the session. Second, it

can remain silent and acquiesce in a Democratically-sponsored measure, signing the bill into law. The immediate costs will total $435 million in this and the succeeding three fiscal years. Such a response appears nearly out of the question, particularly in view of the current fiscal situation. Third, passage of the bill could be greeted with a veto. Superficially this may have some appeal, partly because it could be used as an opportunity to demonstrate the majority party's fiscal irresponsibilities. On closer inspection, however, this alternative takes on serious political liabilities. For one thing, with this being an election year and with train discontinuances being the subject of considerable political sensitivity in all parts of the country, the White House is likely to lose far more than it would gain from a veto of a measure that is, on its face, calculated to deal with a problem that is of concern and interest to many Americans. Further, if the Administration has not come forth with a recommendation of its own it is highly probable that a substantial majority of Republicans in the Senate and the House will vote for the Magnuson subsidy bill. A veto, put forward primarily on grounds of fiscal considerations, will have to be nearly as critical of Republicans in the Congress as Democrats. This not only makes a veto politically questionable in terms of its benefits, but it reduces the chances that, when the chips are down, a veto can be unequivocally recommended, if it can be seriously advanced at all. This leaves open the fourth avenue: for the Administration to advance a proposal of its own, one that is consistent with the criteria noted earlier and that is better calculated to test the role of improved rail passenger service under conditions such as to minimize the Federal fiscal commitment and to maximize the benefits for the traveling public.

As noted earlier, on grounds of sheer economic merit and from the standpoint of overall transportation policy, a carefully formulated test would be a sound and prudent undertaking, putting political considerations aside. But with the latter also taken into account the case for an Administration policy recommendation takes on all the greater appeal. In the succeeding section a number of alternative policy approaches are examined and in the conclusion the Department's recommendation is reviewed.

IV. ASSESSMENT OF ALTERNATIVE POLICY APPROACHES

In the consideration of the rail passenger service problem a number of approaches have been suggested and scrutinized. They differ significantly in character, in the financial role of the Federal Government, in their impact on the railroads, and in their effect on the provision of improved intercity passenger transportation. There are also important differences in their political acceptability. A comparison of the principal alternatives is presented in this section.

A. Status Quo

Theoretically the present discernible trends in rail passenger service could be simply observed, with no change in government policy. This would mean a continuation of rapid train discontinuances, but with the likelihood that as the number of trains is reduced further the railroads will experience delays in their abandonment proceedings. Slowly the number of trains could be whittled down, but in the process the railroads would continue to experience large financial deficits. The traveling public would, of course, decreasingly be served, the railroads would continue to sustain a large passenger deficit, and the Federal Government, as the principal investor in transportation facilities, would realize no part of the prospective gain that can be achieved through a diversion of intercity traffic to the railroads. This would be an approach, therefore, that would seem to offer losses for everyone and gains to no one, aside from analysts who take delight in the clinical dissection of cadavers. And from a political standpoint it is an approach that is doomed. The sense of Congress is to act to preserve rail passenger service, whether through the imposition of a moratorium or the provision of large amounts of subsidy. For the Administration to attempt to remain on the sidelines and to acquiesce in the status quo, let alone expressly to articulate this as a matter of policy, would be an exercise in masochism.

B. Accelerate Rail Passenger Discontinuances

It has been suggested in some quarters, perhaps seriously, that the Administration might propose legislation that would simplify the discontinuance of such rail passenger service as remains in the country. This, again, is an intriguing theory, but it hardly rises above that. Most of the comments made in the review of the status quo approach in subsection A above are pertinent here and need not be repeated. If one shares the conclusion that rail passenger service,

if offered on an improved and more carefully tailored basis, can prospectively play a valuable role in intercity transportation, the proposal for simplifying train discontinuances on a wholesale basis can be deemed irrelevant. At the same time, however, it should be recognized that there is essential merit in moving at a near future date to a situation in which intercity rail service can be tested by traditional market tests. Indeed, the recommendation of the Department of Transportation recognizes this virtue. In the short-run it provides for the curtailment of a significant amount of rail service that is being provided in markets where there appears to be no prospect, even with strong encouragement, of permanently unsubsidized operations. Over the longer run the Department proposal contemplates that the passenger service corporation will have to meet the test of the market. What is needed in the interim is a transitional program that will create the circumstances for a meaningful test of intercity rail passenger service in markets where there is a discernible prospect for profitable or breakeven operations.

