RAILROADS

From Regulation To Takeover

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■ THE Number One tune on today's Establishment hit parade is a sad little ballad called "Energy," and it is surpassing even such golden oldies as "Poverty My Heart," "The Vietnam Blues," and "The Ecology Drag." First to be affected by the energy crisis has been transportation. So far we have had a strike by the independent truckers which came within a gnat's eyelash of emptying the supermarkets, airline service has been cut back to the level of the Fifties, and even auto trips are becoming risky ventures. Already knee deep in the transportation field, the government is using the energy crisis to take control.

Major target of the collectivists in and out of government is the railroads, weakest and biggest link in our privately owned transportation system. The fuel shortage has would-be nationalizers of the railroads puffing with glee as they contemplate a federal takeover. Conservatives choke down bitter laughter as they watch the TV editorialists, telecasting their cant from towers on Mt. Olympus, demanding nationalization of the railroads and concluding: "Of course, some opponents of progress will drag out the hoary cliché that this is Socialism." If nationalizing the railroads isn't Socialism, what in the name of John Henry is it?

Why The Railroads

The energy crisis has combined with the ecology movement to make interest in the railroads very chic among "Liberals." You see railroads move more than three times as much freight per gallon of fuel as large trucks and 125 times as much freight per gallon as a cargo plane. Environmental comparisons send the bug chasers who for years delayed the building of the Alaska pipeline into flights of euphoria. Rail emissions are 1.03 grams per ton-mile, while trucks create 3.76 grams. The railroads also occupy much less than one-thirteenth of the land used by the federal-aid highways alone, and they could handle double their present tonnage without using any additional land. As it is, our railroads now transport seventy-six percent of all autos and parts, seventy-four percent of all canned and frozen foods, eighty-six percent of our paper and pulp, seventy-three percent of all cotton, and seventy percent of the coal shipped. They are, in a word, indispensable to us. Without rail service all of these industries would be in serious trouble.

The United States is dependent on the railroads for freight service. Even though their percentage of freight transport has diminished in deference to pipelines, barges, trucks, and airlines, the amount of railroad freight is increasing. Oil shortages have resulted in a greatly increased demand for rail-shipped coal with which to produce electricity. Piggyback trains, which haul truck trailers and large containers on railroad flatcars, should have a banner year with a twenty percent increase thanks almost entirely to the energy crisis.

Yet, despite all of these favorable factors, most major railroads are teetering on the edge of financial disaster. In an article entitled "The Railroad Paradox: A Profitless Boom," *Business Week* of September 8, 1973, capsulizes the financial problems of the railroads:

> *In 1972, the industry had total operating revenues of $13.4 billion; a net income, including that from outside sources such as diversified companies and timber and mineral resources, of just under $500 million; and a rate of return on net investment of only 2.95%. Low as the rate of return was last year, it was the highest it has been since 1966.*

Since 2.95 percent is about one-third of what one can earn at the savings and loan, you can understand that investors have not exactly been showering the railroads with capital. According to a recent report by the Interstate Commerce Commission, in 1960 U.S. railroads yielded a 2.6 percent return on their investors' equity; by comparison, truck lines yielded 4.9 percent, bus lines 11 percent, and pipelines 15.7 percent. *Business Week* continues:

> *With numbers like that, the industry faces an impossible task in generating adequate funds for renewal of its plant. It believes it ought to be spending an average of $3.6 billion a year over the next 10 years to get its plant in shape. This year, which is an unusually high one for railroad capital expenditures, it will spend about $2 billion. In other words, what the industry wants additionally is somewhere between $1.6 billion and, say, $2 billion a year. The problem is where and how it will get the money to meet the needs of today's economy, let alone tomorrow's.*

The railroads have been short approximately two billion dollars of capital every year for the past thirty years. In order to meet their financial obligations – operating expenses and dividends to be paid to stockholders – they have dipped so far into their working capital as nearly to exhaust it. The railroads have survived on the meat of their own vitals. Purchases and repairs have been stalled, leading to breakdowns in equipment the details of which read like paragraphs lifted out of *Atlas Shrugged*.

By not replacing rail, managements can make the income statements look less grisly than they would otherwise appear. And so, for years, the railroads have not adequately maintained their lines. A railroad can keep its rail surface smooth when no more than one tie in four is defective, but if tie replacement is put off beyond that point the entire track structure deteriorates rapidly. Some Midwestern railroads have had to put sixty percent of their track under "slow orders." A slow order is a speed restriction placed on a stretch of track found to be in disrepair. The Penn Central is hampered by many bottlenecks where train speed is restricted to *ten miles per hour.* That's not exactly highballing.

More than just trackage has fallen victim to the years of self-cannibalization by the railroads. Thousands of terminals and yards should have been automated and computerized long ago to expedite the handling of freight. Because they weren't, delivery slowdowns have made transport by truck faster on distances up to two hundred miles. Lack of capital with which to purchase new equipment has also produced a chronic shortage of freight cars during peak seasons and at harvest times.

Still, in the face of their steadily expanding freight business over the past thirty years, it seems incredible that the railroads could be in such financial trouble. How can this be?

How The Trouble Began

The cause of our rail problems boils down to three words. They are: Interstate Commerce Commission. Or, in one word: *Government.* It is ironic that the government should be responsible for this tragedy. During the last century the U.S. railroads virtually invented the corporate raid on the public Treasury. The government gave the railroad companies vast amounts of land in return for building rail lines. Indeed, those railroads which are prosperous today tend to be the Western roads like the Southern Pacific, the Union Pacific, and the Santa Fe – all with tremendous land and mineral assets dating back to the Nineteenth Century land grants. For about seventy years the railroads robbed the government.

