CHAPTER 4

OPERATING EXPENSES

Between 1976 and 1985, the Final System Plan (FSP) projects that ConRail operations will improve markedly turning a 1976 loss of 9.9¢ on every dollar of revenue to a 13.5¢ profit. Table 9 illustrates the percentage reduction in expenses through which this profit turnaround is accomplished. The most significant improvement occurs in the transportation expense category, (i.e., the cost of transporting the freight) which drops from 39.8% of revenue to 29.0%.

Percentage reductions are achieved in nearly every expense category. Maintenance of Way (M of W) expenditures per mile of track increase due to better track rehabilitation, but the elimination of light density lines allows M of W expenditures to decrease as a percentage of revenue. Similarly, maintenance of equipment (M of E) expenditures rise, decreasing the number of freight cars currently out of service from 10.7% to 5%. However, a reduction in fleet size due to improved car utilization lowers M of E expenditures as a percentage of revenue. General administrative and passenger expenses remain relatively constant on a dollar basis reflecting ConRail's ability to generate more freight revenue without increasing management overhead. Net car hire decreases as a percentage of revenue reflecting better car utilization and the assumption that cars will be purchased rather than leased. The "other" category decreases as a Percentage of revenue due to the stable work force size (lower payroll taxes as a percentage of revenue) and increased income gained from investment of excess ConRail stock in short term securities.

To improve transportation expenses, from 39.8% to 29.0% of revenue, ConRail will rely primarily upon increased yard efficiencies providing faster throughput of freight, improved car utilization through a computer-based car management system, economies of density obtained by running more traffic over less track and better management of costs and operations. The USRA analysis relies heavily upon computer-based simulations of projected ConRail performance. These results are integrated with a financial model projecting system profitability and cash needs. Considerable doubts, however, have been expressed by railway operating personnel and the ICC about the ability of ConRail to obtain these dramatic improvements.

Most of the critiques concern ConRail management's ability to improve equipment utilization as much as expected. A number of critical assumptions were identified that affect achievement of the operating improvements.

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Table 9

NET INCOME (1973 dollars)
(normalized revenue = 100.0)

	1976	1985
Total Operating Revenue	100.0	100.0
Operating Expenses:		
Maintenance of Way	(11.5)	(11.1)
Maintenance of Equipment	(14.8)	(12.1)
Transportation	(39.8)	(29.0)
General, Administrative, Passenger, and Other Expenses	(23.9)	(18.9)
Net Operating Revenue	10.0	28.9
Other Expenses:		
Net Car Hire	(9.9)	(8.3)
Other Income, Expenses, and Taxes	(9.2)	(5*7)
Earnings Before Interest	(9.1)	14.9
Interest	(.8)	(1.4)
Income	(9.9)	1305

SOURCE: USRA Final System Plan, pp. 71.

IMPROVEMENT IN YARD OPERATING EXPENSES

ConRail projects that yard operating expenses will be reduced by system modifications. No improvements in labor productivity are expected other than those resulting indirectly from system changes. A principal system modification is blocking changes, which reduce yard expenses by 8%. This involves assembling blocks of cars into trains in an efficient manner which minimizes transportation costs, for example, by forming longer trains. It also maximizes delivery speed, for example, by bypassing intermediate yards. A second major system modification is rehabilitation of yards and related facilities. This reduces yard expenses by 6%.

The importance of yard improvements to the efficiency of the system is illustrated in Figure 4. Cars spend 61.8% of the time in yards and only 14.6% of the time moving with the remaining 23.6% of the time spent under customer control. More importantly, on an average haul, a car will pass through 5 or 6 yards. Rehabilitating tracks to increase train speeds, for example, from 10 mph to 40 mph, may have little effect on system efficiency if the car spends 60% of the time waiting in yards for reclassification or loading.

