



ASSISTANT SECRETARY OF TRANSPORTATION

WASHINGTON, D.C. 20590

January 12, 1970

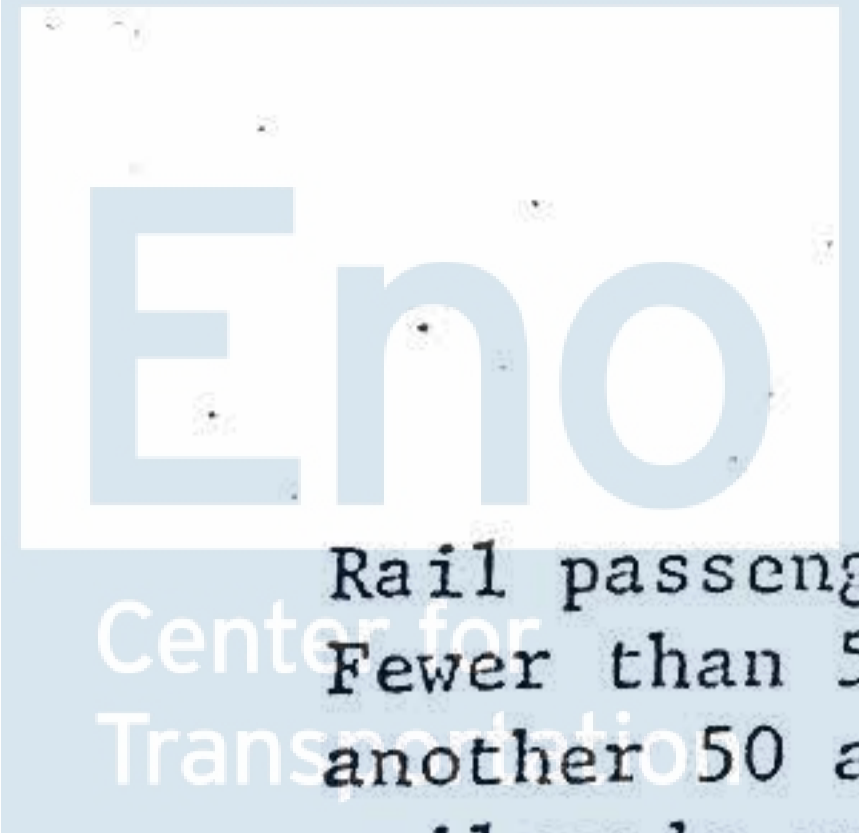
NOTE FOR HENRY CASHEN

This paper is intended to serve as the focus of attention at this afternoon's 2:30 meeting on the rail passenger service problem. I hope you will have an opportunity to read it before the meeting.

  
for Paul W. Cherington

P. S. - I will enclose a second copy in the expectation that Chuck Colson will hopefully be in a position to attend the meeting.

*I have the  
extra. Jim*



THE RAIL PASSENGER SERVICE PROBLEM: THE DEPARTMENT OF TRANSPORTATION'S RECOMMENDED PROGRAM

Rail passenger service in the United States is declining rapidly in quality. Fewer than 500 passenger trains are now in operation and approximately another 50 are the subject of discontinuance proceedings. Currently the railroads are sustaining losses from their passenger service of almost \$500 million a year (on a fully-allocated cost basis), and approximately \$230 million on an avoidable cost formula. These losses are not only imposing a severe strain on the rail industry (and diverting resources from freight service) but reinforce the belief of railroad management that rail passenger service should be radically curtailed and eventually eliminated.

The decline in rail passenger service, and the low quality at which it is now generally maintained, do not, in the opinion of the Secretary of Transportation, constitute persuasive evidence that rail service is not a potentially significant form of intercity transportation. This potential, as evidenced in part by the Metroliner experiment, can only be realized, however, by seeking ways to bring improved service to a more limited range of operations. In some long-haul routes rail passenger service can be successful, but generally the greatest opportunities lie in the use of the railroads to move people in densely populated corridors in various parts of the country. This narrowing of the range of operations will not alone be sufficient. A new organization must be created that will give its exclusive attention to the development and promotion of rail service.

To meet this need the Department of Transportation proposes to create by legislation a COMSAT-like corporation (tentatively named RAILPAX) that would take over the responsibility for the conduct of a minimum level of rail passenger service in the United States. The nature of the corporation, the scope of its operations, and the future role of existing rail carriers is described in the summary included in this package. The Department of Transportation estimates that after a period of initial losses due to re-equipment and start-up expenses RAILPAX, by about the fourth year of operations, would begin to break even. At some point it might wish to sell stock to the public, but in any event it is expected that it would be capable of surviving on a break-even basis without further Government or railroad support.

The RAILPAX proposal is the product of intensive analysis of the rail passenger service problem and reflects the consideration of a number of alternative approaches. One of the principal approaches reviewed in the course of this work is that formulated by the Senate Commerce Committee. It would provide operating subsidy to the railroads equivalent to 80 percent of their losses. The costs of this subsidy approach would amount to \$435 million in the next four years, with anticipated expenditures thereafter probably rising above

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2

\$100 million a year. This approach, with its reliance on subsidy, was determined to be far less satisfactory than the RAILPAX recommendation. Not only would it cost far more money but it would continue to inflict a financial burden on the railroads without, at the same time, bringing about any real improvement in the quality of service. Further, it would entangle the Federal Government in a program from which it could probably never extricate itself. By contrast, RAILPAX is far easier on the Federal budget, would provide the railroads with relief after an initial capital contribution to the corporation, offers the distinct promise of substantially better rail passenger service in selected routes, and is sufficiently flexible to permit expansion or curtailment as experience in the early years would warrant.

## Summary of Basic Concept of the Bill

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.

Subject File: 1

Railpax [

8345 Fox Bay Dr.  
Union Lake, Mich.

48083-

Audio research machine

1. Who determines Railpax  
payments to Rd.
2. Congestion problems. —  
fuel being used as fuel. —  
What adjustments?

MR. PAT MORRIS  
57 FRANCIS AVE.  
CAMBRIDGE  
MASS. 02138

3. in Airport congestion and board.  
ADP pricing —  
e.g. peak hour pricing

AM  
JAN  
8  
1970



Need some way to  
integrate service, repair jobs

Key Beliefs in DE Commerce

Difficulty is how to define basic system  
is process of distribution customers w/  
the marketplace system.

But are we not losing the ones  
that were long support.

Will compare to that both in  
system - 2 not, one is  
accounting there?

Disruptive economics  
return?

1.5 out, what is it  
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Chop

① Where are the economics  
coming from —  
\$435 — vs \$40?

② What basic system will look like

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The logo for the Eno Center for Transportation, featuring the word "Eno" in a large, light blue, sans-serif font inside a white square, with "Center for Transportation" in a smaller, dark blue, sans-serif font below it, all within a light blue rectangular border.

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Transportation

THE WHITE HOUSE

WASHINGTON

January 23, 1970

INFORMATION

Background and present  
status with respect to  
Rail Passenger Service

MEMORANDUM FOR THE PRESIDENT

PROBLEM: Railroad passenger deficits have increased dramatically; deficit in 1963 was \$9 million, during 1968 it was \$190 million against a net railroad income of \$493 million, and in 1969 the deficit is believed to approach \$230 million. Passenger rail service has deteriorated correspondingly. The drain of passenger deficits has created a capital shortage for the railroads, limiting their purchase of new freight equipment. For lack of adequate freight cars, in the midwest last summer wheat and grain rotted and in the northwest lumber prices skyrocketed.

CAUSES: The railroads themselves must bear considerable blame; they have discouraged service. A second cause, however, has been the attitude of the ICC in interpreting Section 13 of the Interstate Commerce Act, which has used every legal presumption against discontinuance of service. The ICC has reacted to consistent political pressures from Members of Congress affected by discontinuance petitions. Thirdly, the railroads have faced a difficult competitive problem in that their facilities are subject to heavy local property taxes and they receive no Federal subsidies while the airport and highway programs have benefited from vast Federal outlays.

POLITICAL BACKGROUND: There has been formidable political support for continuing rail passenger service from many local communities, usually rural, which fight to keep railroad service, from railway labor, and from railroad "buffs" who like to ride on the railroad.

Senator Hartke has sponsored a bill which will involve \$500 million in subsidies over three years and which will lock the railroads into their present route structure. It is expected to pass in the Senate.



The historic attitude of the ICC has been uncompromising largely because of the attitude of the Congress in favor of continuing passenger operations. On the other side, the railroads are now mounting a major public relations campaign to educate the public on the lack of need for passenger operations. It should be emphasized, however, that unless the railroads see a way out of continuing passenger deficits they will join forces with the unions to support the Hartke subsidy proposal.

CURRENT SITUATION: Secretary Volpe in testifying on the Hartke bill indicated that an Administration solution (implicitly recognizing the need for passenger service) would be presented to the Congress by January 1st. His proposal was reported in today's press.

OTHER CONSIDERATIONS: Our immediate concern is that the Hartke bill will be passed by Congress (assuredly by the Senate) and end up with the President, without the Administration having given a definitive alternative to Congress which could have been supported by the Republicans and consequently will present very obvious problems with respect to a Presidential veto. By offering a bill we also gain time.

The one thing we must not do is equivocate or temporize for, if we do, the problem will not go away and we will either have a serious transportation crisis and/or an expensive subsidy program forced upon us. There is a serious national problem which may threaten vitally needed freight service.