The Interstate Commerce Commission was created by Congress in 1887 as an independent executive agency to regulate railroads. Reformers and politicians had wept and wailed and gnashed their teeth about rail monopolies. The railroads were accused of bribing or intimidating government bureaucrats and officeholders, of charging exorbitant rates, of paying coolie wages and discriminating in favor of some businesses and geographic areas and against others. As Dan Smoot notes in *The Business End Of Government*, his excellent new book:

> *These accusations against the railroad interests were generally true, but the label "private monopolies" was inaccurate. It is quite impossible for a truly private enterprise of any kind to acquire such power over any segment of the national economy. Monopolies can come into existence, and survive, only when supported by the force of government. The offending railroads of the Nineteenth Century were built with government subsidies, and they operated under laws (both federal and state) which gave them special privileges. Their undesirable practices were not products of the free-enterprise system. They were created by government. And the ICC remedy was further curtailment by government of the free-enterprise system.*

The popular myth that passes for history tells us that the I.C.C. was created by the "little people" to put a collar on the mad dogs who ran the railroads. The truth is far different.

American industry as a whole was intensely competitive in the period following 1875. Many industries, especially the railroads, had over-expanded and were facing a severe profit squeeze. The legends of American history promote the myth that the railroads faced virtually no competition during this period, that freight rates constantly rose, pinching every last penny from the shippers, especially farmers, and driving them to the wall. "Contrary to the common view," says revisionist historian Gabriel Kolko in *Railroads And Regulation*, "railroad freight rates, taken as a whole, declined almost continuously over the period (1877 to 1916) and although consolidation of railroads proceeded apace, this phenomenon never affected the long-term decline of rates or the ultimately competitive nature of much of the industry. In their desire to establish stability and control over rates and competition, the railroads often resorted to voluntary, cooperative efforts . . . . When these efforts failed, as they inevitably did, the railroad men turned to political solutions to [*stabilize*] their increasingly chaotic industry. They advocated measures designed to bring under control those railroads within their own ranks that refused to conform to voluntary compacts. . . . from the beginning of the 20th century until at least the initiation of World War I, the railroad industry resorted primarily to political alternatives and gave up the abortive efforts to put its own house in order by relying on voluntary cooperation . . . . Insofar as the railroad men did nothing about the larger theoretical implications of centralized federal regulation, they rejected . . . the entire notion of *laissez-faire* . . . . "

Agitation for regulation to ease competition gained momentum in the decade prior to the establishment of the I.C.C. In the wake of its creation, the powerful Pennsylvania Railroad stated in its annual report that it had always "favored the enactment of a proper law, which, while guarding the interests of the public, would afford to the railroads the protection to which they are justly entitled in the conduct of their business."

Protection from what?

Protection from competition.

In the ensuing years, when the Act failed to stop their rebate wars, the railroad magnates lobbied to strengthen the Interstate Commerce Commission. America's most successful financier and architect of corporate socialism, J.P. Morgan, summoned presidents of major Western railroads to New York during a prolonged rate war in 1889 to find ways to maintain rates and enforce the 1887 Act. The larger railroads were seeking to reduce competition. As Professor Kolko writes: "Most of the smaller, minor roads . . . fared a good deal better in the 1890's than the giant roads, and they were more prosperous than in the 1880's . . . . Many of Morgan's lines overexpanded into areas where competition was already too great." And so Morgan, American representative of the English Rothschilds, led the fight to put more muscle into the Interstate Commerce Commission.

In 1892, a poll taken by the I.C.C. showed that fourteen out of fifteen railroads polled favored the legalizing of "pooling" under I.C.C. control. Pooling was a scheme by which different rail lines divided up available markets to reduce competition. In 1894, the I.C.C. concentrated the fire of its annual report on "the evils of unlimited power in the carriers to reduce rates." Mr. A.A. Walker, a member of the Commission, observed that "railroad men had had enough of competition. The phrase 'free competition' sounds well enough as a universal regulator, but it regulates by the knife."

When the I.C.C. was strengthened by the Elkins Anti-Rebating Act of 1903, the fight was led by A.J. Cassatt, president of the Pennsylvania Railroad. When it was passed, the *Railroad Gazette* declared: " . . . all that will be asked of the commissioners by the public will be that they go ahead and catch every law-breaking rate cutter in the country." It was the "law-breaking rate cutters," giving the shippers the benefit of competition, who were the villians.

As R.A. Childs observes in his monograph, "Big Business And The Rise Of American Statism":

> *The culmination of this big-business sponsored "reform" of the economic system occurred in World War I, when railroad leaders gleefully handed over control of the roads to the government in exchange for guaranteed rate increases and guaranteed profits, something continued under the Transportation Act of 1920. The consequence of this is the situation the railroads face today.*

As so often happens to would-be monopolists, efficient competition developed in the form of other modes of transport. Barge lines, trucks, pipelines, and buses began giving the railroads a run for their business. Soon the railways were on the other side of the I.C.C. shoe as the agency came under the control of anti-railroad bureaucrats. The railroads began to pay a heavy price for having been sheltered by the government from the tempering rigors of competition. The I.C.C., which had once shuffled the rate cards in favor of the railroads, now began to stack the deck against them. The "robber barons" passed into their golden Valhalla and the railroads were left in the hands of less spectacular, and far less able, management.

In 1926 the federal Railway Labor Act tightened the garrote by conferring monopolistic control of railroad operating employees on the unions. They proceeded to use their labor monopoly to impose high labor costs, low labor productivity, featherbedding, and crippling strikes. This was the last straw.