Comparing ConRail yard expenses with other railroads indicates that even after the expected improvements, ConRail will incur higher yard expenses per freight movement than other railroads. For example (see Table 10), in 1976 ConRail will spend $3.15 per 1,000 ton-miles for yard-related expenses while Southern spends only $1.47. By 1985 ConRail's costs will still be higher at $2.41 per 1,000 ton-miles. This is due primarily to the yard intensive nature of the Northeast rail operations. For the same reason, yard expenses will continue to account for a higher percentage of transportation expenses than other railroads. Although USRA projected a 22% drop in yard-related expenses from $3.07 to $2.41 per 1,000 ton-miles, yard expenses will remain a high percentage (29%) of all transportation costs.

Another indication of the "spaghetti" nature of the old Penn Central system is given in Table 11 showing the relationship between operating ratios (i.e., operating expenses ÷ operating revenue) and the percentage of track which is mainline. The data suggest a strong correlation between more branch lines and higher (i.e., less efficient) operating ratios. In a branch line intensive operation, like ConRail, yard requirements may be increased substantially. In 1969, for example, only 31.1 percent of Penn Central track was mainline resulting in an extremely high operating ratio of 84.4 percent.

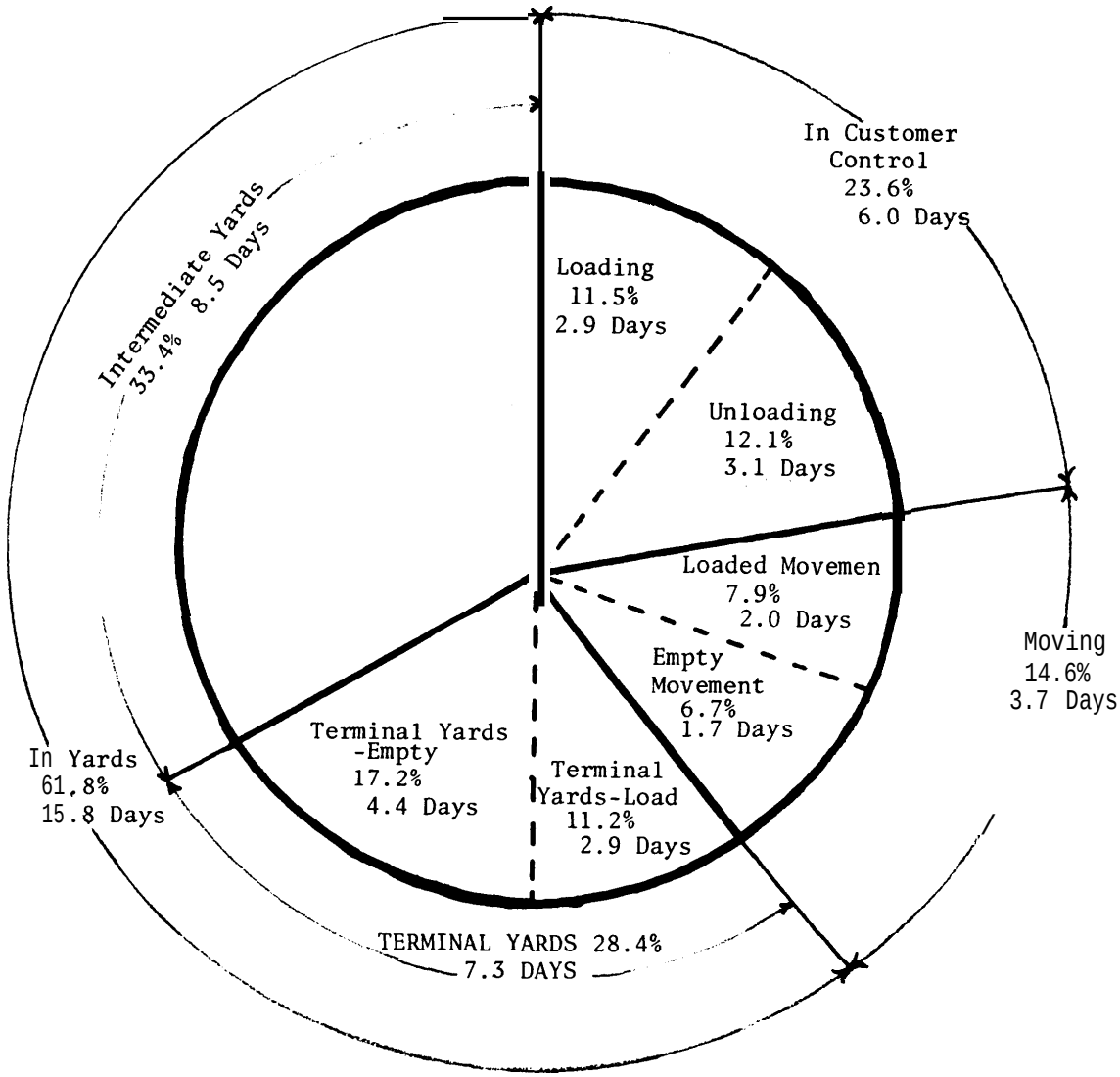
Yard improvements predicted by USRA rely heavily on a systems analysis approach which optimizes traffic movement over the ConRail system based on computer simulations. This sophisticated model was not previously available to Penn Central management. It will ensure some improvements, but whether these will be as dramatic as the FSP predicts is questionable. The PSP indicates that Penn Central already had "a relatively efficient blocking plan" for intermediate yards.[1] Therefore, USRA projected gains must occur primarily at origin and destination yards.