John O. Ehrlichman



THE WHITE HOUSE  
WASHINGTON

January 23, 1970

**EXECUTIVE**  
TN4  
FG25  
FG150  
TN5

INFORMATION

Rail Passenger  
Service

MEMORANDUM FOR THE PRESIDENT

Possible Options:

- (1) DOT Proposal- A corporation chartered by the Federal Government (RAILPAX) with stock owned by the railroads and the public is authorized to take ownership of and operate certain rail passenger lines offered by the railroads in return for stock in the corporation. Fares, routes and services would be regulated by the corporation and be taken out of the jurisdiction of the ICC. The corporation would be totally funded for the first three years by its operating revenues and payments on the part of the railroads equal to some portion of the loss avoided by discontinuing the losing rail lines. At the end of the three year initial operating period, stock would be offered to the public. The amount of Federal subsidy involved in this program would be \$40 million over a four-year period, plus \$60 million in long term Federally insured loans.
- (2) Compromise Proposal- Secretary Volpe can testify before the Commerce Committee as to the need for the railroad industry to revitalize itself and determine a financially sound rail system which if demonstrated acceptable to the Secretary of Transportation, could receive minimum Government subsidy along the lines of the RAILPAX concept. Subsequently, the RAILPAX bill would be introduced not by the Administration, but by Senator Cotton. (This is not a very realistic option at this time).
- (3) Propose the RAILPAX concept without Government subsidy except to the extent of an equipment loan guarantee (\$60 million). In essence, this would be the private corporation concept of BOB.
- (4) The Administration could propose that Congress enact legislation to explicitly reverse the presumptions of Section 13 or the Interstate

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Commerce Act, thereby permitting rail passenger service which cannot be operated profitably to be phased out and be replaced with alternate modes of public transportation. It has always been considered political suicide to talk about discontinuing trains. We may be able to turn the politics of this around-- if we can point out the priority of other public needs and the folly of continuing unprofitable and unneeded passenger rail service. We can count on strong backing from the railroad industry and strong opposition from labor. There will be some political hysteria but we could come out ahead.



John D. Ehrlichman

THE WHITE HOUSE  
WASHINGTON

January 23, 1970

TO: KEN COLE

FROM: HENRY C. CASHEN II

For your information.

*Handwritten note:*  
X  
Railroad  
Passenger  
Service

## THE WHITE HOUSE

WASHINGTON

January 28, 1970

FOR JOHN D. EHRLICHMAN

You asked me to look into the Railpax proposal. Sorry to be a few days late in responding.

I have read it carefully, and talked it over with John Kain at Harvard. Our judgment is simple enough. Railpax is an interesting idea, but the Department of Transportation has not given us nearly enough information to decide whether it is a good idea. A number of specific questions should be put to DOT.

1. Where are the economies coming from? If the railroads lose upwards of \$500 million on passenger service now, in what possible way would \$40 million in grants (for new stuff) and \$60 million in loan guarantees significantly change this situation? More efficient management is possible, but surely the effects must be marginal.

2. What will the basic system look like? If Railpax is really a device for dropping all but a few profitable runs, DOT should tell us this now as the President is not likely to win a great many Middle American votes by being the man responsible for the discontinuance of three quarters of the remaining commuter trains.

There are a number of other problems. How, for example, is the agreement between Railpax and the carriers to be negotiated? I.e., what if the Penn Central doesn't want to run a commuter train over lines that are busy with freight. Who decides? Will Congress let a bill come out with such ambiguities. Or will it lock us into paying for all the existing runs indefinitely?

For what it is worth, Kain is not so certain that the airspace is reaching capacity.

I recommend the proposal go back to DOT with at least my first two questions.

Daniel P. Moynihan



THE SECRETARY OF TRANSPORTATION  
WASHINGTON, D.C. 20590

MEMORANDUM FOR THE PRESIDENT

Subject: Rail Passenger Service

The railroad industry has experienced losses over the last year approximating one-half billion dollars on a fully distributed cost basis from intercity passenger service. The out-of-pocket cost according to ICC estimates is about \$200 million per year. These losses continue in spite of the fact that the number of intercity (not commuter) passenger trains has decreased in the last decade from over 1500 to the present total of less than 500. Few, if any, of the railroads wish to continue this service and there are numerous applications before the ICC to further discontinue service.

We are seriously concerned about this problem on two counts. First, it is a cash drain on the hard pressed rail industry whose basic vitality for purposes of carrying intercity freight is important to the country. Secondly, our experience in the Northeast Corridor suggests the need to explore alternatives to highway and air as a means of intercity passenger transportation.

During 1969 the Department of Transportation testified before both Houses of Congress that the Administration recognized the seriousness of the problem, that it was working on alternatives, that an Administration proposal would be forthcoming by the end of the year. This testimony was cleared for the Administration by the Bureau of Budget.

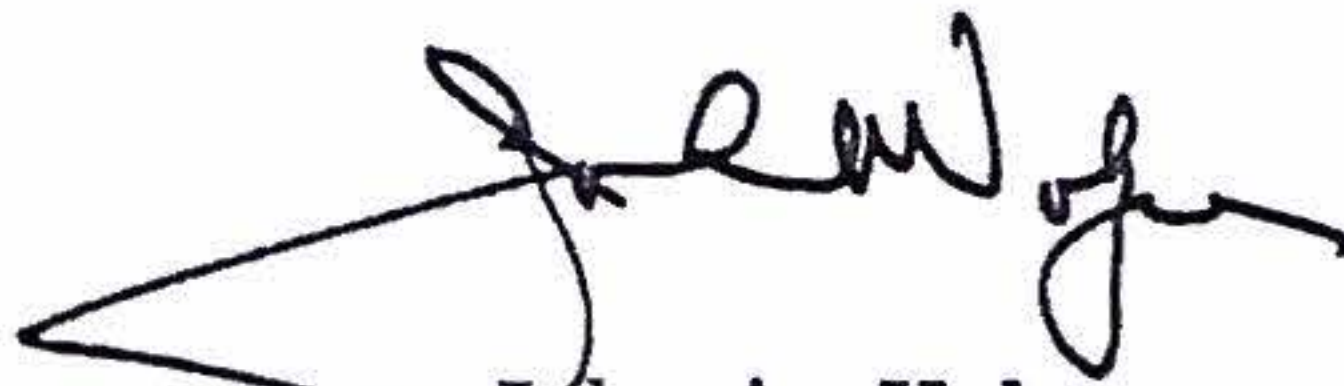
A number of proposals from various sources are already on the Hill. These range from a three year moratorium on all discontinuances to a subsidy and loan program (which is close to being reported out by the Senate Commerce Committee) which could involve Federal expenditures of nearly \$500 million over the next four to five years.

It is generally agreed that if no action is taken, train discontinuance will become increasingly difficult, incurred losses increasingly large, and service increasingly deteriorated. In addition to economic considerations, there is considerable public outcry for the government to do something.

The Department has examined this problem in detail and has developed a proposal which we feel has a good prospect for substantive success and which would keep Federal costs to a minimum. (\$40 million of grant and \$60 million of loan guarantees in the aggregate over five years.) Details of this proposal were discussed at length with BOB, White House staff and the Council of Economic Advisors. It has been circulated to the other Departments. Although a number of criticisms have been raised, it is my belief that the criticisms are not well founded and that no more desirable alternative has been proposed. In the absence of an Administration position, it is highly probable that the Congress will take the initiative and will act. The potential courses of action Congress will be expected to take range from economically undesirable to fiscally injudicious. No action at all will simply impose further very serious damage to our Nation's railroad network.

There has been a regrettable amount of discussion of this problem and related alternatives in the papers already. I say regrettable because a number of statements have been attributed to the Department of Transportation which, if made, were both premature and unwise. Nonetheless, we are faced with the need to take a position and relay that position to the Congress. I personally endorse strongly the Department's proposal, but in any case I urge that the Administration take a position and that we communicate this to the Congress.

I hope you agree and that we can explain to the Congress this week what our position is.



John A. Volpe

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THE WHITE HOUSE

WASHINGTON

January 23, 1970

February 4, 1970

INFORMATION

Sec. Volpe memoranda and present  
status with respect to  
Rail Passenger Service

MEMORANDUM FOR THE PRESIDENT

MEMORANDUM FOR THE PRESIDENT

Secretary Volpe has written you:

**PROBLEM:** Concerning rail passenger service in which he automatically;  
deficit in 1968 requests favorable action on the "railpax" plan. against  
a net railroad income of \$493 million, and in 1969 the deficit is believed  
to approach \$1 billion. We have indicated to DoT that the staff work is not ed  
corresponding complete and have requested additional work by a capital  
shortage for them on this matter. their purchase of new freight

equipment. For lack of adequate freight cars, in the midwest last  
summer wheat and grain rotted and in the northwest lumber prices  
sky 2. rocketed. Concerning the NASA Electronics Research Center

in Boston which has been discontinued for budgetary

**CAUSES:** The reasons. is themselves must bear considerable blame; they  
have discouraged service. A second cause, however, has been the  
attitude of the Secretary Volpe asks that DoT be permitted to open  
Act, which he and use the facility for research in air traffic safety  
service. The and other transportation research. ical pressures from Members

of Congress affected by discontinuance petitions. Thirdly, the railroads  
have faced a He has filed a lengthy report with us which I will ask  
subject to hear the staff to review. ces and they receive no Federal subsidies

while the airport and highway programs have benefited from vast Federal  
out. There is no reason for you to spend time with the Secretary's  
memoranda or the back-up material at this time.

**POLITICAL BACKGROUND:** There has been formidable political support  
for continuing rail passenger service from many local communities,  
usually rural, which fight to keep railroad service, from railway labor,  
and from railroad "buffs" who like to ride on the railroad.

John D. Ehrlichman

Senator Hartke has sponsored a bill which will involve \$500 million in  
subsidies over three years and which will lock the railroads into their  
present route structure. It is expected to pass in the Senate.

RECEIVED  
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CENTRAL FILES

CENTRAL FILES



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

9 February 1970

MEMORANDUM TO: Daniel P. Moynihan  
Counsellor to the President  
The White House

I am attaching for your review a paper summarizing the highlights of our Department's proposed Rail Passenger Service Program ("Railpax"). Of course we have a great deal of additional documentary material on the program which we will be pleased to provide should you desire it.

*Charlie*  
Charles D. Baker

Attachment






## HIGHLIGHTS OF THE ADMINISTRATION'S RAIL PASSENGER SERVICE PROGRAM

### The Problem

--- Rail passenger service in the United States is declining so severely in amount and quality that it may soon disappear completely unless appropriate action is taken immediately.

--- In the last 10 years the number of intercity passenger trains has fallen from 1500 to fewer than 500. The discontinuance of approximately another 50 trains has been proposed to the ICC. Between 1958 and 1968 rail revenue passenger miles fell from more than 18 billion to less than 9 billion. Passenger train service today is offered on routes with mileage totaling less than half what it was a decade ago. Accompanying the overall decline in passenger service has been a generally marked deterioration in quality.

--- Deficits from passenger operations impose a serious financial burden on the nation's railroads, affecting their ability to provide high-quality freight service. The rail passenger deficit, calculated on a solely-related basis, has swollen from \$9 million in 1963 to about \$200 million in 1969. As a percentage of rail net income this deficit has increased, over that same 6-year period, from little more than 1% to nearly 40%.