As Dan Smoot observes, the railroads had now "lost the resilience and inventiveness necessary to react quickly and creatively in a sharply competitive market. In fact, the regulated railroads, in their cumbersome and ponderous administrative procedures, had come to operate much like government regulatory agencies. There was monumental mismanagement of railroads – encouraged, if not actually fostered, by government." After all, what kind of management can be attracted to a business squeezed between the setting of rates by the I.C.C. on the one hand and a ruthless union monopoly on the other? Creative executives went into less encumbered businesses where they could build without being caught between the jaws of the bureaucrats and the unions.

The plight of the railroads is today viewed by collectivists as manifest proof of the failure of the free-enterprise system in the field of transportation. But American railroads are *not* capitalist institutions. True, they were privately financed in the hope of dividends. But a business whose management has virtually no control over how the business is run, which customers it will serve, what rates it will charge, or what wages it will pay – such a business is hardly free enterprise. Freight rates, passenger rates, the pay of employees, the number of trains that would run, the size of the train crews – every important consideration in the operation of the business – was now decided by the Interstate Commerce Commission, the Congress, state legislatures, and state commissions. The wonder is that the railroads remained independent and solvent as long as they did.

The Union Monopoly

As syndicated columnist Jenkin Lloyd Jones has noted, "increasing numbers of railroad companies are now service organizations, operated chiefly for the benefit of employes and customers." Which is exactly what the "Liberals" think they should be. Unfortunately, when such vast business enterprises are forced to operate without profits they cannot attract capital and will gradually deteriorate and die. It is not the fault of management, it is the fault of government.

As we have noted, the government has not only strangled railroad incomes, it has given the unions a knife with which to cut their jugular veins. "I've been loafing on the railroad" is more than a parody on the song. For example, back in the glory days of steam (the days we railroad buffs love so much) a trip of one hundred miles per day was a normal work day. After a hundred miles, crews were changed. (Shoveling coal into the maw of a locomotive boiler for one hundred miles was a challenge for the strongest of men.) But today's new sleek Diesels, while lacking the glamor of their smoking, panting predecessors, can cover one hundred miles in two or three hours. The Santa Fe's "Super Chief" uses eighteen different crews in its day-and-a-half journey from Chicago to Los Angeles. That isn't featherbedding, it's waterbedding.

Labor columnist Victor Riesel describes "working" on the railroad:

There literally are thousands of . . . archaic regulations – some give the railroad workers double pay for single assignment; some force the paying of premiums just for picking up a hose or a wire; some revert to the old wooden box cars; some require special pay for stopping at one factory near a rail yard but not at others; some penalize the lines for using 20th-century equipment; some force special payments for working on heavier locomotives, longer trains, etc., etc.

Many of these are called "arbitraries." There is the "air hose arbitrary." This is an air hose coupling allowance. It is probably the most costly of all. A single member of the yard crew, picking up cars at a principal yard of a terminal to "spot" them at outlying factories or mills, may once in a while couple an air hose. If he does, the entire ground crew must receive the air hose arbitrary payment.

But, mind you, if this air hose work is part of the regular industrial switching work, members of the crew will couple air hoses daily without any "arbitrary" pay. On one railroad, yard crews are paid the air hose arbitrary if air hoses are coupled anywhere in the terminal.

There are rules which also require that railroads also pay graduated rates and "car additives." Meaning, that the heavier the engine, the more pay the engineer and firemen get.

There is the well-known arbitrary which calls for extra pay for using a walkie-talkie. What is not well known is that it takes less skill to use one than to wave a red lantern correctly and the two-way radios are a great safety mechanism for the men who can talk to dispatchers and terminals when otherwise cut off . . . .

Lots of us work hard for a living. There are, according to some records, at least 100,000 men on the railroads who are superfluous, sort of sitters-around chaps. One fellow covering another in the yards while one takes off, sort of thing. The railroads say the time has come to give a man a day's pay for a day's work. What's so sacrilegious about that?

The union featherbedding rules make railroad service more expensive, of course, but also slower. *Business Week* explains: "The tendency on railroads today is to run long trains, since the labor costs are the same for a 10-car train as a 100-car train. But this means holding cars back until a long train can be assembled, and also delaying individual cars through repeated switching in classification yards. To an increasing degree, the U.S. economy requires exactly the opposite kind of transportation service; it is requiring quality transportation, not quantity."

Yet, the situation is getting worse instead of better. The *Christian Science Monitor* of March 4, 1971, reports: "Chief negotiator representing railroad management, John P. Hiltz, Jr., chairman of the National Railway Labor Conference, says 15 years ago eliminating featherbedding in its entirety could have saved half a billion dollars a year. Since then, he says, the figure could have climbed to $1 billion a year." Railroads must even put up with paying workers while they are on strike.

Richard Hunt of N.B.C. recently did a special report on the Penn Central, offering all sorts of "explanations" for why it is going broke, how much it is needed everywhere, *etc.* Do you think the unions were mentioned even once? That featherbedding, and rate controls, and other corrupt practices made possible by the government and encouraged by countless lobbies, were responsible? No, sir! Everything bad came from people trying to live well, to make a profit, or from just being mean on principle.

Even while the Penn Central was gasping for survival, the unions refused to relent and allow the featherbedding to be abolished. The road was spending $120 million a year on absolutely useless make-work jobs under ancient work rules for ten thousand unneeded employes. The unions were willing to jeopardize eighty thousand jobs on the Penn Central in order to save ten thousand. And so the Penn Central went bankrupt.