Deciding which yards to expand or contract and where to focus yard rehabilitation efforts requires an accurate prediction of future traffic flows. Predicting market growth is an inherently risky business and failure to accurately predict traffic flows may reduce some of the projected yard efficiency improvements.

[1] PSP p. 60.

Figure 4

AVERAGE EQUIPMENT TRIP CYCLE



NOTES:

Average Cycle Time 25.6 Days

SOURCE:

Federal Railway Administration
Report: FRA-OE-73-1

Table 10

MEASURES OF YARD EFFICIENCY

Railroad	Yard Related Transportation Expenses $ per (1000 ton-miles)	Yard Expenses as a Percentage of all Transportation Expenses
ConRail (1973)	**3.07**	29%
ConRail (1976)	**3.15**	30%[2]
ConRail (1985)	**2.41**	29%[2]
Seaboard Coast Line (1973)	**1.85**	28%
Burlington Northern (1973)	**1.63**	26%
Illinois Central Gulf (1973)	1.56	27%
Southern (1973)	1.47	26%
Atchison, Topeka & Santa Fe (1973)	1.17	19%
Union Pacific (1973)	1.11	21%

SOURCE: Evaluation of the USRA'S Preliminary System Plan Rail Services Planning Office pp. 42-43.

2 Preliminary System Plan, P. 63.

Table 11

RELATIONSHIP BETWEEN PROPORTION OF MAIN LINE TRACK AND OPERATING RATIO

Percentage of Total Road Mileage Devoted to Main Line	Mean Operating Ratio	Example Railroad Operating Ratios	
20% - 50%	85.9%	PC	84.4%
50% - 60%	80.5%	BN	82.1%
60% - 70%	76.1%	C&O	76.2%
70% - 80%	76.8%	N&W	71.1%
80% - 90%	77.5%	B&O	73.1%
90% - 100%	75.1%	RFP	57.9%

NOTE: In 1969, 31.1 percent of Penn Central Track was main line and the operating ratio was 84.4 percent.

SOURCE: Competition in the Railroad Industry; Simat, Hellieson & Eichner, February 1975, pp. II-28, II-29.

The existence of an optimal blocking plan does not ensure that it will be rapidly implemented or followed. Blocking changes may require the transfer of sorting operations from one yard to another, in addition to shifting work loads, train schedules and car routing patterns. Yard expansions and schedule changes will require time for implementation. Blocking plans may be overridden by a desire to expedite certain types of traffic. Because railroads compete primarily on service, blocking decisions may be adjusted to provide priority service to important customers. These blocking adjustments may reduce the efficiency of the entire system, sacrificing the efficient movement of less time-sensitive freight. If ConRail is to compete more effectively with trucks in the TOFC market, these service differentials may conflict with optimal blocking patterns.

Despite all these projected improvements, ConRail will remain a more yard intensive railroad than most due to the congested nature of Northeast traffic.