## The Challenge

--- Improved, restructured rail passenger service can make a major positive contribution to better intercity transportation. This is especially true as we look to the future, when increased population and additional travel will impose serious congestion problems in the nation's heavily-congested corridors.

--- By the end of this decade it has been estimated that more than half of the U.S. population (which will total about 230 million in 1980 as compared with 205 million now) will be located in three major corridor complexes: one in the Northeast, another in California, and the third in broad bands across the Midwest. Much of the movement provided by commercial modes within these corridors today is provided by air transportation, but air traffic forecasts indicate that the principal air terminals at such places as New York, Washington, Boston, Chicago, San Francisco, and Los Angeles will soon become so badly congested that it will be both desirable and perhaps essential to divert air travelers to high-quality rail service. At present, for instance, approximately 25% of those who use the crowded airports in New York, 40% at Washington, and almost 60% in Boston travel to other points in the Northeast. If a sizable proportion of this traffic could be shifted to passenger trains, air congestion would be alleviated and the pressure for the construction or expansion of additional expensive airports would <sup>be</sup> partially moderated.

--- Good quality, appealing rail passenger service can be provided to those traveling within densely-populated corridors and along major long-haul routes. The success of the Metroliner operations between New York and Washington confirms this belief. Rail travel between Washington and New York in 1969 was up 46% over 1968, with more than half a million persons taking advantage of the greatly improved service provided by these modern trains. Meanwhile, travel by air aboard the "shuttle" rose less than 1%, compared with annual increases in prior years of up to 15%.

--- If fast, comfortable modern rail service is to be brought to the traveling public, on a well-organized and aggressively marketed basis, a new institution must be created to do the job that will not be inhibited by traditional attitudes about rail passenger service. Most railroad managements want to concentrate their attention on freight service. Only a new managerial approach, totally dedicated to passenger travel, can supply the requisite innovation and leadership.

### The Needs

--- Rail passenger service can play a valuable role in intercity transportation, but only if it is offered on a vastly improved basis. This will require new equipment, new marketing approaches, and a new organization to manage the program.

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--- Passenger service should be provided only in those markets where, after initial improvements are made, there appears to be significant hope that it will become economically self-sustaining in the near future. This requires a pruning and restructuring of today's widely-scattered rail passenger routes, eliminating some of the 55,000 miles of existing routes and concentrating attention on the remainder.

--- A responsible program must provide basic financial relief for the railroads, but at the same time it should also recognize that the railroads presently have a basic public responsibility to provide transportation services. In return for being relieved of their obligations, they should be expected to supply the bulk of the capital required for the rejuvenation of intercity rail passenger service in the United States provided that this is reasonable in overall amount and that it permits the railroads making such a contribution to terminate permanently their involvement in rail passenger operations.

--- It would be unwise and fiscally imprudent to establish a subsidy program for rail passenger service that would merely continue uncoordinated and unstructured passenger service. It would be equally unwise to devise a program that would permanently

entangle the Federal Government in the subsidy of rail passenger service. Once rejuvenated and equipped, from a capital and organizational standpoint, rail passenger service must, over the long-term, meet the test of the market.

### The Program

--- To bring improved rail passenger service to the country the Administration is submitting legislation that will create a new public-private corporation to provide intercity service in selected corridor and long-haul routes. The corporation is to be governed by a board of directors composed of 13 members, of whom 7 will be designated by the President, 3 by the participating railroads, and 3 by other private stock holders.

--- To establish the Basic System over which train operations would be provided by Railpax, the Secretary of Transportation would be required by law to define a network of long-haul and corridor routes that offer the potential of economically self-sustaining service in the near future. On this network of operations Railpax or any railroad not electing to join the corporation would be required to continue passenger operations until January 1, 1974. Thereafter, the retention of passenger service will be judged by the response of the market to improved train operations.

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--- Railpax would be financed by capital contributions from the railroads and the Federal Government. Those railroads wishing to participate will pay an amount equal to one-half of their fully-allocated passenger deficit for calendar year 1969. The total capital raised in this fashion would exceed \$200 million, with the exact amount depending on the extent of railroad participation. This contribution could be made in the form of cash, of rail equipment acceptable to the corporation, or in other ways, and would be payable over a period of 3 years. The Federal Government would, in addition, contribute \$40 million to the corporation, to be used for initial administrative and related expenses and for the purchase of rolling stock. As well, there would be a Federal loan guarantee program in an amount not to exceed \$60 million.

--- Railroads electing to participate in the corporation would be enabled to turn over, within 6 months, their responsibilities for passenger train operations within the Basic System. In exchange for their contribution they would thus be relieved of a deficit that is large and continuing to grow in relationship to earnings from other sources. With respect to trains outside the Basic System, discontinuances would be simplified.

--- Railpax would establish operating schedules, purchase equipment, create an appropriate marketing and reservations organization, and generally conduct its affairs in a manner comparable to that of any business enterprise primarily engaged in providing passenger service to the public. With respect to actual train operations, it would contract with the railroads to provide the requisite locomotive and track facilities. Put differently, Railpax would not itself own any locomotives or provide for track maintenance or train movements; rather it would contract for these services with the railroads, paying amounts for the service that would adequately compensate the carriers.

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## RAILPAX, INC.

- \* Private corporation, established by Federal law, with mixed public-private Board.
- \* Manages and promotes rail passenger service in selected markets.
- \* Contracts with railroads for actual operations.
- \* Financed primarily from railroad contributions and internal cash flow.
- \* Federal role confined to assistance in purchase of equipment and initial operations -- no continuing operating subsidy.
- \* Authority to issue stock, borrow, and contract with States / local governments.
- \* Free from rate/route regulation.



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## SUMMARY OF CASE FOR RAILPAX

- \* A practical, financially feasible approach.
- \* Involves no continuing government operating subsidy.
- \* Offers real chance of improved rail passenger service.
- \* Helps the railroads, but exacts a reasonable quid pro quo.
- \* Provides vastly improved intercity transportation for the traveling public: Rail passenger service likely to be maintained in virtually all States and regions; but with the elimination of routes that are unlikely to be financially self-sustaining.
- \* For rail labor: Creates chance of jobs without diminishing protective features.
- \* Allows States and local communities to maintain rail passenger service that would otherwise be discontinued by agreeing to meet operating deficits.

FINANCIAL FEATURES

The Railpax proposal contemplates a financial role for the nation's railroads, the Federal Government, and prospectively for States and local governments. A breakdown of their support follows:

\* The railroads, on a voluntary basis (although it is expected that most of the railroads with passenger service would find participation distinctly in their economic interest), would contribute to Railpax \$200 million (equal to approximately one-half of the railroads' current annual fully-distributed passenger service deficit). This could take the form of cash (payable over at least 3 years), credits for future service to be provided Railpax, rolling equipment, or other assets or commitments of value. It is expected that not over half of the \$200 million would be in cash, so that the financial strain on the railroads would be slight.

\* The Federal Government would provide assistance to Railpax of \$100 million. Of this \$60 million would be in the form of loan guarantees for new equipment. The remainder would be in cash, to be used for the purchase and development of new types of rolling stock and for other operational and administrative purposes.

\* States and local governments will be authorized to agree with Railpax to continue passenger service that the company would otherwise discontinue if they are prepared to finance the associated operating deficits.

COMMENTS ON A NUMBER OF PRINCIPAL ISSUES CONCERNING  
THE DEPARTMENT'S RAIL PASSENGER SERVICE PROGRAM

Center for (1) In acknowledging the need for a new approach to the rail passenger  
Transportation service problem, why is it necessary for the Federal Government  
to be involved at all?

In a nutshell the answer is that if the Federal Government does not take the initiative in dealing with this problem, it simply will not be solved -- or at least not in a manner that represents sound public policy. Intercity rail passenger service in the U.S. is now almost everywhere rapidly being depleted. The only exception to this statement is in the New York-Washington corridor, where the Metroliners have attracted great public support. And why are the Metroliners in existence? Because the Department of Transportation provided the incentive and the prospect of limited economic support.

To provide Metroliner-like service in the Northeast and in other parts of the country, particularly in the densely-populated urban corridors, makes sense, on several counts. Most notably, high-quality rail service promises to divert a substantial number of travelers from congested air transportation, thus alleviating the strain on airports which are already reaching their capacity. To provide modern rail service represents good national transportation policy, but it won't come about -- based on extensive and diverse experience -- if the job is left to the railroads. Nor is it likely that the individual States will do the job absent some Federal leadership.

(2) - If the Federal Government must be involved to get the job done, why must it be financially committed to the undertaking? Might it not be able to accomplish its objective simply by admonitions and verbal exhortation?

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Given the railroads' pronounced antipathy to rail passenger service, no one close to the problem and familiar with the industry believes that the objective can be accomplished without substantial Federal involvement and leadership. It is possible to induce the railroads to put up most of the capital required for the rejuvenation of rail passenger service, if they are relieved of the burden of providing rail service; but money alone will not meet the challenge: a new organization is essential, one that can promote and manage modern rail passenger service free from the traditions and attitudes of existing rail management. Establishment of such an organization is vital, but it will only come about if there is strong Federal commitment and guidance. And that requires meaningful Federal fiscal involvement. It is possible that Railpax Corporation could operate without the \$40 million of Federal cash or even without the \$60 million of equipment loan guarantees, but with the railroads putting up most of the funds, the bona fides of the Government's concern would be brought into serious doubt if it were not willing to participate in some limited economic sense. Without the credibility that economic

participation affords, the critically essential new managerial structure will not emerge, and without that it would be completely unreasonable to think that rail passenger service can be modernized and efficiently operated.

- (3) If the Federal Government must be financially involved, how certain can we be of the extent and character of such participation that is required to achieve the objective?

The Railpax plan calls for the Government to contribute to the Corporation \$40 million and to provide an additional \$60 million in standby loan guarantees for new equipment. Both of these ingredients could be varied, in amount and in timing. Most, and perhaps all, of the cash contribution could be delayed until after Fiscal 1971, so long as the commitment itself was assured at some certain point in the near future. Conceivably the \$40 million figure itself could be moderated somewhat, though it now represents less than a fifth of the capital that the railroads would put up. As for the loan guarantees, it is not certain that they would ever be used, or at least not fully. Nonetheless, while posing little economic risk, they have considerable psychological significance in that they demonstrate that the Government is willing to stand behind the Corporation.