Government Kills Income

The I.C.C.'s iron-fisted control over rates has been even more disastrous – for the public as well as for the railroads. But you can't say the Interstate Commerce Commission isn't flexible. Sometimes it forces the railroads to charge more than they wish and sometimes less. In 1972, Thomas Gale Moore of Michigan State University found that the I.C.C.'s regulation of rail and truck transportation was costing consumers as much as ten billion dollars per year in wasted resources. Moore's data suggested that the I.C.C. regulation of railroad rates has been "holding many rates higher than the railroads find in their own best interests." If regulation were reduced or eliminated, he continues, "lower rates for many products would likely be posted by rail carriers."

Sometimes when railroads try to offer low-cost service they are stymied because, of all things, their competitors object. In the early 1960s, for instance, Southern Railway invested thirteen million dollars in five hundred Big John hopper cars, each of which could carry ninety tons of grain. This increase in hauling capacity so dramatically reduced costs that Southern Railway asked permission to reduce by sixty percent its rates on multiple-car grain shipments. When truckers and operators of barge lines objected, the I.C.C. refused Southern's request. This sort of thing is all too common. Recently the Interstate Commerce Commission eliminated a coal-unit train serving a Sheboygan, Wisconsin, power plant on the ground that "the specific level of the rate was too low for the water carriers [*of coal*] to compete."

Meanwhile, the I.C.C. forces the railroads to haul a significant percentage of their freight at what the I.C.C. admits is a loss. According to *Business Week* of September 8, 1973:

> *The question of rates is crucial to the survival of the industry. According to a study by the management consulting firm of Temple, Barker & Sloane, Inc. – a study that Illinois Central Gulf calls "the gloom and doom book" – something more than 20% of the commodities carried by rail are carried at a loss – among them pulpwood, sand, gravel, and even a lot of perishable produce. Much of this is left over from monopoly days, before truck competition, when railroads carried some raw materials at a loss in the expectation of making this up on the finished goods.*

And, in the I.C.C. barnyard, some animals are more equal than others. For example, trucks carrying agricultural products to market are exempt from the I.C.C. controls and can cut rates. The results of this discrimination were described in *Railway Age* of July 31, 1963:

> [The] *exemption for trucks carrying agricultural products was intended to protect the farmer in the movement of his produce to his so-called "first market." But the wording was so loose that today trucks haul such items as poultry from the farm to the processing plant and thence into big-city markets totally free of government regulation.*
>
> *How can railroads compete with*

the service described in the following advertisement from the Grand Forks, N.D., Herald: *"Potato Shippers. We have trucks returning empty from Grand Forks to Chicago and the St. Louis area daily. Set Your Own Rate."*

The answer is: they cannot compete. The New Haven has lost almost all its fish traffic out of Boston – formerly 45 carloads a day – and its cranberry tonnage from Cape Cod. The Milwaukee's fresh-meat and packinghouse-products haulage to Washington State went down 81 percent between 1954 and 1956. Railroads now haul only one tenth of all cattle and hogs to market, virtually no eggs; their fresh-fruit-and-vegetable traffic has been cut in half since the war.

The effect of I.C.C.'s arbitrary rate discrimination is to make it impossible to gauge the actual economic efficiency of any one method of transportation. "There is no doubt," says a Commerce Department study, "that, were all traffic distributed in accordance with the true comparative advantage of the several forms of transport, the annual freight bill would be reduced by several billion dollars."

Just as the I.C.C. forces the railroads to haul many products at a deficit, it also forces them to maintain unprofitable service to many towns. In most cases this involves lines to small towns which were established before trucking was economically feasible. Now there is not enough business to sustain railroad service at a profit, but in many cases the railroad must continue the service while the red ink flows like a gusher.

When companies apply to the I.C.C. to abandon such unprofitable service, they are drowned in red tape. As columnist Jenkin Lloyd Jones remarks: "The Interstate Commerce Commission continues to set new highs in bureaucratic futility. The case involving the disposition of the Rock Island is now in its eighth year. The commission seems to be made up of people who have made lifetime careers out of reading the labels on medicine bottles while the patients gasp out their lives."

The system under which the railroads are forced by the Interstate Commerce Commission to maintain unprofitable routes is called the "common carrier principle," said to be the backbone of the regulated transportation system. It afflicts not only railroads but truckers, buses, and the airlines. As *Business Week* for November 14, 1970, explains:

Under the common carrier principle, regulated transportation companies must carry people or goods or both at published fares on set schedules. And, in what is the crux of today's crisis, the railroads, airlines, and other transportation companies must serve both profitable and unprofitable markets . . . .

In return for agreeing to haul anyone or anything correctly tendered to them under their franchise, common carriers got rate and route protection from federal agencies and stayed free of government ownership. It all worked beautifully until recent years. But not anymore. The Penn Central debacle marks the site of the wreck . . . .