CAR UTILIZATION IMPROVEMENTS

The savings from yard and track rehabilitation appears largely in the form of better car utilization. USRA projects a 28% improvement in car utilization over present levels. Improvements are primarily due to four factors: improved travel speeds due to track rehabilitation, faster throughput in yards, better maintenance of equipment and better freight car distribution techniques.

ConRail will begin with approximately 175,000 freight cars.[3] During the planning period approximately 24,000 cars will be purchased[4] and 49,000 will be retireds decreasing the fleet to 150,000 which is 40,000 less than would be needed without the anticipated efficiency improvements. The anticipated savings is approximately $1.2 billion.[6] In addition, the number of locomotives will be reduced by 223 from current levels. ConRail's fleet consists potentially of 4,500 locomotives.[7] The total anticipated expenditure for new equipment is $1.78 billion.[8] Consequently the improvements in car utilization will save approximately 40% of the total capital expenditure that would otherwise be required for new equipment.

Improved car utilization affects the railroad financially by reducing capital requirements, interest costs, transportation expenses and net car hire expenses. The net car hire account includes net per diem and mileage payments in addition to car leases. The net per diem and mileage charges are the difference between the amount which ConRail must pay for borrowing other railroad's cars and the amount it receives from other railroads using ConRail cars. The Northeastern railroads are at a disadvantage because more goods are shipped to the Northeast than originate there. Consequently ConRail is more likely to have a negative net car hire balance because it will be holding cars belonging to shippers in the South and West. A comparison of six Southern and Western railroads indicates that they had net car hire balances equal to only 55% of ConRail's.

ConRail has the choice of leasing or purchasing new cars. If the railroad chooses to purchase new cars, the financial statement will reflect higher depreciation and interest costs. For presentation purposes, USRA assumed that all cars were purchased and therefore all debts would appear explicitly on the balance sheet. The assumption that ConRail would purchase rather than lease cars accounted for 41% of the savings in net car hire paid. However, ConRail is likely to lease cars because it will be unable to use the tax advantages resulting from accelerated depreciation. By allowing outside investors to purchase the cars, use the depreciation to protect other income, and then lease the cars to ConRail, the railroad will conserve its cash. Lease payments would then increase the negative balance in the net car hire account and reduce reported income.

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[3] PSP p. 92
[4] FSP p. 99
[5] PSP p. 92
[6] Strong, Wishart, p. 2-1
[7] FSP p. 79
PSP p. 78
[8] FSP p. 61

Several other factors are likely to reduce net car hire savings. Net car hire has a tendency to increase because the price of cars hired increases. Between 1963 and 1973, net car hire increased 10 percent annually despite a 6.6 percent drop in car loadings. Increases were due to newer cars and higher interest rates which produce higher costs. There has also been a tendency to rely more heavily over time on shippers' cars. This practice increases net car hire expenses.

The achievability of projected car utilization improvements will significantly affect ConRail's profitability and capital requirements. Improvements will certainly result from raising mainline travel speeds by 21 percent, reducing classifications by 10 percent, and reducing the bad order ratio (i.e., the percentage of cars not in operating condition) from 10.7 percent to approximately 5 percent. However, the major improvements rely on an improved computer based information system to control car movements.

Because a car spends only 14 percent of the time moving, a 21 percent increase in track speed would only improve car utilization by 3 percent. Reducing the number of classifications by 10 percent improves car throughput but does not solve the critical problem of having cars available at the locations demanding cars. Again, USRA relies on the computer-based information system to fill the gap.

The car management system will probably be a hybrid of the Penn Central's TABS system and the Southern Pacific's TOPS system. Output of the system will be used to predict areas of future demand and to move cars to those areas. While implementation of the anticipated system would dramatically improve car utilization, the difficulties in developing and implementing the system are considerable. If a combination of TOPS and TABS is chosen, the problems of integrating two large computer systems will be encountered. In addition, demand forecasting involves a new application of these systems and will require time to debug. The most critical aspect of a sophisticated car management system, however, involves data input and quality.