The logo for the Eno Center for Transportation, featuring the word "Eno" in a large, light blue, sans-serif font.

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(4) What happens if the Administration does nothing to deal with the rail passenger service problem?

Either of two situations will develop. First, the greater probability -- indeed in the opinion of most of those closest to the issue a virtual certainty -- is that in this session the Congress will enact a large subsidy program to maintain rail passenger service. The bill in the final stages of consideration in the Senate Commerce Committee calls for \$435 million in Federal aid over the next four years. It is obviously only the beginning of a permanent subsidy program. This would reflect an enormous long-term Federal dollar outlay, which is bad enough; but it would also not accomplish the basic goal, namely, the rejuvenation and restructuring, under new management, of rail passenger service. The second eventuality, which cannot be completely severed from the first, is that the railroads will continue, for some indefinite but lengthy period of time, to be obligated to offer deficit-ridden, low-quality passenger service. This offers the traveling public very little, but it does strain the financial capacity of the railroads and weakens their ability to upgrade their badly needed freight service. It is entirely possible that in the case of certain roads, continued passenger deficits would drive them into bankruptcy.

The logo for the Eno Center for Transportation, featuring the word "Eno" in a large, light blue font above the words "Center for Transportation" in a smaller, dark blue font, all contained within a light blue rectangular border.

If the Administration does nothing, therefore, it is likely to have the worst of all possible worlds: unimproved passenger service, financially-troubled railroads, and a new subsidy program.

- (5) If the Federal Government takes the initiative in dealing with the rail passenger service problem, how can it avoid being drawn into a permanent financial role?

This is a risk which can never be avoided completely, but the Railpax proposal offers the best probability of its minimization. The Railpax plan would provide a meaningful test of modern rail passenger service and yield the information required to make a definitive judgment whether or not such service is sufficiently attractive to the traveling public as to make a major contribution to intercity transportation. That evidence does not now exist. Its absence makes it extremely difficult to argue that rail passenger service should simply be allowed to wither away on the ground that it has been publicly repudiated. There has not been a fair test of the appeal of modern rail service. If Railpax is as successful as the Department believes it will be (and this, in part, is based on the success of the Metroliners), Railpax can go forward on its own, without any additional Federal participation. If Railpax fails, and gradually curtails its services, its experience will demonstrate to those who now favor the subsidy approach that there is no prudent

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role for Government support. Railpax is not a guaranteed winner;

but its probabilities of success are great and it does create the

circumstances for a test that reduces to a minimum the likelihood

of long-term Federal involvement.

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EXECUTIVE OFFICE OF THE PRESIDENT  
BUREAU OF THE BUDGET  
WASHINGTON, D.C. 20503

FEB 16 1970

FEB 14 1970

MEMORANDUM FOR MR. EHRLICHMAN

Subject: DOT's Railpax proposal

Just to keep the record straight, I turned the place upside down to make sure that I was right in what I said to you last Saturday that the Budget Bureau did not clear DOT's Railpax legislative proposal, nor would it ever do so, of course, without White House blessing.

Nor did the Bureau staff indicate at any time to the Department, formally or informally, that there was no objection to it. To the contrary, not only the Bureau, but others, such as CEA, Commerce, Justice, Treasury, and Labor, had problems with the proposal. DOT was fully aware of this fact as of January 15.

My offer to John Volpe the night of January 14 was that if what he told me was true that BoB was indeed the only objector to Railpax, we might be able to find the money for it by stretching out the SST further if I were overruled. Upon checking the next morning, I found his statement was incorrect and I told him so in Miami the afternoon of January 15 -- and that my suggestion was dead.

A handwritten signature in dark ink, appearing to read "RPM".

Robert P. Mayo

Director

## THE WHITE HOUSE

WASHINGTON

FEBRUARY 17, 1970

FOR JOHN EHRLICHMAN

RE: FOLLOW-UP TO THE RAILPAX PRESENTATION  
BY JIM BEGGS AND CHARLES BAKER  
THURSDAY, FEBRUARY 12, 2:00 p.m.

BACKGROUND

The Department of Transportation representatives presented the railpax proposal which they feel is the best way to alleviate the current crisis that the railroads are experiencing relative to railway passenger service.

PROBLEM

Railroad companies are losing an increasing amount of money on their railway passenger service which they are required to provide under Section 13(a) of the Interstate Commerce Act. DoT estimates that railroads will lose between \$220 and \$240 million this year even though the areas in which passenger service is being provided have been cut back.

CAUSE

The primary cause of this situation has been the increased availability and lower cost of air travel. Additional causes include:

- (1) Poor management
- (2) Poor rolling stock
- (3) High costs of providing new rolling stock
- (4) A decreasing demand for rail passenger service

RECOMMENDATION

The Department of Transportation firmly believes that the best way to cope with this situation would be for the President to propose their railpax plan.

FAILURE OF PRESENTATION

There is a consensus of opinion that this briefing could have been conducted in a more professional manner. However, aside from the presentation, I believe that the logic and research behind their proposal was incomplete. Specifically, I feel that their presentation was weak because they failed to sufficiently answer the following questions:

- (1) Why can't Section 13 of the Interstate Commerce Act be repealed?

They indicated that Section 13 of the Interstate Commerce Act could not be repealed and thus the railroads would be required to provide passenger service. There was no evidence presented to validate this statement. I think it would be most helpful to have a report outlining the reasons why they believe a repeal of Section 13 could not be accomplished.

- (2) Why is Federal assistance necessary?

Assuming that the railroads will continue to be required to provide passenger service, they assume that the next obvious step is that the Federal government step in and give the railroad companies assistance. Their justification of Federal assistance to the railroads was very weak. They quickly glossed over some figures indicating that the demand for adequate ground transportation in the coming years would dramatically increase. Again, a report outlining the anticipated increase in this demand and possible options to railway passenger service would be most helpful.

(3) What are the available options to railpax?

They chose not to present the pros and cons of the other available options which focus upon the railway passenger situation. Actually, I don't believe they sufficiently presented the pros and cons of the railpax proposal.

### REQUESTED ACTION

You requested that they prepare a report for you for possible submission to the President outlining the pros, cons and costs of the various options focusing on the railway passenger situation.



Tod R. Hullin



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

February 18, 1970

Mr. John D. Ehrlichman  
Assistant to the President for  
Domestic Affairs  
The White House  
Washington, D. C. 20500

Dear John:


Rail Passenger Service

Attached is the summary review of this problem which you requested at our meeting last week. I have discussed this at some length with the Secretary and we are looking forward to getting a decision on this matter.

You suggested that if we got this over by mid-week that a decision could probably be reached by the middle of the following week. I will be in touch with you to see what we can set up in the way of a meeting on perhaps the 24th or 25th.

The attached summary of the problem and the alternatives may well imply bias in favor of the "rail pax" alternative, although I am fast coming to the conclusion that one thing we probably need is another name. In fairness I do not think this is so much bias as it is an indication of how the analysis we conducted over the last several months lead us to the conclusion that this proposition, while undoubtedly less than perfect, is in our judgment the best course of action in the real world. In any case, I think this summary does provide a platform for directly focusing the alternatives before the Administration.

Sincerely,

A handwritten signature in blue ink, which appears to read 'James M. Beggs', is written over a horizontal line.

James M. Beggs

Copy to:  
Honorable Robert P. Mayo



## RAIL PASSENGER SERVICE

### A Review of Alternatives

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## I. THE RAIL PASSENGER PROBLEM

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Deficits from intercity (i. e. , non-commuter) passenger operations presently impose a serious financial burden on the nation's railroads, affecting their ability to provide high-quality, accident-free freight service.

- \* This deficit totaled \$205 million in 1968 (Exhibit A), or approximately 35% of total railroad net income.
- \* Historical data (Exhibit B) indicate that after initial improvement, by reason of heavy "train-offs" in the late 1950's, the deficit has worsened in recent years as service has declined.
- Recent expressions of Congressional concern indicate that accelerated train-offs under section 13a, which could eventually reduce or eliminate this deficit (by eliminating all or nearly all intercity rail passenger service) are unlikely.
- On the contrary, hearings in both Houses suggest that absent an Administration alternative, the Congress will probably enact either a large-scale Federal subsidy bill, or procedures designed to halt or slow down the recent train-off trend.
- Railroad management is almost universally opposed to remaining in the passenger business, with or without subsidy. If they are required to stay in the business, they want 100% subsidy, nothing less.
- DOT studies show that improved, restructured rail passenger service could make a major, positive contribution to better intercity transportation. (This is especially true as increased population and additional travel impose increasing congestion problems in the nation's heavily-traveled corridors. It has been estimated that by the end of this decade, more than half of the U.S. population will be located in three major corridors: one in the Northeast, another in California, and the third in the Midwest.)
  - \* However, this proposition has not really been tested.
- There is considerable Congressional and press agitation to "do something about rail service."

## II. CRITERIA FOR EVALUATING FEDERAL INVOLVEMENT IN A RAIL PASSENGER PROGRAM

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- A responsible program must relieve the railroads of the burden of providing money-losing passenger service. (At the same time it should recognize that the railroads presently have a statutory responsibility to provide passenger transportation services.)
- Any action should minimize the impact on the Federal budget. It should also substantially foreclose the risk that the Federal Government will become permanently entangled in rail passenger service. (The Federal role should probably be confined to providing the initiative to solving the problem, leaving the ultimate solution to the test of the market place.)
- Rail passenger service can play a valuable role in intercity transportation, but only if it is offered on a vastly improved basis. This will require new equipment, new marketing approaches, etc. To achieve these objectives a new environment must be created that will not be inhibited by traditional attitudes about rail passenger service.
- Passenger service should be provided only in those markets where-- after initial improvements--there appears to be significant hope that it will become economically self-sustaining in the near future. (The objective should be to make significant changes on a limited number of routes, rather than dissipating funds on minor improvements for the many existing uneconomic routes.)
- Any initiative proposed by the Administration must be politically viable. It should be credible, constitute a program that can be supported by the many members of Congress who are deeply concerned with the issue, fiscally prudent, and consistent with the objective of furthering cooperative private-public efforts in meeting national problems.