Other railroads wish to avoid the catastrophe that produced the great Penn Central train wreck and are seeking to free themselves of common-carrier commitments. *Business Week* continues:

Now every railroad is thinking of abandoning lightly used branches and ripping up track. A recent rail industry study insists that abandonment should be "permitted on any *line that fails to meet its avoidable costs." For many roads, this would mean one-third of their mileage. For many communities and plants, it would mean the end of all rail service. In turn, attracting new plants and industries would be tougher, and the lack of rail competition could mean higher truck rates.*

But whether service to a town should be continued is not just a dollars and cents question with the bureaucratically governed railroads. It is a political and social question. When a railroad plan called for abandoning some of its service in her District, Congresswoman Ella Grasso of Connecticut, typical of the breed, hauled herself before the House of Representatives and wailed to her fellow politicians:

> *. . . in the area of New Britain – the largest city in my district – three out of six stops will be eliminated and two of four lines affected. Freight service would be cut by a phenomenal 15 percent. Business and industry in towns such as Southington, Plantsville, and Milldale will no longer be able to rely on rail service for the delivery of badly needed goods. Elsewhere, retailers in growing population centers such as Simsbury and Avon will also lose their rail freightlines, and a rail spur servicing needed economic interests in Watertown will be eliminated.*
>
> *Everywhere throughout Connecticut and the Sixth District business and industry will be forced to turn to motor transportation for the shipment of raw materials and delivery of finished products.*

In other words, Congresswoman Grasso wants railroad stockholders to subsidize train service to New Britain, Southington, Plantsville, Milldale, Simsbury, and Avon. She believes that the good voters of her District should be able to reach into the pockets of the railroad stockholders and do as they please with railroad assets. The railroad management sees little chance of ever again turning an honest profit by providing service to these charming burgs, else it certainly would not want to abandon its lines. But the common-sense rule that you must pay for what you receive does not apply in the political world of federalized transportation.

A Passenger Takeover

As collectivism settles on the railroad industry like the final stages of a terminal disease, it is being nationalized in stages. The first overt move came with the government takeover of the long-haul passenger trains which had been losing millions of dollars a year. As usual, however, the problem would never have existed had the I.C.C. allowed the railroads to drop the money-losing limiteds when the public switched to auto and air travel after World War II. But, after years of needless losses, the railroads were only too happy to rid themselves of the passenger albatross.

On October 30, 1970, President Richard Nixon signed the Rail Passenger Service Act creating the National Railroad Passenger Corporation, known to the public as Amtrak. The Secretary of the Department of Transportation was given dictatorial powers over terminal points, equipment, schedules, and even routes. On May 1, 1971, Amtrak took over virtually all the nation's railroad passenger traffic. It now runs all but eight of the nation's 210 passenger trains. As outlined by Congress, Amtrak has three objectives: "To provide modern, efficient, intercity rail passenger service; to develop fully the potential of modern rail service in meeting intercity transportation needs; and to operate on a 'for profit' basis."

When Amtrak was created, sponsors stated that the forty million dollar federal subsidy would be the only government support that would ever be required. That forty million grew to a $265 million federal subsidy in two years. During its first year, Amtrak lost money at the rate of five hundred thousand dollars a day – twice the estimate of its backers. For the Fiscal Year ended June 30, 1972, Amtrak reported a deficit of $153.5 million. Last year things improved and it lost a paltry $142 million. This year, because the gasoline shortage has forced Americans onto trains, business is expected to be up twenty percent. One would assume that Amtrak would at last be profitable – even if the reasons for its failure are artificial. Yet projected losses for the year are put at $145 million and President Nixon has earmarked $143 million in his Budget to cover losses in Fiscal 1975.

The federal Amtrak loses an average of nine dollars for every passenger it carries. You pay the nine dollars. And Amtrak, which was never supposed to cost taxpayers a cent beyond that initial forty million dollars, has already run up operating losses of $583 million.

Testifying in favor of Amtrak's budget request for Fiscal 1973, Federal Railroad Administrator John Ingram said the "maximum acceptable loss" for any Amtrak train should be two cents per passenger mile, 2.4 cents including general and administrative expenses. Only three of the more than two hundred Amtrak trains operated within the "acceptable loss" limits. And, even if all Amtrak trains met the theoretical cost standard, Amtrak's deficit would approximate seventy-five million dollars per year and the average rail passenger would be paying only about two-thirds of the cost of his transportation. Congress, however, has directed Amtrak to operate trains with anticipated losses as high as 6.7 cents per passenger mile on the Oakland to Bakersfield run and sixteen to twenty-one cents per passenger mile on the St. Louis-Little Rock-Dallas-Mexico run.

Despite the heavy subsidies, Amtrak's coach fare revenue during 1972 averaged 4.4 cents per passenger mile as compared with 3.9 cents per passenger mile for intercity bus passengers. If Amtrak's fares covered the full cost of its service, the average Amtrak coach passenger would pay about 8.4 cents per mile of travel.

In areas such as the Northeast Corridor where passenger traffic is heavy, passenger train service does not suffer from *inherent* cost disadvantages when compared to buses. But where trains carry the equivalent of only one to four busloads of passengers, as most Amtrak trains do, buses enjoy a substantial economic advantage. For example, the average cost of operating Amtrak trains during 1972 was 11.73 dollars per train-mile, as compared with a cost of 81.4 cents per bus-mile. And intercity bus companies are not subsidized as is Amtrak. They pay taxes at the federal, state, and local levels – a total of more than thirty-eight million dollars a year. These bus lines pay an additional eight million dollars in road tolls, making a total of forty-six million dollars that they feed into the tax kitty. This means that the bus lines finance the equivalent of one-third of Amtrak's operating deficit and still make a profit.*

Unlike airlines and bus companies, Amtrak is not even required to file its fares with federal agencies. It may raise and lower its rates with no regard to whether they are compensatory. For example, Amtrak cut its one-way fare between Boston and New York to $9.90 from $12.75 – a 22.35 percent reduction. This sharp reduction was made despite the fact that in May and June of 1971 Amtrak had a net operating deficit of $505,884 on the twelve trains it operated between Boston and New York.

*Even so, the existence of Amtrak is a serious threat to bus operators. Ultimately, the heavily subsidized competition from Amtrak may put the bus companies out of business. Or, more likely, we will have Ambus, another money-losing federal operation.

The Boston to New York route was still losing big money in 1973.