Improvements in car distribution will require input of car information daily including: car type, ownership, grade cleanliness, and previous commodity. When a car is under shipper's control this information is difficult to obtain. The data input operation must also be extremely accurate. Because ConRail will be controlling so many cars, the opportunity for "losing" cars through failure to input data or input of bad information is higher than for most railroads. Persons responsible for data input and integrity must exhibit a high level of discipline. Cooperation among railroads in the exchange of information necessary to track car movements across -boundaries has historically been a problem.

Improvements in car utilization may result from several regulatory reforms suggested by USRA.

- Reducing the amount of free time which a shipper has to unload a car from 48 hours to 24 hours.

- Eliminations of special exceptions to normal demurrage charges (charges for a shipper keeping a car beyond the agreed upon free time) .

- Additional charges for cars which shippers release to the railroad without disposition instructions.

In addition, future coordination projects to prevent empty back hauls could considerably improve car utilization. Potential savings from these programs have not been included in the FSP. Their implementation depends on ICC action, which is not imminent.

USRA has projected dramatic improvements in car utilization relying primarily on implementation of a sophisticated computer based car management system. Many problems exist in the development, implementation and operation of the system. These are likely to reduce the savings below those projected by USRA.

Similarly, savings in the net car hire account will be reduced assuming that ConRail chooses to lease rather than purchase a portion of the new equipment. The natural dependence of the Northeast on shipments from the South and West will limit improvements in this expense category.

Proposals requiring regulatory action could provide incentives to shippers to handle cars more efficiently. However, no concrete proposals have been made. These potential savings rely on actions which are beyond the control of ConRail management.

TRACK UTILIZATION IMPROVEMENTS

Yard improvements and car utilization improvements reflect better utilization of the track. USRA projects that ConRail will improve profitability by passing more traffic over a shorter track system and using fewer cars and less locomotive power than its predecessor railroads. ConRail will be reaping the economies of density which are the railroad's version of economies of scale. Table 12 illustrates the high correlation between density and operating ratio. Ranking the 24 Eastern railroads by density and computing the average operating ratio shows that operating ratios get much worse (i.e. higher) as density decreases. There are exceptions to the rule, for example, a railroad which hauls high tariff items, but the relationship is generally true. ConRail's density is currently near the national average of 4.2 revenue tons per mile, but will show a marked improvement by 1985 to 8.2, making it the third densest railroad in the East and the fourth in the nation.[9] Table 13 indicates that by 1985 ConRail will exceed the average densities of seven other major railroads and all the area averages.

[9] Competition in the Railroad Industry; Simat, Hellieson and Eichner, February 1975, pp. 37-39.

TABLE 12 - RANK OF EASTERN RAILROADS BY DENSITY

Number of Railroads in Each Group	Average Density of Group	Average Operating Ratio of the Group
5	8.5	77.7
5	5.0	80.4
5	3.7	85.0
5	2.5	88.2
4	.75	109.4

SOURCE: Competition in the Railroad Industry; Simat, Hellieson & Eichner, February 1975.

The improvement in track utilization is an indication of the improved operating efficiency of the entire system. The elimination of 5,700 miles of light density lines, improved blocking procedures, yard operations and car control systems allow the passage of more traffic over less track in a given time period. The only constraint concerns the scheduling of train movements and the ability to accurately monitor the movement of equipment. Neither of these factors are expected to hinder expected improvements.

Average density, however, may be misleading because averages include numerous light density lines and very dense but shorter main routes. Penn-Central mainline traffic is already quite dense. Elimination of 5,700 miles of light density lines may increase ConRail density without significantly affecting main line densities. Very high densities are not thought to impede traffic flow, however, scheduling of additional traffic requires good centralized traffic control and keeping accurate track of all equipment.

Another factor considered relative to traffic density was the average length of haul. In a longer haul, there is less interfacing with other railroads, less time in switch yards and supposedly more profit from the traffic. As trucks absorbed most of the railroads' short-haul traffic, the average length of haul for rail freight nationwide increased. Between 1960 and 1974, the average haul per ton increased 20 percent from 442 miles to 531 miles. However, a haul is normally split up among a number of railroads. Table 14 compares the average length of haul of ConRail and six other railroads.