### III. THE ALTERNATIVES

#### A. The Direct Federal Subsidy Alternative

What it would mean, how it would work. Although this approach could take several forms, it is most graphically portrayed in the Hartke-Tydings bill that is now awaiting final vote in the Senate Commerce Committee. This bill would require the Secretary of Transportation to define a minimum rail passenger network over which the railroads would be obligated to provide passenger service. The Federal Government would subsidize the railroads in the amount of 80% of the associated passenger losses. Additional Federal funds would be provided to purchase new rolling stock for lease to the railroads. This would probably be a permanent program, with the railroads continuing for many years as partially subsidized passenger operators.

Transportation and other implications. The Hartke-Tydings subsidy approach would have a substantial adverse impact on the Federal budget. In its first 4 years, beginning in FY 71, the program would be authorized at a level of \$435 million. The long-term Federal outlays could be much higher if the program is indefinite in duration. While the Federal Government would thus sustain a heavy and continuing financial burden, the railroads would not be relieved of their full passenger deficit. (The railroads would have to cover 20% of operating losses.) Moreover, since the responsibility for rail passenger service would remain with the railroads--which have made clear their lack of interest in this category of transportation--it is doubtful whether significantly improved passenger service would in fact result.

Public and political reaction. The subsidy approach has substantial support in the Congress, especially in the Senate Commerce Committee. In all likelihood the Hartke-Tydings subsidy bill would have been voted out by the Committee earlier in this session if an Administration proposal had not been anticipated. The railroad industry has publicly supported the subsidy approach. This subsidy approach has also received considerable public support.

Evaluation. The subsidy approach has many serious deficiencies. It offers only limited long-term aid to the railroads. It is unlikely to improve substantially the quality of rail service. It requires large, continuing Federal outlays. It probably places no ceiling or terminal date on Federal involvement and omits a test of the marketability of improved rail passenger service. Despite these objections, however, if the Administration offers no satisfactory substitute, the subsidy approach is likely to be adopted by the Congress, with strong, if not necessarily enthusiastic, bipartisan support.

## B. The Free Market Alternative

What it means, what it would take. "Free market" regulation would mean the removal of all Governmental regulation over the provision of service. Presently the railroads are statutorily obligated to maintain passenger trains they are operating. Permission to "train-off" such service can be obtained from the ICC, but only with a showing that a train is sustaining substantial losses and that its continuation is not necessary in the public interest. A shift to a "free market" approach would radically alter this situation, making it possible for railroads to discontinue passenger trains simply by giving notice and without review by any regulatory agency. This would call for far-reaching new legislation.

Transportation and other implications. If the law were to be changed so as to permit the railroads to discontinue passenger trains unilaterally, there would be a wholesale abandonment of such service in a matter of weeks. By the end of this calendar year it is probable that barely more than 100 trains would be in service. Those that remained, only temporarily in most instances, would be concentrated in the New York-Washington-Boston corridor. Passenger service would have been terminated in about 45 States. Immediately after the discontinuance of passenger train service the railroads would adjust their facilities so that it might be prohibitively expensive to reinstitute passenger operations at a future date. For all practical purposes this approach would mean the end of virtually all intercity passenger service in the United States.

Public and political reaction. There is no discernible support in Congress for this approach. It has never been legislatively proposed and its advocacy by the Administration would not attract more than a very few supporters. Assuming that a bill incorporating this approach were to be introduced, the likelihood that it would even be accorded Congressional hearings is slim. Publicly, it would provoke intense criticism: editorial opposition would come from all sections of the country and from communities of all sizes.

Evaluation. This approach, though intriguing, fails to consider the potential of improved rail passenger service in meeting present and future national transportation needs. Politically, its advocacy would be difficult. There is no pending proposal of this kind. To accomplish it, the Administration would have to offer and defend it in the face of certain strong opposition.

### C. Maintain the Status Quo: The Do-Nothing Approach

What it would mean. This approach would involve no Federal legislation. The railroads would proceed with applications to discontinue passenger trains, but with the probability that as the number of trains is further reduced the railroads probably would experience increased difficulty and delays in their abandonment proceedings. Avoidable deficits in the next 3 years alone could be in the neighborhood of half a billion dollars. These large financial deficits would further weaken the railroads' ability to finance capital improvements in their freight operations. Under existing decisions, the railroads would continue to let quality of service deteriorate.

Transportation and other implications. Rail passenger service has already been cut back severely and provides the traveling public with intercity transportation of deteriorating quality. To preserve the status quo is merely to aggravate both of these conditions: less service, poorer quality. Any thought of developing a quality new alternative to congested air transportation would have to be forgotten.

Public and political reaction. Very few members of Congress, hardly anyone in the rail industry, and practically no one in the media or general public who has expressed concern about the issue is content with the status quo. And for good reason: the present situation is bad for the railroads, bad for the traveling public, and burdensome to the regulators. While maintenance of the status quo is, in a sense, the "easiest" course to pursue, it would engender criticism that the Administration is uninterested in what has become a topic of widespread public discussion.

Evaluation. The status quo approach provides no help for the railroads, offers no improvement in intercity transportation, and is politically unattractive. It is also likely that a veto of a Congressionally-approved alternative (e. g., a subsidy bill) would be necessary to maintain the status quo.

## D. The Moratorium and Study Alternative

What it would mean. Confronted with the continuing decline in rail passenger service in the U.S., some people, including a number of Congressmen, have urged that a moratorium on further discontinuances be imposed by law. It would run for a period of time of up to 3 years, a period in which the Federal Government would conduct a large-scale study of the problem. The advocates of this approach usually declare that the study would yield information and recommendations that would better enable the Congress to devise an appropriate long-term response. A moratorium would require legislation. Administration support would either require support for one of the pending bills or the recommendation of a new proposal. When the study recommendations were formulated, they would probably necessitate the introduction of implementing legislation.

Transportation and other implications. This approach would impose a serious hardship on the rail industry since it would require the railroads to continue deficit-ridden passenger train service at the present uneconomic level for the duration of the moratorium. The cost to the railroads would be at least \$200 million annually. For the traveling public, there would be no improvement in rail passenger transportation. Moreover, a study is not going to tell us much more than we already know without major (Federally funded?) demonstrations.

Public and political reaction. For a number of Congressmen this approach has a certain amount of political appeal. It does not, however, have the support of the key Committee members who recognize that it does not constitute a meaningful response to the problem. Postponement to await a study has virtually no Congressional saleability. The rail industry would, for understandable reasons, strongly oppose this approach. It offers no prospect of any improvements in rail passenger service, but it would appeal to those who are opposed to any further decline in service.

Evaluation. While the moratorium/study approach would attract some supporters in Congress, it represents essentially a postponement of the inevitable at the expense of the railroads. Lacking any positive appeal, its sole attractiveness is that it affords an opportunity to delay a decision for a short time.

Center The Regional Compact Alternative  
Transportation

What it would mean, how it would work. Under this alternative the future of intercity rail passenger service would be left almost completely in the hands of the States and local communities, who could form compacts or make other arrangements to subsidize such service as they deemed necessary. Under this approach the Federal role would appear to be limited to the approval of interstate compacts. In most such proposals it is acknowledged, if not made explicit, that there would have to be substantial Federal grants to assist the States and cities in carrying out these undertakings. Some have suggested that a grant program be established calling for the Federal Government to advance up to two-thirds of the costs of capital equipment and improvements. The total dollar cost has never been meaningfully estimated.

Transportation and other implications. The nationwide credibility of this approach has not been established. While a few States have been willing to underwrite part of the cost of rail commuter service (with Federal funds constituting the remainder of the money), this has not been the case with respect to intercity rail service except in the Northeast. Most States are simply not financially willing or capable of becoming involved. To expect that they would, at some future date, provide the financial aid for intercity service implies an almost certain Federal grant assistance program. The dollar implications are unknown, but would probably be sizable.

Public and political reaction. This concept has not yet received significant attention in the Congress, although several Senators have proposed "regional" approaches to various transportation problems, including passenger trains. For commuter service the "compact" idea may have appeal, but it remains largely speculative as a near-term policy alternative for dealing with the intercity rail passenger problem.

Evaluation. In any rail passenger service program provision should be made for the participation of State and local governments. However, to rely on this approach exclusively or principally would not be likely to solve the basic problem.

F. The Railpax Alternative

What it would mean, how it would work. A private-public corporation (Railpax) is proposed. It would assume the principal obligation of offering improved intercity rail passenger service in the U. S. on a basic network established by the Secretary of Transportation (See Exhibit C). Railroads electing to participate in the program would be relieved of their passenger train obligations and the corporation would assume these in exchange for a capital contribution that would amount to approximately a current year's passenger deficit. The Federal financial role would be limited to providing the corporation with \$40 million in cash plus an additional \$60 million in standby loan guarantees for equipment purchases. With this initial capital Railpax should be able to establish modern, relatively high-speed service that would emulate the Metroliners in the most promising corridors. All other routes would be equipped with completely rebuilt cars. Trains would be operated in corridors and long-haul routes serving more than 40 States and all regions of the country. It is expected that the corporation would experience financial losses for about 3 years and then become a self-sustaining enterprise.

Transportation and other implications. As a new organization oriented exclusively to passenger operations, with substantial capital at its disposal, Railpax could bring to the traveling public high-quality rail passenger service. It would bring effective financial relief to the railroad industry, while keeping the Federal budget implications down. Route miles would probably be reduced from the 56,000 at present to about 20,000. There is no great risk that the Federal Government would become permanently entangled in the rail passenger problem. The proposal would provide a meaningful test of improved rail service. There is, of course, some uncertainty that traditionally money-losing trains can be made profitable and the economic prospects may not be as favorable as DOT estimates. Railpax may be undercapitalized, though DOT does not think so. A notable problem in placing Railpax routes solely on a profitability criterion is that political pressure may be placed on the corporation to continue uneconomic routes after the initial test period. Some have also urged that a profitability test is not sufficient and that a "public need" standard is necessary.

Public and political reaction. Congressional, editorial, and public reaction to the descriptions of the Railpax proposal which have appeared in the press have been generally favorable. Key rail executives have generally found it appealing. Re Congress; it represents a program that



Cesquarely addresses the problem in a manner that is consistent with  
Tprudent fiscal management and the general desire to promote  
greater cooperation between the private and public sectors. It  
should be supportable by both parties.

Evaluation. The Railpax proposal meets most of the relevant  
criteria. It can bring to the traveling public modern train service.  
It will help the railroads. It minimizes the cost to the Federal  
Government while reducing the risk of Federal entanglement in the  
problem. It has public and political appeal. It does involve some  
Federal expenditures in a program that ultimately may fail economically--  
DOT studies notwithstanding. Nonetheless, it appears to be a sound  
Federal investment, all factors and all alternatives considered.