But, how about our precious ecology? Aren't the Amtrak trains better for the environment than buses? According to a study sponsored by the National Science Foundation, buses were found to be the most energy-efficient mode for intercity passenger travel. Pollutant emissions from intercity buses, on an average per passenger mile basis, are only about fifty-five percent of such emissions from Diesel-powered passenger trains.

One might assume that since Amtrak is a polluter and has been such a financial disaster, running up hundreds of millions of dollars of debts, the federalized passenger operation would be in deep trouble. Of course, the government runs the railroads like nobody's business. Literally. The fact is that President Nixon last November signed a bill expanding Amtrak so that it could lose even greater amounts of money in the future. During 1974, Amtrak will receive more than four hundred million dollars in new grants and loan guarantees to offset continuing losses. According to *U.S. News & World Report* of November 19, 1973:

> *President Nixon acted despite urgings from advisers that he veto the measure as too costly and too free from Government control. Mr. Nixon conceded in signing the bill that it could tend to make the National Railroad Passenger Corporation, Amtrak's official name, "a permanently subsidized establishment."*

How long will Amtrak be a siphon in the taxpayer's pocket? How long will the pyramids last? How long will sea water be salty? How long will Richard Nixon claim he knew nothing of Watergate?

The Northeast Hustle

Almost concurrently with the government takeover of the moribund passenger business came a second major opportunity for the federal government to move toward overt nationalization of the railroads. This happened with the collapse into insolvency of the enormous Penn Central Railroad, which had been created by the merger of the New York Central and the Pennsylvania Railroad, two giants that had dominated Eastern railroading for nearly a century. The match was considered to have been made in heaven, but hardly had it been consummated than it wound up in the bankruptcy courts. Not only did the bride and bridegroom prove incompatible, but a bad marriage was made worse by the meddling of the mommy-unions and the daddy-I.C.C. The end came in June of 1970, when the nation's largest railroad became the nation's largest bankruptcy. The legal proceedings alone involved a thousand lawyers who will receive fees totalling at least fifty million dollars.

Since the Penn Central had lost over five hundred million dollars in its two years of operating, it was just the type of deal for which the government was looking. The Congress decided to saddle the farmer in Idaho and the homemaker in Florida with the losses of the bankrupt Penn Central. It began by guaranteeing two hundred million dollars in loans – which the Penn Central went through like a swarm of locusts in a wheat field. On December 10, 1971, Congress exacerbated the problem by authorizing a 13.5 percent pay raise for railroad workers. Five days later, Penn Central trustees told a Congressional Subcommittee that the railroad needed another sixty-one million dollars between then and March 1, 1972, just to meet the pay raise ordered by Congress. The trustees maintained they would have to shut down all Penn Central operations within forty-five days if they did not get the additional money.

Despite the infusions of federally guaranteed cash, the Penn Central's financial position continued to worsen, forcing the government to make good on the guarantees.

It should not come as any shock that, shortly after the Penn Central bankruptcy, other railroads found themselves in the same straits and took their tin cups to Washington. In January 1974, President Nixon signed the Regional Rail Reorganization Act which merged seven bankrupt railroads into one centralized firm known as the Consolidated Rail Corporation.* These lines control half the trackage in the fifteen-state Northeast area. *Time* magazine for December 24, 1973, spells out some of the important details of the new law:

> *As detailed in its 164 pages, S. 2767 would establish the Government National Railway Association, which would have 420 days to determine how much of the 30,000 miles of track should be retained before submitting a plan to Congress for final approval and funding. GNRA, or "Ginnie Rae," as railroad men are calling it, would issue billions in federally guaranteed bonds to satisfy creditors of the bankrupt lines (there is no precise limit). In addition, a new Railroad Equipment Authority would guarantee $2 billion of loans to finance the purchase of new rolling stock. Then Ginnie Rae would turn over operation of the new system to a United Rail Corp., a freight-carrying version of Amtrak, which runs the nation's passenger trains. If the United Rail Corp. is profitable, holders of Ginnie Rae's bonds could eventually exchange them for stock in the corporation, turning it into a privately owned company. There is little evidence, though, to suggest that the line would be a moneymaker. If it is not, the Government will end up sole owner – at a cost of several billion dollars in debt that it would have to repay on top of about $1 billion in cash it will fork out to get the corporation rolling.*

Even *Time* seems to see the Regional Rail Reorganization Act as a prelude to outright nationalization. Albert Karr was more explicit in the *Wall Street Journal* for January 14, 1974:

> *The newly-enacted plan for revamping the Northeast railroads is supposed to head off nationalization, but it may turn out instead to be a major move toward nationalization . . . .*
>
> *Still, many of the principals also admit that rather than averting ever-deepening federal involvement in railroad affairs, the plan could well wind up promoting it – and some predict it's certain to do so . . . .*
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> *At least, notes a knowledgeable Washington transportation lawyer, "for the first time in history the federal government is making a long-term commitment to be involved in railroad management with its own money. We have found it expedient in this country to disguise what we're really doing, but this is still a peculiar American species of nationalization.* ***
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> *It could go much farther. Indeed, says Interstate Commerce Commission Chairman George M. Stafford, the government's creation of a new corporation to operate rail service in the 17-state Northeast quadrant of the U.S. "could spell the end of viable competitive privately-owned rail systems in the Northeast and be a first step to a wholly-nationalized rail system."*

*The seven included the Penn Central, Erie Lackawanna, Boston & Maine, Reading, Lehigh Valley, Central of New Jersey, and the Ann Arbor.