C. Reasonably Comparable Substitution of Service

It has also been suggested that railroads might be permitted to discontinue passenger operations more easily than they can at present, if they are able to demonstrate that other public transportation was available on reasonably comparable terms. This notion, and it has been advanced only in an extremely summary fashion, is rather intriguing, although no one seems to be quite certain exactly what it means. Most communities have available more than one form of transportation. Most cities and towns, including those served by railroads, also have some form of bus service. There may also be a local airport, perhaps a taxi company, a car rental station, perhaps an available auto for personal use, and always the thumb. If these alternative means of transportation were viewed as "comparable," rail passenger service could be discontinued everywhere. If, instead, there is to be a more sophisticated qualitative assessment of alternatives, the standards for carrying out this review are difficult to conceptualize, let alone reduce to operationally meaningful criteria. The proposal, therefore, suffers largely from impracticalities and theoretical deficiencies. More importantly, it fails to measure up to the need described earlier -- namely, for a well planned test of intercity passenger service in markets where such service may play a constructive role in transportation. From a political standpoint this approach, which is a shotgun variant of the proposal described under subsection B above, suffers from the same grave defects. The Congress wants to preserve rail passenger service and is prepared to vote large amounts of subsidy in its support. This approach, to the contrary, is a not very well concealed attempt to hasten the death of the rail passenger system. It would be quickly spotlighted and politically deflated.

D. Rail Passenger Service Moratorium

A number of bills that have been introduced in Congress to deal with the rail passenger problem contain a moratorium feature. Some would require that all existing passenger service be retained for a stated period of time, ranging from 90 days up to as long as 3 years; others would require the retention of the last trains being operated along particular routes or in particular geographic areas. These bills reflect the widespread Congressional attitude that something must be done, quickly, if there is to be any rail passenger service retained at all. Some of these bills, of course, are joined with some form of subsidy. While these approaches have a greater chance of finding a sympathetic audience among Federal legislators than any of the three approaches noted above, they are, from the standpoint of national transportation policy, not well calculated to meet our future travel requirements in an economically prudent manner. They are blunderbuss approaches, by and large, and offer no significant prospect of bringing to the country the kind of improved rail operations that can yield a good test of rail passenger service as a part of the intercity transportation system. From a practical standpoint, they would maintain a large amount of rail service; but, as noted earlier, this should not be the purpose of a Federal transportation program. To the contrary, what is required is a policy that will assess, in a refined way, the transportation implications of improved rail passenger service. The subsidy approach offers no more appeal from the standpoint of national transportation policy than a do-nothing approach.

V. RAILPAX -- A POSITIVE FEDERAL PROGRAM FOR NATIONAL RAIL PASSENGER SERVICE

The Program: Its Transportation Policy and Political Appeal

After reviewing the situation, in all its several facets, the Department of Transportation has devised a program to provide an improved system of rail passenger service. It is a novel but practical proposal carefully calculated to satisfy the objective criteria set forth in part II of this paper and to meet the realities of the political situation. In brief, the Department's recommendation calls for the creation of a COMSAT-like corporation named RAILPAX that would take over the responsibility for the conduct of selective rail passenger operations in the United States. RAILPAX would be expected to provide virtually all the rail passenger service that would remain in the country. It would offer modern, improved rail service on a tailored system of major routes that would test in a meaningful way the role that this mode can play in meeting growing intercity passenger travel requirements, with the ultimate judgment of success to be made by actual market receptivity.

The RAILPAX proposal calls for only very modest one-time Federal assistance, with the bulk of its capital needs met by voluntary contributions from the railroads who, as a quid pro quo, will be freed from their existing passenger deficit. Politically the RAILPAX approach has substantial appeal, meeting the Congressional call for action and supplying Republicans on the Hill and the Administration with a distinctive program that is both publicly attractive and fiscally prudent.

As indicated, the immediate goal of the program is to provide an operational test of the potential of rail passenger service under revised and unified managerial conditions. The objective is not preservation of existing service, but a test of possible rejuvenation of rail passenger service, involving a substantial shift of emphasis from present long-haul type operations to improved corridor-type service, service that would be faster, more frequent, and more comfortable.

There are two essential elements of this test. First is the laboratory nature of the proposal. The service will be tested and the results compared against an objective standard. If the service shows promise it can be perpetuated or extended as demand indicates. If the experiment fails, all parties can extricate their financial interests.