## IV. THE EXHIBITS

Center for  
Transportation1968 Intercity Passenger Service Avoidable Deficit  
Corrected for Commuter Deficits

Of the roads with substantial intercity operations, most do not have commuter operations. DOT estimates 1968 avoidable deficits for the non-commuter roads as follows:

<u>Carrier</u>	<u>Avoidable Deficit</u>
ATSF*	\$ 26.7 million
D&RGW	2.3
GN*	11.6
GM&O	1.6
L&N	9.8
MP*	3.5
N&W	6.7
NP	11.7
RF&P	1.3
SCL*	19.3
Sou*	14.9
UP*	22.0
WP	1.8
SP&S	1.8
Total	\$133.4 million

Two additional carriers, the IC and the C&O/B&O have commuter operations but the intercity avoidable deficit has already been separated from the commuter-related deficit in the ICC avoidable cost study. The ICC estimated intercity deficits (1968) were:

B&O/C&O	\$ 12.7 million
I.C.	7.4
Total	\$ 20.1 million

The above reliably identifies \$153.5 million in net avoidable losses. The remainder of the total avoidable deficit is more difficult to separate between intercity and commuter traffic. In order to approximate an appropriate allocation, DOT has identified those roads with a high (75%), medium (50%), and low (25%) ratio of long haul to total operations. The following estimates are based on these allocations:

\*Study carriers in ICC, Investigation of Costs of Intercity Rail Passenger Service (July, 1969).





	Long Haul % of Total	Fully Distributed Deficit	Avoidable* Deficits		
			Total	Long-Haul	Commuter
CBQ	High	\$23.7 million	13.0	9.8	3.2
CMSP&P	Med.	10.5	5.8	2.9	2.9
CRI&P	Med.	10.6	5.8	2.9	2.9
GTW	High	3.4	1.9	1.4	.5
P.C.	Med.	91.8	50.5	25.2	25.2
N.H.	Med.	8.0	4.4	2.2	2.2
S.P.	High	17.9	9.8	7.4	2.4
				<u>51.9</u>	<u>39.2</u>

Based on these estimates, the total intercity deficit is about \$153.5 million on roads without commuter service, or where the intercity deficit has been separately identified, and \$51.9 million for carriers where there is uncertainty about the allocation between commuter and intercity deficits. The most uncertain estimate is that for the Penn Central; because of the high portion of joint commuter/intercity costs for this carrier, only a detailed cost study could establish true losses on passenger service, let alone losses on specific types of passenger service such as corridor, long haul, or commuter.

#### Summary

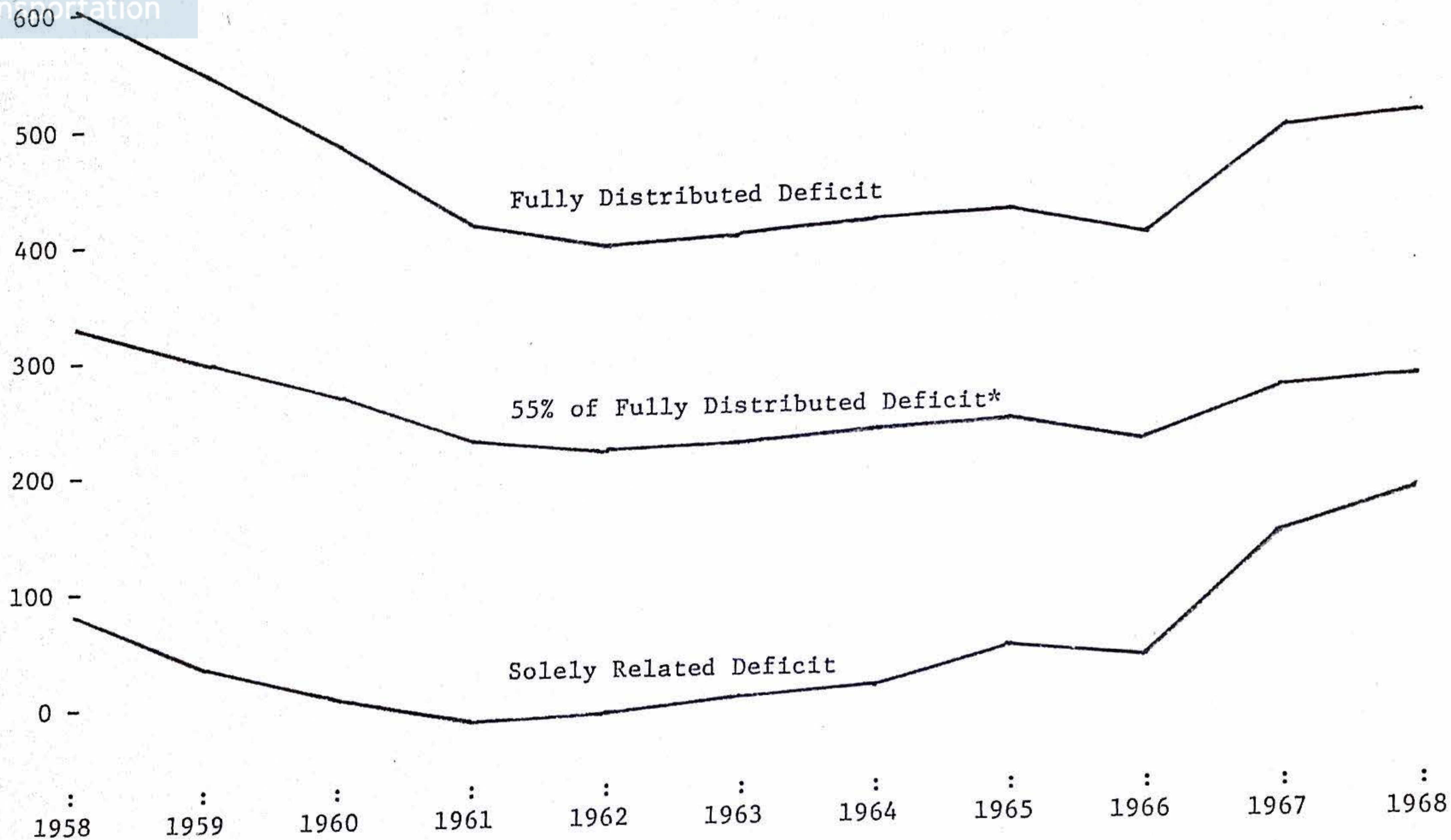
Non-Commuter Roads, avoidable deficit	- \$133.4 million
Roads with Commuter Service	
--- segregated intercity portion I.C.C. Study	- 20.1
--- segregated intercity portion D.O.T. Analysis	- <u>51.9</u>
Total Intercity <u>only</u> avoidable loss	- \$205.4 million

\*55% of Fully distributed deficit.

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Dollars in  
Millions  
for  
Transportation

# HISTORIC PROFILE OF THE RAIL PASSENGER SERVICE DEFICIT



\*In the ICC study, Investigation of Costs of Intercity Rail Passenger Service (July, 1969), the ratio of net avoidable losses to fully distributed deficit for the eight study carriers in 1968 was 55%.



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HISTORIC PROFILE OF THE RAIL PASSENGER SERVICE DEFICIT  
(Dollars in Thousands)

	<u>Fully Distributed</u>	<u>55% of Fully Distributed</u>	<u>Solely Related</u>
1958	\$610,424	\$335,733	\$ 82,262
1959	543,820	299,101	37,815
1960	485,170	266,843	10,262
1961	408,208	224,514	(17,184)
1962	394,277	216,852	(12,383)
1963	398,875	219,381	8,787
1964	410,195	225,607	17,938
1965	420,647	231,355	43,706
1966	399,645	219,805	30,942
1967	484,841	266,690	138,236
1968	486,032	267,315	170,000

Figures in parentheses represent a "negative deficit."



Center for  
Transportation Most Likely Corridors

Possible Network of Intercity Service\*

<u>Corridor</u>	<u>Expected Financial Performance (Year Four)</u>
A. New York-Buffalo	Very Profitable
B. Chicago-St. Louis	Breakeven
C. Chicago-Twin Cities	Possibly breakeven in part, Deficit in part
D. Cincinnati-Detroit	Close to breakeven
E. Cincinnati-Cleveland	Close to breakeven
F. L. A. - San Diego	Close to breakeven
G. Chicago-Cleveland	Small deficit
H. Chicago-Detroit	Small deficit
I. Chicago-Cincinnati	Deficit
J. Philadelphia-Pittsburgh	Substantial deficit
K. Portland-Seattle	Substantial deficit

A. New York-Washington	Uncertain, but probably favorable
B. New York-Boston	Uncertain, but probably favorable

II. Most Likely Long-Haul Markets

A. Chicago-Los Angeles	Very profitable
B. Chicago-San Francisco	Profitable
C. New York-Miami	Breakeven
D. Chicago-Seattle	Breakeven
E. Chicago-New Orleans	Breakeven
F. New York-Washington-Chicago	Close to breakeven
G. Chicago-Miami (via Louisville and Nashville)	Close to breakeven
H. Washington-New Orleans	Close to breakeven
I. Boston-Chicago	Deficit
J. Los Angeles-Portland	Deficit
K. New Orleans - Los Angeles	Deficit

III. Possible Corridor Connectors and Feeders

- A. Pittsburgh-Cleveland
- B. Buffalo-Cleveland
- C. St. Louis-Kansas City
- D. Washington-Richmond

\* Costs and revenues based on intercity passengers only. Commuter stops are not included in the service.

The logo for Eno, consisting of the word "Eno" in a large, light blue, sans-serif font, enclosed within a light blue square border.

Center for Other Possible Corridors  
Transportation

- A. Chicago-Carbondale
- B. Houston-Dallas/Fort Worth

V. Other Possible Long-Haul Trains

- A. Chicago-Texas through train (ATSF or MoPac)
- B. Pittsburgh-St. Louis
- C. Norfolk-Cincinnati
- D. (Chicago)-Memphis-Birmingham
- E. New Orleans-Jacksonville
- F. Albany-Montreal
- G. Salt Lake City-Portland

Note: These DOT estimates are based upon intercity ridership calculations and do not include commuters who ride a short distance on the corridor route (e. g., on the Chicago-Twin Cities corridor all projected riders originating or terminating at Chicago have at least Milwaukee as the other point).