Typically, the Nixon Administration first denounced the bill as extravagant and then backed it. It was, in fact, the largest government-backed overhaul of a private business in history. One Congressman dubbed it a real "Christmas tree." And one of its most incredible baubles was the one hung on the tree to ensure union support of the supermerger. The *Santa Ana Register* of January 3, 1974, describes the most amazing job severance deal ever consummated:

> *The merger will wipe out thousands of jobs, but it doesn't look as though the railroad workers laid off will have too many problems. Some will get as much as $2,500 a month until they are 65 if they can't find another job.*
>
> *Under the Railroad Reorganization Act signed by Nixon, each worker is protected by a unique job severance plan subsidized by the taxpayers.*
>
> *The employe protection plan worked out under the bill will provide monthly checks for employes on a formula based on former earnings, "but not to exceed $2,500 per month," the White House said in a briefing on the bill.*
>
> *For railroad workers with five years or more of service, the monthly checks will continue until the worker is 65 or until he "dies, resigns or is fired for sufficient reason or refuses to take a transfer to a new job."*
>
> *Employes of the railroads with less than five years' service will get monthly checks for a period equal to their prior years of service.*
>
> *The production provisions also allow lump sum separation payments not exceeding $20,000.*

The "worker" can rest on his recliner and draw a paycheck until someone drags him off to work — in which (unlikely) case he can still get fifty percent of his taxpayer-financed benefits!

Now, if Moe's Meat Market goes broke, old man Moe doesn't have to pay his employes until they are sixty-five and neither should the taxpayers. But the Railroad Act elevates the rail workers to a position held by no other displaced employes in any other field. Thousands of auto workers already have been displaced by the energy crisis. More thousands of aerospace workers have been laid off through no fault of their own. The owners of independent service stations are seeing their lifetime investments wiped out and their employes forced out of work as a result of fuel shortages. In none of these areas has Congress undertaken to provide a work-free income until they retire on Social Security.

There may be virtually no end to the cost of this revolutionary new Act says *Time*:

> *A number of expenses remain open-ended. Payments to displaced employes are budgeted at $250 million, but Department of Transportation analysts figure that they could end up double that. An unlimited-compensation provision could inspire creditors who felt that they were being bought off too cheaply to make extravagant claims for payment. Department analysts worry that this provision could cost the Government billions.*

Oh, this Christmas tree is covered with baubles. Cities and towns that are threatened by the merger with a cut-off of service, for instance, will get government help in preserving it. Generally, any state or locality wishing to retain rail service slated for abandonment will be able to do so by taxing its citizens to pay twenty percent of the line's loss — the federal government will then tax everybody to subsidize seventy percent. Again, the taxpayer is left holding the empty sack.

How The Game Works

Socialists have always paid special attention to nationalizing transportation. The sixth plank of the *Communist Manifesto*, written by Karl Marx and Friedrich Engels, calls for: "Centralization of the means of communication and transport in the hands of the state." The way the state is going to get its hands on transportation is clear. The cycle is (1) regulation which leads to (2) subsidization which leads to (3) nationalization.

On January 14, 1974, the *Wall Street Journal* predicted:

> *Those who worry about nationalization foresee this scenario: USRA will try to do such a good job that it will create a "super railroad," and super competition for railroads like the Norfolk & Western and Chesapeake & Ohio-Baltimore & Ohio (Chessie). Wanting to head off failure, Congress will appropriate more and more money to make doubly sure the corporation isn't underfunded. Eventually, Congress will see outright takeover as better than this endless subsidy. The result: Northeast nationalization.*
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> *"History . . . tells us," says the ICC's Commissioner Stafford, "that a government-funded rail service will attract (more) government support." . . .*
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> *If the government ever does nationalize the Northeast lines, this would mean at least federal competition with other railroads, and with truckers and barge lines, too. And it could well lead to government takeover of other carriers, some fear. Nationalization would change the "entire economic structure" of the U.S., with "enormous" effects for two or three generations, maintains Alan Boyd, president of the Illinois Central Gulf Railroad.*

Professor Barry Commoner, a major deity in the ecology pantheon, suggests another possibility in *Harper's* for December 1973:

> *. . . . we have no choice but to nationalize the railroads, and by an unintended coincidence* [sic] *the legal means to do just that lie readily at the hand in the National Environmental Policy Act. A single paragraph of that act, a paragraph written with an entirely different objective in view, provides the basis for what otherwise might be considered a purely political argument . . . .*
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> *Because of that paragraph, the Department of Transportation was required to attach to the Administration's bill an Environmental Impact Statement, which is supposed to detail the impact of the proposed action on the environment, delineate its long-term effects on natural resources, and, most portentously, discuss "alternatives to the proposed action." . . .*
>
> *The question of social ownership of the railroads has seemed to be as firmly protected from public discussion in the U.S. as was the question of sex in Victorian England. That is, until the advent of the environmental crisis.*

Commoner's claim is that since trains move freight with less pollution than trucks, the various ecology groups – the ones who created the fuel shortage by delaying the Alaska pipeline for five years – can go to court and force the nationalization of the railroads. Ahhh, as they say, the plot sickens.

Only a spoil sport would mention that nationalized railroads have been somewhat less than a smashing success. The national railroads of Western Europe and Japan, for instance, operate at an average of twenty percent deficit even though they often receive interest-free financing and pay no taxes. Western Europe provides tourists with excellent passenger service, but at a cost to the taxpayers of *two billion dollars* a year.