Some fear that because the government has once advanced some "subsidy" to the test, there will always be pressure to continue assistance. In fact, the Department's program has been specifically designed to avoid that circumstance. After the initial test period, the free market prevails and the operation is self-sustaining. Moreover, the government's assistance, under our proposal, is of a capital and organizational nature; operating subsidies are not proposed, both on the ground that they tend to achieve a life of their own and also because they distort user choices, and hence overall optimality of the transport network. One-time financial assistance does not create distortions of this kind.

The second essential element of the proposed test of rail service to be emphasized is the objective function. What is it that we are testing? In the first analysis, the answer is whether or not restructured and improved passenger service can be profitable. If the new service is breakeven or nearly so, there is a presumption of our national policy that the service performs a useful role in intercity transportation. If Federal dollars are limited to the value of positive spillovers, no other demonstration is logically necessary.

Moreover, the experience of the next 3 years will also give us the information necessary to make a determination of the potential of properly managed rail service for future movement of people under conditions of congestion in other modes. We have provided some information on this question in this report, but because there has been no adequate experience with modern rail systems in this country, the latent demand for quality rail service is probably understated in our estimates. This factor quickly appears in our demand modeling work, which must necessarily be calibrated on existing service data. As an example of the understatement of rail demand that can result, reference can be made to the preliminary Metroliner data cited earlier. Present models would have predicted only slight increases in traffic in the first months of this service. Yet despite lingering equipment problems, virtual absence of advertising, all manner of ticketing and reservations problems, and only marginally increased speeds on the all-important link loadings, rail traffic in the New York-Washington corridor has increased remarkably in the first months of Metroliner service.

The Department's proposed program offers a test of long-haul service as well as corridor service. There are certain long-haul markets which appear to be profitable and, this being the case, should be retained. We do not look to long-haul service for external benefits such as congestion relief, and hence we propose no significant Federal financial assistance for long-haul service. The corporation

would keep the financial management of the two operations separate so there would be a sound test of long-haul service under strong management. This in essence is the relevance of the Canadian experience; both long-haul and corridor operations were tested and the long-haul service (with, incidentally, much less potential than the more populous long-haul markets here in the States) was found wanting. The Canadian National Railroad has publicly stated that corridor operations are at or near breakeven and will be continued, while the long-haul and branch line service produces the deficits still encountered. CN, by virtue of its test, is now well placed to argue to its government that a test was made and long-haul service should now be abandoned.

The RAILPAX Proposal

Under the Railpax proposal, Congress would charter a quasi-private corporation (tentatively named RAILPAX) to provide rail passenger service in selected high density, short-haul corridors throughout the nation, and on a very limited number of well patronized long-haul routes, as defined by the Secretary of Transportation. The corporation, authorized to contract with railroad companies for operation of the trains on terms profitable to the carriers, will provide a central management organization charged with efficient provision of those passenger services most desired by the traveling public.

Fares and routes to be served will not be subject to ICC jurisdiction, but the initial network of services to be provided will be established according to the procedures of the Committee bill as outlined above. This network is to be the minimum service offered until January 1, 1974, unless altered by the Secretary and approved by the Congress. Thereafter, the corporation may make its own decisions on routes, based in part on the potential profitability criterion. The corporation would be required to make public its findings on the economics of service outside the National System network proposed to be discontinued prior to January 1, 1974, and for any of its service proposed to be discontinued after that date. The corporation must make and report to the Secretary of Transportation a finding that discontinuance is consistent with the corporation's charter and it must submit to the Congress an annual report of its operations.

Should the corporation find a given service unprofitable and wish to discontinue it, States or municipalities may contract with the corporation for full or partial support of the service. The corporation must agree to provide any service, including equipment and other capital and managerial support, for which public bodies are willing to fund such associated operating loss as may occur.

Safety of service standards will continue to be regulated and monitored by the government. The ICC shall retain jurisdiction of the fairness of the contract payments. The corporation is to be designated a carrier and the ICC given authority to compel trackage rights for the corporation's passenger service, a provision to be invoked only in the instance of breakdown in contract negotiations between corporation and carrier.

The corporation will have a board of directors made up of stock-holder representatives and Presidential appointees. Stock membership will be made up initially of railroads which have received stock in return for assets turned over to the corporation. In addition, provision will be made for the future public sale of stock. It is expected that existing arrangements with labor unions would remain in effect.