TABLE 13 - AVERAGE DENSITIES

Railroad	Density (ton miles\mile)
ConRail (1973)	4.2
ConRail (1976)	4.6
ConRail (1985)	8.2
Union Pacific	6.2
Southern	4.7
Santa Fe	4.7
Seaboard CL	3*9
Illinois Central-Gulf	3.5
Burlington Northern	3.2
Chessie	6.2
National Average	4.2
Eastern Average	4.9
Southern Average	4.4
Western Average	3.9

SOURCE: RSPO, p. 43

TABLE 14 - AVERAGE HAUL LENGTH

Railroad	Average Haul (miles)	Index
ConRail (1973)	268	41
ConRail (1976)	293	45
ConRail (1985)	295	45
Union Pacific	656	100
Atchison-Topeka & Santa Fe	640	98
Burlington Northern	495	75
Illinois Central-Gulf	333	51
Southern	249	38
Seaboard	220	34

SOURCE: RSPO, p. 43.

Both Southern and Seaboard Coast Line are profitable yet handle shorter average hauls than ConRail. The Western and Midwestern railroads tend to have longer hauls. The ConRail merger only increased haul length by 10 percent and will presumably have little impact on operating efficiency. ConRail may suffer relative to shorter haul carriers such as Southern and Seaboard Coast Line because while all three have similar average haul lengths, the Penn-Central maintains twice the amount of track as the other two. Presumably one of the advantages of a larger system would be the ability to fully control shipping over a longer portion of each freight movement; yet ConRail has not noticeably improved.

The elimination of 5,700 miles of light density lines obviously improves ConRail's track utilization rate and should improve profitability. More traffic should be attracted as ConRail service improves due to track rehabilitation. Slow orders now restrict speeds on 9,000 miles of ConRail track.[10] In addition incursions by trucks into the remaining rail freight commodities will decrease since the most divertable traffic is already gone.

10 First National City Bank, a Financial Analysis Of the primary System Plan as proposed by the USRA, pp. 6-7.

The major questions concerning ConRailrs ability to dramatically improve traffic density stem from comparisons with other systems. While physically the system can handle increased density, it seems peculiar that none of the nation's ten largest rail systems have densities approaching the ConRail projections. The factors which could prevent achievement of these densities include requirements that ConRail continue to operate light density lines, a continuing decline in Northeast rail traffic and an inability to implement projected operating improvements (i.e. car management system, yard rehabilitation) .