England nationalized her railways after World War II. In 1969, the British Parliament wrote off some three billion dollars in bad debts accrued by the national railroads. In America we put the unemployed on welfare. England puts them to work on the railroad. It takes nearly three hundred thousand people to operate the 12,447-mile English system. In America, the Missouri Pacific, with almost exactly the same mileage, runs its system with twenty-five thousand workers. The United States has 2.8 railway employees per track mile as compared with 13.5 for the French National Railways, 18.7 for the Italian State Railways, 21.6 for the German Federal Railway, and 25.5 for the British Railways. Imagine! The British have nine times as many workers per track mile as do our railways, and a major problem of the railroads in the United States is over-employment because of union featherbedding and a failure adequately to automate.

Nationalized railways are no bargain for the consumer either – even if you forget the fact that in foreign nations the consumer is subsidizing the railroads by his taxes. The average revenue for U.S. railroads per ton mile is 1.31 cents. Shippers in other countries pay more than double: French National Railway, 2.83 cents; German Federal Railway, 2.88; and, British Railways, 3.34 cents.

The "workers" are the supposed chief beneficiaries of such Socialism, but you would never know it from railroad pay. Average benefits for American railroad employees in 1968 were $9,871 per worker. The lucky toilers in England made $2,747! Yet, incredibly, George Meany of the A.F.L.-C.I.O. is an outspoken advocate of socialized railroads. "We're not doing very well under private management right now in this country," says the union leader. Maybe he hasn't examined the alternative!

But there are others who know exactly what they are doing. When Richard Nixon came to the aid of the Penn Central, Harvard Socialist John Kenneth Galbraith whooped for joy. The professor contended that the bailing out of the Penn Central was a major move toward the "new socialism" which is at the heart of the "Nixon Game Plan." The Game Plan, maintained Galbraith, is based on the experiences of the highly successful (and ultimately disastrous) Fabian Socialist conspiracy in England. The Professor refers to the strategy as "the doctrine of commanding heights," declaring:

> *The new socialism also shows an acute sense of strategy. In the years after World War II in Britain, where socialism had a fair run, British socialists developed the doctrine of the commanding heights. The state would not take over the entire economy. It would aim for that part which was so strategic that its loss destroyed capitalist power, shattered its morale and so secured social control over the rest. The new conservative socialism in the United States has taken over the strategy of the commanding heights with a vengeance.*

And, says the delighted Galbraith of his fellow Socialist, Mr. Nixon appears to be beginning where the British began. Galbraith observes that "the first of the heights which the British socialists marked out for capture after World War II was the railroad system. It had great symbolic value. More than textiles, water transport, or steel, this was the industry where modern large-scale capitalism began. So, *pro tanto*, it was where socialism should begin. To be astride the transportation system carried also the impression if not the reality of power.

"The railroads were similarly marked

out by the new American socialism for its first offensive. This was concentrated on the biggest of the systems, indeed the biggest transportation company in the United States, the Penn Central. The attack was not led by the passengers and shippers, the two groups which had been more aggressively abused by private capitalism in this industry. Nor did the workers, once the big battalions of socialism, react. The socialist thrust against the Penn Central was led by the executives of the railroad – by the agents and instruments of the capitalists themselves."

Here is John Kenneth Galbraith declaring that Socialism is not a movement of the downtrodden, but a strategy for power run by an intellectual and financial elite. Less audacious Socialists would have us believe that the reason they seek government ownership and control over the means of production is to share the wealth. The arrogant Galbraith sees no reason to lie about it. He admits that Socialism is not a share-the-wealth program but a conspiracy run by *Insiders.*

Turned on by the Penn Central deal, John Kenneth Galbraith was positively giggling with euphoria when Mr. Nixon signed the Railroad Reorganization Act. Galbraith and Nixon understand the Game Plan, but few businessmen and taxpayers appear to do so. It is amazing, but with all of the suggestions floating around about how to solve the problems of the railroads, almost no one mentions the obvious solution. Advocating the abolition of the I.C.C. is apparently considered a crime worse than molesting children. Actually, some "Liberals" think molesting children may be good therapy, but calling for the extinction of the I.C.C. will evoke a yelp of horror from every one of them. Professor Clarence Carson, on the other hand, is a "conservative" realist who wants to solve our transportation problems. He writes:

"Of all the fancy cures that are being suggested for America's steadily sickening railroad system, it is surprising that it is not more often suggested that we try capitalism.

"The most direct way to accomplish this would be to repeal the vast century-long tangle of state and federal legislation affecting railroads.

"Abolish the Interstate Commerce Commission and the various state regulatory commissions. Remove all proscriptions as to rates, service, investment, sale, abandonment, long and short hauls, new construction, and so on. This would leave the railroads free to manage their own affairs. Remove all the special privileges extended to labor unions. Cease to subsidize competitors in various ways . . . . Competition would revive: among railroads, with barges, with trucks, with automobiles, with airlines, and so on. Railroad managers might be expected to cease thinking of ways to curtail service and to start thinking of ways to extend it.

"As some railroads began to be quite profitable, investors would be lured into putting more money in them. Stocks whose prices have been stagnant for decades might be expected to begin to fluctuate considerably. Imaginative entrepreneurs would dream of nationwide rail systems and move to form them. Prices of rail services would fluctuate, differ from company to company and region to region.

"In short, turn the railroads loose! Remove the restrictions, limitations, controls, proscriptions and regulations which now hamper and restrain them. Allow them to serve in whatever ways they can and will, profitably and felicitously. There is no reason why they should not be allowed to, and every reason why they should."

The choice boils down to freedom for transportation – whether it be railroads, airlines, buses, trucks, or barges – or an inefficient and controlled transportation system as bad as those in Britain and the Soviet Union. Freedom works. What possible explanation, short of conspiracy, can there be for not trying it? ■ ■