The Department's intention is that nearly all intercity railroad passenger service in the country would be provided by the corporation, and that existing carriers would no longer remain in this business. Since the railroads are being relieved of a significant financial burden, it is our proposal that a quid pro quo arrangement to aid in the initial capitalization and financing of the corporation be established. The Department is proposing that, on a voluntary basis, any railroad desiring to withdraw from passenger service will make a contribution to the corporation equivalent to one-half of its fully distributed passenger service deficit for 1969 (with an optional formula available that, in some cases, could amount to a smaller amount). A portion of the contribution may be in the form of cash, fair value of good quality passenger equipment, or credits for future service to the corporation, and the corporation's stock will be received in return. The amount of railroad contribution to the corporation under this plan is estimated to approximate $200 million. Any railroad desiring not to join the corporation could continue any service it presently operates, or initiate additional service, and could seek discontinuances under existing law except for operations in the basic network which must be continued until 1974.

As additional support there would be limited Federal aid for the corporation, to consist of three parts. First, cash support, to be used for initial organizational expenses of the corporation, managerial overhead including improved reservations systems and advertising, selective upgrading of roadbed and signals to assist the corporation to conform to quality of service and safety standards, demonstration of new services such as the auto-train, and research and development. There would be authorized to be appropriated for this purpose $15 million.

Second, a program of cash support for development and demonstration of new types of rolling stock for use in corridor service -- equipment that would continue and expand the trend established by the Metroliner, and would provide an element of quality and style missing from most existing rail service. This program would also be limited to 1/5 of the total Federal assistance. There would be authorized to be appropriated for this part of the program $25 million.

Third, a standby loan guarantee authority, to assist the corporation in securing loans for purchase of new rolling stock as described above. There would be authorized to be outstanding at any one time no more than $60 million of loans guaranteed under this program.

A more detailed description of the Railpax program's principal features is in Appendix E.

Conclusion

Taking all the key factors into account -- the desirability of a meaningful test of improved, better structured rail passenger service in meeting future intercity transportation requirements, the importance of relieving the railroads of continuing passenger deficits, the likelihood of imminent Congressional adoption of a costly subsidy measure, and the general political situation -- the RAILPAX proposal appears clearly to be a creative, positive program that the Administration should submit to the Congress.

APPENDICES

APPENDIX A

The Railroad Financial Situation--Selected Facts

The railroad industry is presently experiencing serious financial difficulties, significantly induced by a large rail passenger deficit. Reduction of this deficit would improve the ability of the railroads to provide improved rail freight service and permit the industry to invest the capital required for the modernization and expansion of this transport sector. Curtailment of the rail passenger deficit is thus not only important from the standpoint of national transportation policy but it is also of obvious economic value to the railroads themselves. In broad outline the precarious financial position of the railroads can be summed up in these facts:

(1) The margin of net earnings to gross has deteriorated markedly since 1966.

(2) Financial strain is reflected in net working capital...considering debt due within one year, working capital as of December 31, 1968, showed a deficit of $406 million.

(3) In recent years, cash flow from net income and depreciation retirement charges provided only 60 percent of gross capital expenditures. The remainder has come principally from additional borrowing for equipment and drawings upon working capital.

(4) Equipment obligations outstanding increased from $2.5 million at the end of 1962 to $4.2 billion at the end of 1968 (an increase of 65 percent). The rapid growth of leasing has obscured the growth of debt and fixed charges as evidenced by the large increases in net rents.

(5) Net rail operating income before fixed charges turned sharply downward after 1966 under strong cost pressures. Return on net investment has declined to 2.44 percent, the lowest since the 1960-61 period.

(6) Net income has declined from $904 million in 1966 to $593 million. In 1968, fixed interest charges reflecting advancing interest rates and additional debt financing rose from $335 million in 1965 to $417 million in 1968.

(7) The railroads have high labor costs in relation to revenues. Inflationary cost trends exert exceptionally strong impact upon the railroads as compared to most other industries.

(8) Revenues from recent freight rate increases have lagged behind cost increases by $662 million during the last three years.

(9) Absence of real growth in earnings restricts ability to compete with other industries in obtaining capital funds. Railroads depend entirely upon an increasingly unfavorable market for bonds and other instruments of debt.

