

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	***e* **** a 9 * b
1. INTRODUCTION	1
A. Purpose and Scope of the Study.	1
B. Organization of This Report	1
11. FINANCIAL PROSPECTS OF THE INDUSTRY.	3
A. ICC Projections.	3
B. FNCB Projections	6
c. Modified FNCB Projections	7
1. Projected Cash Shortfall	10
2. Financial Projections	10
D. Summary and observations	11
III. REHABILITATION OF ROADS AND FACILITIES	14
A. The Current Maintenance Situation	14
B. Why Maintenance Is Deferred	15
c. Rehabilitation and Modernization Projects	17
1. Roads and Tracks .***.****.***.	18
2. Yards and Terminals	19
D. Reasons for Federal Government Involvement	19
1. Financial Viability of the Railroad Industry	19
2. Non-Financial Public Objectives	21
3. Energy and Environmental Benefits***9***	21
E. Concerns Regarding Federal Involvement In Rail Fixed Plant.9 9 *	22
1 ₀ Financial Impact**m* *e** *e** *a	23
2. Non-Financial Impact	26
Fe Summary and Observations*****4***	27

IV.	POTENTIAL IMPACTS OF RESTRUCTURING THE	
u. s.	RAILROAD INDUSTRY	29
A.	Current Options for Restructuring the Railroad Industry . . 0 0	30
B.	Methodology for Forecasting the Impacts of Restructuring the Railroad Industry	31
1.	Evidence on Economies of Scale in the Railroad Industry	33
2.	Current Methodology	35
c.	Merger Impacts	39
D.	Summary and observations	40
v.	RATE REFORM	42
A.	Remaining Regulatory Constraints	42
1.	The Form and Character of Proposed Deregulation	43
2.	Limiting Monopolistic Dominance	43
3.	Rate Discrimination.	44
4.	Place and Commodity Discrimination	44
5.	The "Free" Movement of Commodities	46
6.	Public Benefits from "Non-Rail" Transportation	47
7.	Summary	49
B.	Deregulation and Market Opportunities for Railroads	50
1.	Railroad Supply Costs	50
2.	Market Demands	55
c.	Public Policy Toward Other Modes	61
1.	The Effects of Public Investment on Other Modes	62
2.	Deregulation of Other Modes	64
3.	The Response of Rail Carriers to Competitive Pressures	67
Do	Summary and Observations	68

	<u>Page</u>
VI. OTHER LEGISLATIVE ACTIONS	69
A. Light-Density Lines	69
B. Discriminatory Taxation	69
c. Summary and Observations	70
APPENDIX A ILLUSTRATIVE ANALYSIS OF ALTERNATIVE PUBLIC INVESTMENTS IN RAIL FIXED PLANT	
APPENDIX B REVIEW OF RECENT RAILROAD MERGER HISTORY	
APPENDIX C LETTERS OF REQUEST	
APPENDIX D HARBRIDGE HOUSE STUDY TEAM MEMBERS	

LIST OF EXHIBITS

		<u>Page</u>
EXHIBIT II-1	ICC Financial Projections (Modified), 1976 -1983, U.S. Class I Railroads Less Bankrupts	5
EXHIBIT II-2	Projected Cash Shortfall, 1976-1985, Group I and Group II Class I Railroads, 'Status Quo Projection'	8
EXHIBIT II-3	Projected Cash Shortfall, 1976-1985, Group I and Group II Class I Railroads, FNCB Projections (Modified)	9
EXHIBIT II-4	FNCB Financial Projections (Modified), 1976 - 1985, U. S. Class I Railroads Less Bankrupts	12
EXHIBIT III-1	Estimate of Deferred Maintenance in Track Materials for 25 Railroads.	16
EXHIBIT III-2	Summary of Railroad Reports	25
EXHIBIT IV-1	The Livingston Plan for Restructuring the Railroad Industry*****	32
EXHIBIT V-1	Estimates of Traffic Diversions.	59
EXHIBIT V-2	Fresh Fruit and Vegetable Unloads for 41 Cities Originating in California, 1966-1974	63
EXHIBIT V-3	Characteristics of the Markets for the Modes of Intercity Freight Transportation	65