Impact of the Urban Mass Transportation Program  
on Intercity Rail Passenger Service

1. In proposing the Urban Mass Transportation Assistance Act of 1969 the Department of Transportation sought \$10.1 billion in funding mass transit improvements over the next 10 years. About 10% of this amount is expected to be used to aid railroad commuter operations. The question is, to what degree will this program for improvement of commuter services be of benefit to intercity railroad passenger operations. DOT's conclusion is that the impact will be minor, indirect, and limited almost entirely to cities in the Northeast Corridor.
  
2. Intercity rail service could benefit somewhat (or deficits could be reduced) from grant assistance for improved track and signals over a small part of the right of way, and "downtown" stations. Only commuters will benefit from improvements in rolling stock, suburban stations, and electrification.
  - A. The preponderance of the approximately \$1 billion "tabbed" for commuter rail operations is for the items benefitting the commuter and not benefitting intercity operations.
  - B. Further, improvements in track and signals that will be useable for both commuter and intercity service are proposed (in the Mass Transportation program) only at New York and Philadelphia (including Trenton, Wilmington, and Harrisburg) and North Jersey.
  - C. In San Francisco, commuter rail service might be aided by mass transportation funds, but intercity rail service probably will not use these same lines and stations in the future.
  - D. In Chicago, the two largest commuter lines are North Western and Illinois Central, each using its own downtown station for this purpose. Union Station, the center of intercity rail passenger operations (in the future, probably the only intercity station) is also a major commuter station. However UMTA funds are not tabbed for any of its rehabilitation plans.
  - E. In Boston and Washington (Union Station will be improved as a part of Metro) only minor benefits of intercity service will result from Mass Transportation program improvements.
  
3. In general, the Mass Transportation program funds will be sufficient to upgrade somewhat the quality of commuter rail service, but the impact on intercity rail passenger service will not be great.

MEMORANDUM

Eno

Center for  
Transportation

THE WHITE HOUSE

WASHINGTON

February 20, 1970

MEMORANDUM FOR

JOHN D. EHRLICHMAN

FROM: HENRY C. CASHEN II

SUBJECT: Railway Passenger Service

I have received and reviewed the Department of Transportation's memorandum with respect to the captioned subject and believe that it gives a fair evaluation of the five alternatives discussed, with an obvious prejudice toward RAILPAX. However, the questions raised at the last meeting with Jim Beggs and Charlie Baker are still not completely answered.

Secretary Volpe has recently had a great deal of pressure put on him by Senators Magnuson and Hartke to come forward with a position. Consequently, he is pushing very hard for a decision. Generally, there have been strong objections and rightfully so against RAILPAX. However, no one has yet offered what they think to be a saleable alternative. What DOT says with respect to free market (let the railroads die by their own method) is, I think, a fair evaluation of the problem with respect to repealing Section 13 a of the ICC. It seems to me that the Department has not directly focused on the question of the private corporation without Federal subsidy and only a Government loan guarantee. This is where I come out as the best alternative if you feel action must be taken. It seems to me that we might be able to present this as requiring the railroads to take the initiative to determine their own rail system, offer them some government assistance, but not put a potentially permanent hook into the budget. I would also do away with the name RAILPAX which has progressively become associated with a controversial idea and substitute something like "Rail Passenger Service Act" or anything similar to dismiss the concept that the Government is nationalizing the railroads.



MEMORANDUM FOR JOHN D. EHRLICHMAN

Page 2

Center for  
Transportation

Harlow's office advises that it is very questionable whether a bill of this sort would pass Congress but it would help to avoid the Hartke-Subsidy Bill.

There is nothing strikingly revealing or new about the five alternatives presented by DOT and I think without reviewing the memo in detail, you could highlight the problems with any one of the positions presented.

#

cc. Ken Cole ✓



EXECUTIVE OFFICE OF THE PRESIDENT

BUREAU OF THE BUDGET  
WASHINGTON, D.C. 20503

*elm*  
**Eno**

Center for  
Transportation

2/23/70

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EXECUTIVE

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4/16-11-1/Caskey, Henry

4/16-11-1/Colson, Chuck

4/16-11-1/Cherlichman, John

4/16-1

4/15/70

MEMORANDUM FOR MR. JOHN EHRlichMAN

Subject: Rail Passenger Service

The following are our comments on Under Secretary Beggs' letter of February 18, 1970, concerning rail passenger service.

Everyone agrees that railroads are losing money on passenger service and that service is diminishing. The question is whether the Federal Government should intervene to reverse the trend, and, if so, is the time now. Technology has, to a large extent, overtaken the railroads. Highways and aviation, using newer and more versatile technology, have captured an increasingly large share of the intercity travel market. As a general matter, the railroad share of total intercity travel has shown a secular trend in the post WWII period. In a sense, the situation is analogous to when the railroads replaced the stage coach.

DOT makes four basic arguments in favor of RAILPAX, which we believe are not supported by their own analysis:

1. There is a need to save passenger service: In our view this is an open question. The DOT argument is not adequately justified. The thrust of the Department's argument is that RAILPAX will help decrease congestion in heavily traveled corridors. Today, railroads account for only 1.5% of total intercity passenger miles. Under DOT's proposal, the railroads would account for even less. The current 300 passenger trains outside the northeast corridor, would be reduced to 100, and the present 17 million annual rail passenger trips would be reduced to 4 million. It should be noted that about 95% of towns over 2500 population (all but 29 towns) now served by rail passenger service also have intercity bus service.

2. Rail passenger service can be made profitable in a relatively short period: DOT maintains that RAILPAX would be self-sustaining by the end of three years. DOT's own data show that there would be as much as a \$15 million deficit in the fourth year if all the trains in its basic system (page 14 of DOT's paper) continued in operation. With regard to attracting more passengers by better service, several tests of improved rail passenger service have already been made but have not been successful. Canada, in the past few years, and some U.S. railroads in the 1950's attempted to revive rail passenger service, in much the same way envisioned for RAILPAX. Increased ridership resulted, but deficits were not reduced. The current test--the New York-Washington Metroliner--with considerable Federal support may also not turn out to be a profitable operation over time.

*Colson memo to Cherlichman 2/25/70 attached*

3. Under RAILPAX, the Government's role would be carefully prescribed: The history of the Federal Government's similar interventions to subsidize private industry does not support this concept. The pervasiveness of bureaucratic motivations, special congressional and business interests, and availability of general revenues all work together toward increasing Federal involvement over time.

In our view, RAILPAX would become a foot in the door for continued and increasing Federal subsidy. Congressional pressure most likely would prevent the Department from reducing trains to the proposed basic rail passenger network and the RAILPAX Corporation from further reducing unprofitable trains at a later date.

4. Apparently RAILPAX would have no significant impact on other transportation modes: DOT's paper is silent on this aspect. However, both buses and airlines could be affected. Bus companies would have strong grounds for requesting Federal financial assistance to compete with the subsidized rail passenger service. In all of the eleven intercity corridors slated for rail service, there exists local service airlines receiving Federal subsidy. The possibility that RAILPAX will divert passengers from this marginal operation would necessitate larger subsidies to these airlines, yet the policy of this Administration is one of reduction of airline subsidy.

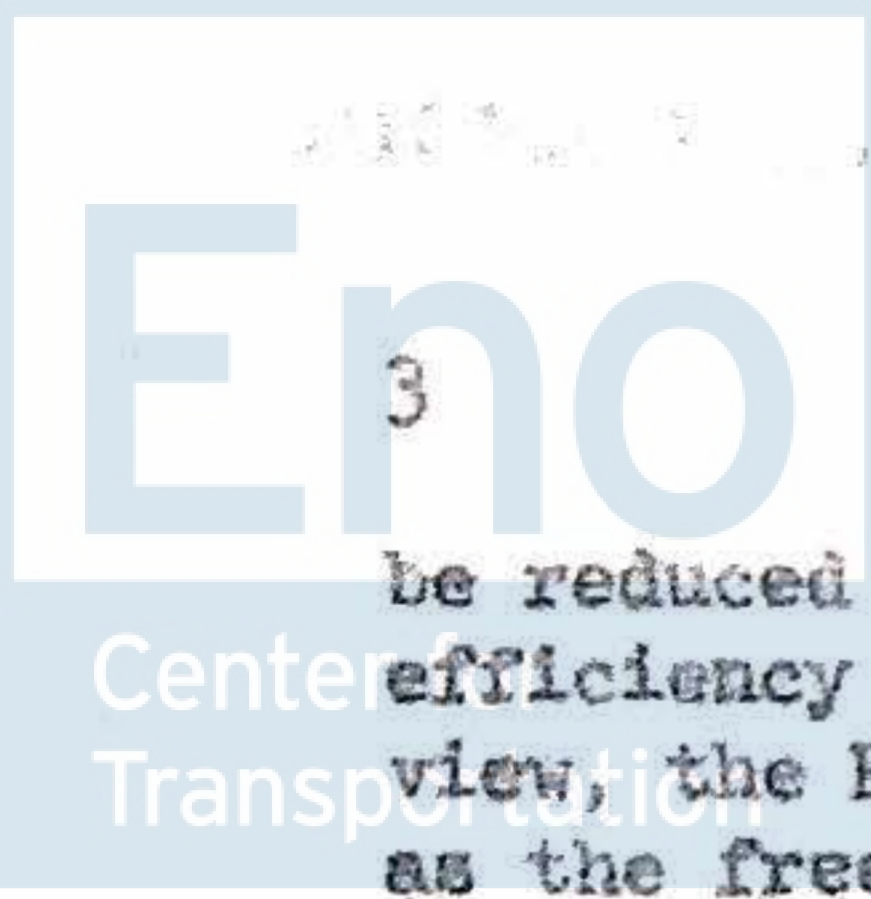
RAILPAX, instead of acting to correct market imperfections, may, in fact, retard substitution of more economic techniques. RAILPAX in effect may be a costly postponement of the inevitable.

Furthermore, subsidy to railroads would run counter to this Administration's approach to financing of transportation programs--that is, the beneficiaries of Federal service should pay their fair share of the costs. Underlying the new airways/airports legislation is a compensating increase in user taxes. The Federal-aid highway program is fully funded through gasoline and other user-related taxes. The heavy social overhead and lack of viable alternatives make user charges inappropriate for the new mass transit program; however, similar conditions do not exist for rail passenger service. In fact, under the DOT proposal this would clearly be a situation of benefits for few--taxation for all.