APPENDIX B

Analysis of Existing Rail Service

The continuing withdrawal of rail passenger service, the poor quality of remaining service, the expense to railroad companies of mounting passenger deficits, and the uncertain future role of rail travel are the major factors in the current intercity rail passenger situation. Under the deficit conditions,[1] and what would appear to be a continuing decline in ridership, continuing applications for discontinuance of passenger service are certain to be filed. The current ICC interpretation of Section 13a of the Interstate Commerce Act and the trend of recent rulings enables discontinuance of poorly patronized trains, but often only after considerable delays. Thus the drain on rail finances continues to be severe at a time when railroad capital is scarce and when deferred roadbed maintenance, a vital factor in rail safety and freight service, is building sharply. On the other hand, pressures are also mounting currently to make legislative changes in 13a which would make discontinuance much more difficult and would require higher standards of service (and hence costs) on passenger trains.

The evidence seems to indicate that the railroads will increasingly resist deficit passenger operations. Applications for discontinuance have not abated, although significant elimination of service has been carried out since 1968. Passenger deficits have not been substantially alleviated by the discontinuances effected, as revenues have tended to decline more sharply than service costs.

A recent survey of 18 of the 21 carriers that provide passenger service was carried out by The New York Times, and indicated that the carriers' conviction that the intercity passenger market is dead has not been shaken by recent developments in High Speed Ground Transportation. Additional comments indicated that operating subsidies would not induce the carriers to upgrade passenger equipment; in fact, some of the Western roads went on record as opposed to the continuance of passenger trains even under subsidized losses. The carriers have further been accused of intentionally downgrading passenger service in an attempt to discourage ridership and hasten discontinuance proceedings. This is important in two respects. First, it helps demonstrate that most railroads have no interest in voluntarily continuing--let alone improving--passenger service. Second, the ICC is increasingly using the argument of deliberate downgrading of service as a reason for refusing train discontinuances. Recently, for example, the ICC denied a Northern Pacific Railway petition to discontinue its two Mainstreeter passenger

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1/ Substantiated in Interstate Commerce Commission (July 1969), "Investigation of Costs of Intercity Rail Passenger Service," p. 91ff.

trains between St. Paul and Seattle on the ground that the railroad deliberately downgraded service on them. The result, therefore, is that inadequate rail service may be perpetuated, offering poor transportation service to the public at the same time that deficit passenger operations impose a financial strain on the railroads.

Historical Trends

Rail passenger volume reached a peak in World War II and has declined since that time. In terms of quality (equipment, speed, and frequency) service reached its zenith in 1948-52, largely as a result of the post-war capital improvement program.

The improvement program was largely based on "modernizing" the service patterns established in the 1920's, when the public transportation alternatives were still limited. For example, heavy emphasis was placed on luxury overnight long-haul sleeping car service directed at the business market. This ran head-on into the growth of air transport. Railroads, in general, based many of their decisions on inflated war time traffic volumes and did not anticipate the changing demands caused by air and automobile transportation.

Because of the failure of the post-war program to halt the decline in patronage, coupled with growing competition in the freight market, most carriers decided to direct their financial and management resources to freight. While some roads deliberately downgraded services, the general pattern of service deterioration was simply the result of inattention--with declining revenues countered by reduction in services.

The result of this downward spiral has now reached a point where the overall level of service (there are a few exceptions) can only be described as dismal. Congressional mail, the public press, and special studies all note the present condition of passenger equipment, station facilities, and levels of service. Present equipment, station facilities, and track structures are old and in need of either refurbishing or replacement. Passenger stations in larger cities are under-utilized, carry substantial tax burdens and for the most part are situated in commercially depressed and unattractive locations. The average age of intercity passenger cars is 22 years; of passenger locomotives is 21 years; of major passenger stations is over 30 years. Common reservation systems for the present passenger network do not exist. Little change has been made in ticketing procedures since World War II. As the rail passenger system capability has deteriorated so have the service levels afforded the traveling public.

The decline in service is clearly illustrated by the traffic and financial statistics of the service, as shown below.