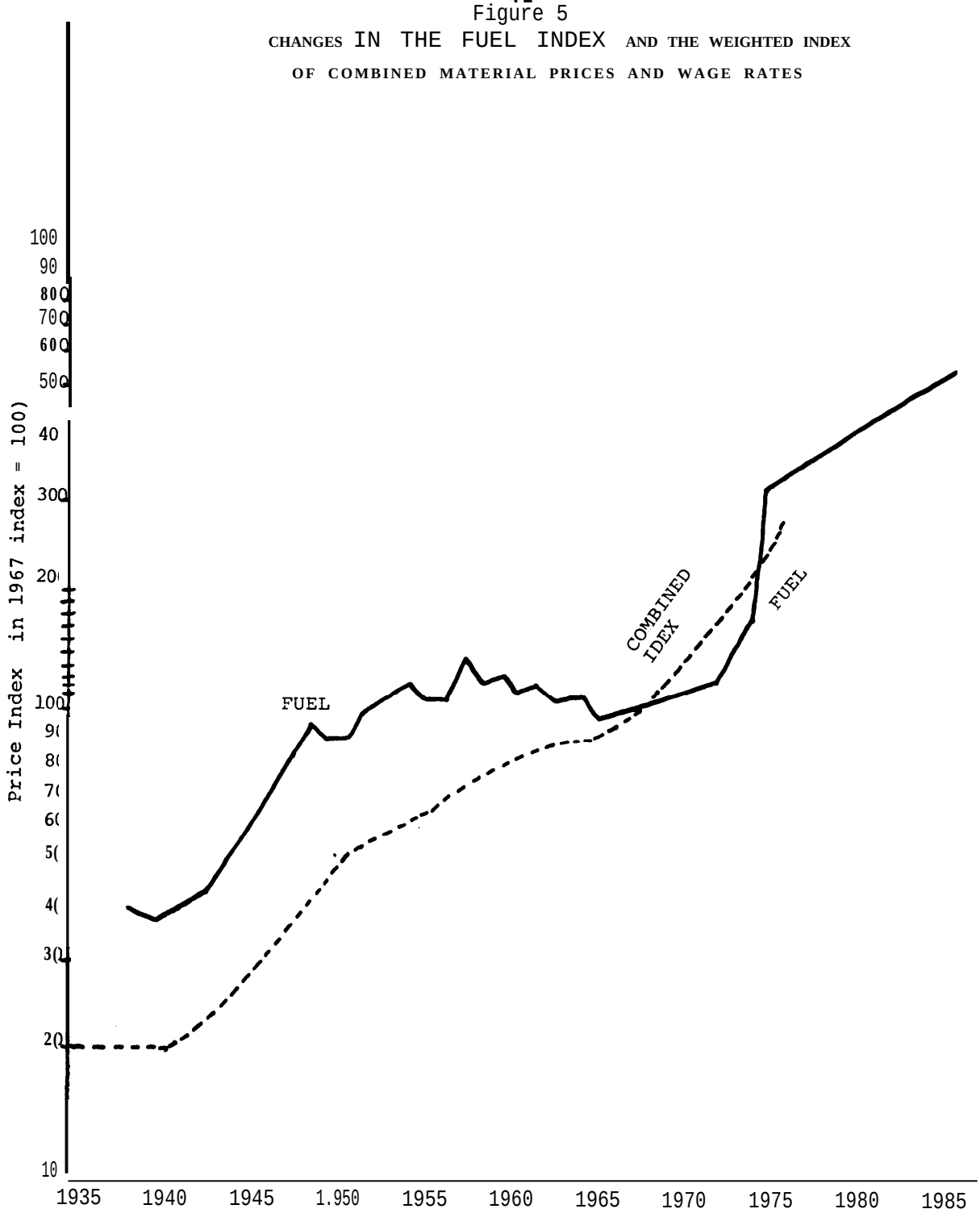
IMPROVEMENTS IN COST CONTROL

The ability to achieve potential cost savings arises from consolidation of track, rehabilitation of yards and identification of unprofitable traffic. Identifying unprofitable freight movements so that selective rate increases can be requested depends on management's ability to assign costs to individual rail movements. A yard or a piece of track supports many trains consisting of individual cars of different commodities with different origins and destinations. Thus, tying costs to particular freight movements is difficult. Traditionally management optimized on an individual yard or other sub-system basis to maximize throughput. ConRail management will attempt to optimize on the whole system and accurately identify costs.

In periods of rapid inflation where the costs of fuel, labor and materials may change drastically, the problem of identifying cost components with traffic movements is critical. Figure 5 illustrates the exponential rise recently experienced in fuel and other costs. As cost components vary in growth rates (i.e., labor, fuel, materials), ConRail management must be able to distinguish between profitable and unprofitable investment opportunities. Between 1945 and 1965 the fuel index only doubled while during the 20 years from 1965 to 1985 it is expected to increase more than five fold. The index of combined material costs has also begun to exhibit an exponential growth pattern. Traffic which may have been marginally profitably when diesel fuel was 20 cents a gallon may be unprofitable at 30 cents a gallon. As costs change rapidly unprofitable commodities must be identified quickly.

Figure 5

CHANGES IN THE FUEL INDEX AND THE WEIGHTED INDEX OF COMBINED MATERIAL PRICES AND WAGE RATES



A standard cost system is one method of tracking management performance and costs. A variance from the predetermined standard cost (for example, if rehabilitation costs for mainline track are projected at $100,000 per mile and actual expenses are $250,000 per mile for a particular stretch) is a warning to management that operations may be losing money. While rehabilitation at $100,000 per mile may have allowed a sufficient return on investment, $250,000 per mile may not. Implementation of a standard cost system is an intricate and time consuming venture.