In the final analysis DOT's principal argument in favor of RAILPAX is that it "makes good political sense." This we leave to the analysis and judgment of others. However, in our view the politics of the situation would have to be overwhelming to offset the substantive arguments cited above.

#### Recommendation

We favor the "free market approach" which is one of the alternatives in DOT's paper. Under this approach intercity passenger service discontinuances would be allowed upon some appropriate notice to ICC, such as 90 days. Profitable routes would be retained by the railroads. Total intercity travel would not



be reduced (bus and air would absorb discontinued rail ridership). The efficiency of the total transportation system would be increased. In our view, the RAILPAX approach would lead eventually to the same end result as the free market alternative--a few years and many Federal dollars later.

If, on the other hand, the President believes that something special should be done for rail passenger service at this time, we recommend the all-private RAILPAX approach discussed at our last meeting with DOT on this subject. This approach was not included as an alternative in the DOT paper. Under this approach, there would be no direct Federal involvement or budget impact. As in DOT's proposal, financing would come from railroad savings due to train discontinuances outside the basic system to be established by DOT. If needed to gain acceptance, Federal loan guarantees could be given initially to share some of the risk.

An all-private RAILPAX minimizes Federal involvement and budget impact, provides greater insulation to pressure to continue unprofitable trains and eliminates the threat of continued Federal subsidy.

that we should support a Railpax proposal without federal funding and

at the same time call upon the railroads to improve service  
*Robert S. Mayo*  
terminate it.

(c) Mayo  
Mayo  
3, 1958

MEMORANDUM

Eno

Center for  
Transportation

THE WHITE HOUSE

WASHINGTON

February 25, 1970

MEMORANDUM TO JOHN EHRLICHMAN

FROM: CHUCK COLSON

SUBJECT: ACTION MEMORANDUM RE RAILWAY PASSENGER  
SERVICE - Log 3092

In response to your request, I concur with the Bureau of the Budget that we should submit a Railpax proposal without federal funding and at the same time call upon the railroads to improve service or terminate it.

Eno

Center for  
Transportation

February 4, 1970

MARCH 2, 1970

FOR HENRY CASHEN

I have reviewed the railpax proposal carefully and have asked for additional information from DoT.

Meantime, would you please meet with one or more representatives of the industry and see what their true desires are?

Paul Marshall might be a good one to start with. He's very low key and very friendly to us. Why don't you suggest to him and you and he meet without any industry representatives?

John D. Ehrlichman

John D. Ehrlichman

FEB 23 1970

CENTRAL FILES



THE WHITE HOUSE  
WASHINGTON

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✓ (3)

March 2, 1970

INFORMATION

Status of DoT's Rail  
Passenger Service Proposals

MEMORANDUM FOR THE PRESIDENT

THE PROBLEM

The Senate Commerce Committee threatens to report out a bill providing for 100% subsidy of rail passenger service deficits. The railroads are in serious difficulty because the ICC insists on their operating their rail passenger service.

The Senate Commerce Committee has requested Secretary Volpe to come up with an alternative. Under Secretary Paul Cherington proposed a "railpax", a consortium of railroads operating a passenger service over reduced routes with the Federal government subsidizing the operation and guaranteeing the equipment loans.

Several written and oral presentations have been made to us by the Department of Transportation and, in each case, we have requested additional justification and information.

The final written submission came over last week and I have now written Secretary Volpe for additional information.

You may be talking to the Secretary in the course of the next week or so. He is asking for an appointment with you to discuss this matter. He feels under some pressure from the Senate to come up with an alternative. However, his staff work has been quite mediocre and incomplete and we will continue to press for a satisfactory submission before we move the matter to you.

At this writing it would appear that the Federal government should not get involved in this. If the Senate acts on some kind of a 100% subsidy proposal, we will probably recommend to you that you veto it.

John D. Ehrlichman

rec'd  
3/10/70  
C. J. [unclear]

THE WHITE HOUSE

WASHINGTON

March 4, 1970

EXECUTIVE

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PR 7-1

TW 4

446-10-1/Caskey, Henry



MEMORANDUM FOR

THE PRESIDENT

SUBJECT: Meeting with Secretary Volpe  
March 5, 1970  
3:30 p.m.

The two subjects which Secretary Volpe has indicated a desire to discuss are (1) railway passenger service, and (2) transfer of the Electronics Research Center in Cambridge, Massachusetts, to the Department of Transportation.

1. RAILWAY PASSENGER SERVICE

(a) The Railpax proposal of DOT; background.

Secretary Volpe strongly supports the concept the Department of Transportation refers to as "RAILPAX" as the Administration's position with respect to the future of rail passenger service. In summary, the Department of Transportation proposes a corporation chartered by the Federal Government (RAILPAX) with stock owned by the railroads and the public authorized to take ownership of and operate certain rail passenger lines offered by the railroads in return for stock in the corporation. Fares, routes and services would be regulated by the corporation and be taken out of the jurisdiction of the ICC. The corporation would be totally funded for the first three years by its operating revenues and payments on the part of the railroads equal to some portion of the loss avoided by discontinuing the losing rail lines. At the end of the three year initial operating period, stock would be offered to the public. The amount of Federal subsidy involved in this program would be \$40 million over a four-year period, plus \$60 million in long term Federally insured loans.

(b) Other Agencies Oppose Railpax

This proposal has been met with mild <sup>to</sup> and strong opposition from the Bureau of the Budget, the Council of Economic Advisers, the ICC, and the Department of Labor. However, Secretary Volpe is under strong pressure from the Senate Commerce Committee to put forth an Administration position with respect to rail passenger service. Accordingly, he is pushing for endorsement of the Department's proposal.

(c) The Industry View

The railroad industry actively supports either the right to discontinue rail passenger service, or 100% subsidy, by the Federal Government, of their losses. The industry mildly supports Secretary Volpe's proposal.

(d) The Issue Needs More Work

I have requested additional information with respect to the concept of a private corporation without Federal subsidy and only a minimum loan guaranty. The Department is in the process of providing this information. The Department of Transportation staff work on this proposal has been poor. I do not believe that any commitment can be made to Secretary Volpe (at this time) with respect to the Administration position on rail passenger service. The serious problem of the industry should be acknowledged and an indication made to Secretary Volpe that every effort will be made to reach an Administration position on this question. In general, this meeting will give Secretary Volpe the opportunity to argue in favor of his proposal.

Attached as Tab (A) are two memorandums, the first relating to the possible options, and the second providing background and present status with respect to rail passenger service.

(e) Recommendation: No decision at this time.

2. TRANSFER OF ELECTRONICS RESEARCH CENTER (Cambridge, Mass.) TO THE DEPARTMENT OF TRANSPORTATION

(a) Background

This new laboratory facility had just been completed at the time when budget decisions made it necessary for NASA to announce that it would be phased out. Governor Sargent of Massachusetts appealed to you on this matter and his representatives and the representatives of the city of Cambridge have discussed the matter with Dr. DuBridge. It has also been discussed with the various members of the scientific community and business community in and around the Boston area and with various other agencies which might find use for this excellent laboratory.

The ERC was built at a cost of \$36 million, not including \$10 million of HUD funds used to clear the land of 100 or so small business and industrial firms and not counting the \$20 million invested in special equipment for the laboratory. Although the building itself is new, NASA has been recruiting scientists to




work in temporary quarters and has, in fact, assembled a very high quality group of scientists and engineers, expert in such fields as electronics, air traffic control, aeronautics and other subjects. The operating cost for the laboratory once fully occupied would be on the order of \$15 to \$20 million a year.

After a thorough investigation the Department of Transportation has requested that it be allowed to acquire this laboratory for an extensive research program in the field of air traffic control and associated problems in electronics, aeronautics, and other problems in the field of transportation. DOT can do this by reprogramming funds within its presently planned fiscal 1971 budget.

(b) Recommendation: No decision until BOB report is received.

A position paper will be received by the end of the week, signed by Dr. DuBridge and Director Mayo indicating a firm position with respect to a recommendation on the transfer. From my conversations with Dr. DuBridge, I believe that if the Department can account for the transfer and the future administration of the Center without an increase in its budget, then a recommendation to accomplish such transfer will probably be advisable. However, a commitment should not be made to Secretary Volpe until the above-mentioned report has been reviewed. Pat Moynihan recommends the transfer. His memorandum is attached at Tab (B).

  
John D. Ehrlichman

MEMORANDUM

Eno

Center for  
Transportation

THE WHITE HOUSE  
WASHINGTON

March 11, 1970

EXECUTIVE

TN4

FG6-11-1/Cashen, Henry  
BE4/Railroad

MEMORANDUM FOR

JOHN D. EHRLICHMAN

FROM: HENRY C. CASHEN II

As you requested, I met for some length of time with Paul Marshall concerning his thoughts and feelings on RAILPAX. The points of consideration which resulted from this meeting and which I believe might be of interest to you are as follows:

- (1) The industry is still firmly in favor of either 100% subsidy (by the Government) of its losses, or the easy availability to discontinue rail passenger service.
- (2) The industry will not support, at this time, the Hartke bill and will lobby hard for amendments requiring 100% subsidy.
- (3) Presently, the most disenchanting point of RAILPAX as far as the industry is concerned relates to the fact that they do not believe that it can financially work based upon the proposed financial formula supporting RAILPAX. They believe it is a somewhat ingenious idea and presents interesting concepts. However, Paul indicates that there is a rather strong pessimism that it can survive financially.
- (4) It is the general consensus among the industry that as long as rail passenger service continues under its present status and conditions, the financial condition and quality of service will depreciate at an even more rapid rate and eventually cause much more serious damage to freight service and efficiency.

The industry has for so many years taken a hard position that rail passenger service is a disaster and it is difficult for them at this time to turn around and support a bill calling for continued service. However, as much as the industry objects, when given

alternatives, Paul feels that there would be support for a RAILPAX idea which would easily allow a good percentage of passenger trains to discontinue with the future possibility that if conditions continue without improvement, then, after a given period of years the entire service might be able to discontinue.

In general, I believe that Paul would fall back to a position which would not require Federal subsidy but would attempt to set up an almost completely private corporation with Federal assistance from the Federal Government only through Federally guaranteed loans, as well as direct Federal time loans. The thought here is that in four years if the railroads are still losing a substantial amount of money, the discontinuance can be relatively easy.