Table B-1

Market Share

Millions of Passenger-Miles and Percentage of Total (except automobiles)

Year	Rail-roads a	%	Buses	%	Air carriers	%	Inland water-ways	%	Total (except autos)	Private auto-mobiles	Total (including autos)
1929	33,965	77.1	6,800	15.4	—	—	3,300	7.5	44,065	175,000	219,065
1939	23,669	67.7	9,100	26.0	683	2.0	1,486	4.3	34,938	275,000	309,938
1944	97,705	75.7	26,920	20.9	2,178	1.7	2,187	1.7	128,990	181,000	309,990
1950	32,481	46.3	26,436	37.7	10,072	14.3	1,190	1.7	70,179	438 293	508.472
1960	21,574	27.8	19,327	24.9	33,958	43.8	2,688	3.5	77,547	706,079	783,626
1967	15,344	11.7	24,906	19.0	87,241	66.7	3,356	2.6	130,847	889,800	1,020,647
1968 p	13,200	9.2	25,000	17.4	101,500	70.6	4,000	2.8	143,700	931,000	1,074,700

a — Railroads of all classes, including electric. p — Preliminary.

Table B-2

Selected Traffic and Financial Statistics
1958 and 1968
(Excluding Commutation)
(000)

1.	Revenues Passenger Miles	18,473,696	8,737,091
2.	Passenger Train Miles	246,402	124,592
3.	Passenger Route Miles	106	60
4.	Intercity Coach Revenues	$ 392,400	$ 245,211
5.	Intercity Sleeping Revenues	$ 159,138	$ 45,753
6.	Total Passenger Revenues 1/	$ 1,202,031	$ 685,783
7.	Total Passenger Expenses	$ 1,812,455	$1,171,816
8.	Total Solely Related Expenses	$ 1,284,293	$ 888,838
9.	Total Railway Passenger Deficit	$ 610,424	$ 486,032
10.	Total Railway Passenger Deficit (Solely Related)	$ 82,262	$ 198,054

The trends shown above have accelerated in recent years. For example, from 1966 to 1968:

...Miles of roads operated in passenger service were down 17 percent.
...Passenger train miles were down 24 percent.
...Total revenue from passenger service decreased by more than $331 million.
...Total passenger expense declined only $245 million.
...Passenger miles were down 32 percent.
...Intercity coach revenues decreased nearly $78 million or 24 percent.
...Sleeping and parlor car revenues declined by over $35 million or 43 percent.

1/ Includes Mail and Express

1968 Ridership

In 1968 about 30 million intercity rail passenger trips were made, distributed among railroads as indicated in Table B-3, on the following page.

Pending Train Discontinuances

On November 1, 1969, there were 43 intercity trains proposed for discontinuance under Section 13a of the Interstate Commerce Act. In addition, there are now 18 intercity passenger trains operating under Commission continuance orders. It can be expected that most of these 18 trains will be proposed again for discontinuance.

Non-corridor trains constitute 54 of the 61 pending and Commission required intercity trains. Moreover, 42 of the 54 non-corridor trains provide the last rail service between a substantial number of points on the carriers present passenger routes.

During the next 12 months, it can be expected that somewhere in the vicinity of 50 intercity trains, in addition to these 54, will apply to the ICC or the States for discontinuance. The potential loss of trains in the next year could easily constitute the largest annual cutback of intercity rail service since World War II. Among the areas most likely to lose all rail service are the following:

(1) The territory running westward from the Mississippi bounded on the north by the Oklahoma, New Mexico, and Arizona state boundaries, and on the south by the United States border. Except for the immediate areas around New Orleans, Kansas City, and St. Louis, plus the panhandles of Texas and Oklahoma, there could be no rail passenger service in Missouri, Arkansas, Louisiana, Texas, Oklahoma, and the southern halves of Arizona and New Mexico.

(2) Portland, Oregon to San Francisco, California.

(3) Salt Lake City, Utah to San Francisco, California.

Table B-3

Intercity Passenger Trips - 1968
(In Millions)

Railroad	Passenger Trips
B&O	.342
B&M	0
CP (ME)	0
CRRNJ	.414
C&O	.037
C&EL	.108
D&H	.100
E-L	.144
GTW	0
LI	.002
MCC	4.285
N.H.	.378
N&W	11.344
P.C.	.010
P-RSL	0
P&LE	0
Rdg	.076
RFP	.069
AGS	.197
CGa	.042
CNOTP	.007
FEC	.015
Ga	.351
GM&O	1.700
I.C.	.310
L&N	.058
NO&NE	1.457
SCL	.474
SRS	1.505
ATSF	.300
CNW	1.000
CBQ	1.000
CMSTP	.200
CRI&P	.345
DRGW	.952
GN	.091
KCS	.072
L&A	.301
MP	.553
N.P.	.012
NWP	.004
Soo	.800
SP	.085
SPS	.158
T&P	.836
UP	.107
WP	30.24
Total	

APPENDIX C

Retention of Rail Facilities

Rail capacity remains great and highly flexible. No other mode could so easily accept a doubling of its traffic. Rail service has historically provided this great reserve capacity as a stand-by service, operating at full scale only when weather or war created a transportation emergency and other modes failed. Looking ahead to the future, the reserve capacity analogy from the past retains relevance, but in quite a different context. Existing rail facilities can be made the basis of a significantly expanded passenger service at very low cost. Sunk investments in rail track capacity greater than that needed for freight, in stations, in signals, and in right-of-way can be adapted at small cost to update and improve rail service.

Railroad managements, however, cannot be expected to preserve these sunk investments if they are not producing revenues sufficient to contribute to overhead. If rail properties are to be used in the future, they must either be: (1) preserved by direct interim subsidy, (2) allowed to be rationalized now but regenerated in the future, or (3) preserved through utilization in continuing but better tailored service.

It is estimated that a direct program designed simply to preserve a passenger track right-of-way in the 11 principal corridors that have been studied would cost the Federal government more than $8 million a year. This figure is based on the quid pro quo of paying carriers the equivalent of annual property taxes for retention of the facility for future use. Preserving additional investment, such as track (replacement costs exceed $100,000 per mile), would add to this cost.

The total cost of a direct preservation program for five years would be at least $40 million. This amount is roughly equivalent to direct Federal funds involved in financing Railpax. (Equipment trusts would be used for equipment which would be sold for commuter operations or N.E. Corridor if Railpax should fail--and therefore should not be considered a "waste" of Federal funds.)

Now consider the alternative of allowing capacity to be lost, then replaced later as needed.

For high speed ground service; certain conditions must be met, including:

(1) Access to the center city area.
(2) Tangent track allowing high speed operation.
(3) Multiple track capability for high frequency operation without delays caused by passing opposing traffic.

It is often assumed that continuation of freight service will allow passenger service to be restored in the future. This is not the case; the general pattern following passenger train abandonment has been as follows:

(1) Downtown access is often lost; city centers are not freight traffic generating points.

(2) Track capacity is reduced; four tracks become two, two tracks one (this has already occurred in some of the proposed corridors).

(3) With the passage of time, the right-of-way is also lost. A mainline becomes a siding to a new industry, bridges are removed, and buildings encroach upon the old right-of-way.

The costs of restoring service are primarily a function of time. In another 5-10 years the retrenchment process for most proposed corridor routes will be complete and roadway costs alone for an operation such as Chicago-St. Louis would go to $250-$300 million.

Fortunately, downtown access has not yet been lost on any of the proposed corridors, and loss of right-of-way to date has been minimal. However, even here the cost differential is substantial; relaying track on existing roadbeds costs $109,000 per mile, as contrasted with $8-$10,000 a mile to bring an existing mainline track up to high speed standards.

Given the political realities, funds expended for actual operations are preferred to equal expenditures for retaining facilities. It would seem irrational to spend money to keep facilities for possible advanced systems that might not, in fact, be patronized when an equal expenditure (at the Federal level) will both retain the facilities and test the public response to improved ground transportation. Capital investment can be made in an orderly progression as demand increases. The Metroliner service illustrates this potential; initial service of 3 hours (2 1/2 hours express) will be gradually improved as grade crossings are eliminated, signal systems upgraded, individual curves eased, etc. Once a line has become freight only this option no longer exists; a substantial investment must be made just to obtain a minimum acceptable level of passenger service.

APPENDIX D

ELEMENTS PROPOSED IN RAIL PASSENGER LEGISLATION

Bills	Federal Subsidy Proposals: Planning	Capital	Operating	Demonstration	Federal Loan Guaranty	Federal Equipment Acquisition For Leasing	Regional Participation: Planning	Operation	% Financing	Amendments to 13(a): General Revision	Judicial Review	Last Train	Discontinuance Conditions (Facility Retention)	Continuance Conditions (Service Standards)	Federal Assistance	Moratorium On Discontinuance	Study of Passenger Service	Comprehensive Service Study	Labor Protection	National Transportation Planning
S. 674										X										
S. 914					X		X	X											X	
S. 924					X		X	X											X	
S. 2425	X			X			X		10											X
S. 2750			X			X									X					
S. 2865										X	X		X							
S. 2887										X	X	X		X			X			
S. 2939						X												X	X	X
C. C. Res 32																X	X			
S.J. Res. 120																X				X
S.J. Res. 129																	X			
H.R. 521																	X			
H.R. 744										X										
H.R. 785										X										
H.R. 3112																		X		
H.R. 6662																	X			
H.R. 9168												-						X		
H.R. 11182																	X			
H.R. 12084										X	X	X		X			X			
H.R. 13020										X	X	X		X			X			
H.R. 13212								X												
H.R. 13215								X												
H.R. 13299										X	X	X		X			X			
H.R. 13347																X				X
H.R. 13352						X												X	X	X
H.R. 13366						X	X											X	X	X
H.R. 13566																X	X			
H.R. 13610																X				X
H.R. 14170										X	X	X		X			X			
H.C. Res 17																X	X			
H.C. Res 84																X	X			
H.C. Res 143																X	X			
H.J. Res 52																X				X

APPENDIX E

MAJOR FEATURES OF THE RAILPAX PROPOSAL

1. The Secretary of Transportation designates within 60 days after the date of enactment of the bill a Basic National Rail Passenger System. This Basic System describes points between which passenger service should be operated, the minimum service needed between those points, and the routes over which that service may be provided.

2. There is established for the purposes of discontinuance proceedings under section 13a of the Interstate Commerce Act a presumption (which opponents of a discontinuance will be able to rebut only in a very few cases) that service outside of the system is not required by the public convenience and necessity and will constitute an undue burden on interstate commerce. It creates a conclusive presumption that until January 1, 1974, service in the system is required for the public convenience and necessity and will not constitute an undue burden on interstate commerce.

3. The bill authorizes the creation of a corporation whose purpose is to provide intercity rail passenger service. The corporation is authorized to contract with rail carriers having service in the Basic System to relieve carriers of responsibility for providing service in the Basic System. Carriers would pay the corporation 50 percent of their fully distributed passenger service deficit for 1969; or 200 percent of the avoidable costs of service provided in 1969 between points in the system, and would receive Class A stock of the corporation in an amount equivalent in par value to their payment to the corporation.

4. Upon contracting with the corporation, the rail carrier is relieved from providing service within the system and may utilize the favorable presumption in a section 13a proceeding to discontinue service outside the system. Carriers with no trains in the system can also utilize the more favorable 13a proceeding for discontinuing their service.

5. Six months after the date of enactment of the bill, the corporation is required to begin the provision of minimum service between points within the Basic System previously served by carriers with which it has entered into contracts. It would be required to perform the minimum service through December 31, 1973. After that date, it can discontinue service after an informal hearing if it finds such action is in the financial interest of the corporation. It must continue to provide service proposed for discontinuance if State, local, or regional agencies agree to compensate the corporation for operating losses.

6. The bill permits carriers to contract with the corporation at any time after the Secretary transmits the Basic System to Congress through the fifth month after the date of enactment of the bill. To encourage

early participation by the carriers, contracts could not be consummated thereafter until 18 months after the date of enactment. Any carrier with service in the system who decides not to contract with the corporation would be obligated to continue all service in the system through December 31, 1973 (by virtue of the presumption described in paragraph 2 above). After that date, the carriers may discontinue such service under the existing provisions of section 13a and neither of the presumptions described in paragraph 2 will apply.

7. The corporation would not be an agency of the Government, but would be organized by incorporators appointed by the President. It would have 13 directors. Seven would be appointed by the President, three would be elected by stockholders who are rail carriers, and three would be elected by stockholders who are not rail carriers.

8. Except for certain specified provisions, the Interstate Commerce Act would not be applicable to the corporation. The corporation would be required to file with the Commission schedules of its rates, but it would not be subject to any rate regulation. It would be subject to existing rail safety laws. State economic regulatory provisions would not apply to the corporation.

9. $40 million would be authorized to be appropriated to the Secretary on a no-year basis for payment to the corporation to assist it in its initial organization and operation, upgrading roadbed and signals, conducting R&D and demonstration programs respecting new rail passenger services, developing improved rolling stock for use in corridor service, and acquiring equipment for use by the corporation in the provision of service with respect to which State, regional, or local authorities agree to absorb the operating loss. The Secretary also could guaranty loans made to the corporation for the purchase of new rolling stock in corridor service, with a limit of $60 million outstanding at any one time.