USRA has already begun to identify noncompensatory freight traffic for which $54 million in rate increases will be requested. This represents an improvement in tying costs to freight movements. Previously railroads used the standard ICC form both to request rate increases and as the basis for cost control, though it is recognized as inadequate for the latter function.

Implementation of an ongoing cost management system, however, will be much more difficult than a one time identification of unprofitable traffic. Standard cost systems take years to design and implement before savings are fully realized. The bankrupts currently have inadequate performance standards for men and equipment. In addition, management information systems have not been integrated which is a prerequisite to improved cost control. Overcoming these problems will require more attention from management that is likely to be available during the start up period. Short term problems of greater immediate impact are likely to take precedence over a cost control system.

While the need for a better cost control system is recognized as essential to achieving the operating improvements projected in the FSP, it may be delayed in implementation. Management will probably focus on projects such as car management or good rehabilitation which will have a more immediate impact on system profitability. Consequently, the information necessary to make decisions, for example on the desirability of retaining a given traffic movement,will probably not be available and some possible operating improvements will not be recognized.

IMPROVEMENTS IN LABOR PRODUCTIVITY

USRA assumed that 90,000 employees would be transferred to ConRail under the reorganization, and that by 1985 the work force would have grown to over 93,000. The mix of labor classes, however, does not match the projected system needs so some workers would be terminated and new ones hired. The FSP projects that by 1985 60% of the present work force will have been replaced due to attrition.

Although work rules, pay structures, and craft distinctions were considered obstacles to better productivity, the FSP assumed no changes in these areas. Thus, no improvements in labor productivity are expected other than those occurring incidentally through system modifications.

The importance of the labor component nationally in rail expenditures is illustrated in Table 15 Over half of every revenue dollar is spent on labor. In the bankrupts which are considerably more unprofitable than the national average, this ratio is probably considerably higher. Table 16 compares some of the labor productivity measures for the bankrupts with industry averages. Compared to the national averages, the bankrupts: produce only 78% as many gross ton miles per crew hour, generate only 92% as much revenue per crew hour, and spend 12% more crew time switching than other Class I railroads.

Table 15

DISTRIBUTION OF OPERATING REVENUES

FOR THE RAILROAD INDUSTRY 1974

(normalized so that all figures are per dollar of revenue)

Total operating revenues	$1.00	
Labor Cost	$ .51	(Doesn't include those capitalized)
Fuel Materials and Supplies	$ .24	
Other Expenses	$ .10	
Depreciation	$ .05	
Other Taxes	$ .04	
Net Railway Operating Income	$ .06	

SOURCE: Yearbook of Railroad Facts 1975 edition AAR p. 11

Table 16

DIRECT LABOR PRODUCTIVITY

(Stated as averages)

	Bankrupts	Class I	Southern District	Western District
1000 gross ton-mile per crew hour (1973)	22.8	29.2	25.3	35.5
Dollar revenues per crew hour (1973)	200.0	217.0	184.0	241.0
Percent of crew hours yard switching (1973)	58.6	52.3	47.6	49.5

SOURCE: Preliminary System Plan p. 57

These reduced productivity figures reflect in part the congested, yard-intensive nature of the Northeastern railroads and the poor condition of the track and equipment.

Labor productivity improvements have been dramatic. Since 1960, 33 percent fewer employees have been needed to produce 49 percent more revenue ton miles. Industry employment has dropped while traffic (revenue ton miles) has increased steadily. These improvements will probably continue. Wage increases however, have offset the absolute drop in employment, rising by 52 percent since 1960. Thus, despite improved productivity, compensation as a percentage of operating revenue decreased only 7 percent from 1960 to 1974.

ConRail could trade labor protection for labor productivity improvements through work rule changes but this is unlikely. The problems of labor productivity, work rules, etc. are long standing industry problems. ConRail management with its numerous other responsibilities can hardly be expected to lead in the difficult and controversial area of labor reform.

MANAGEMENT GENERATED IMPROVEMENTS

Improvements in ConRail operating performance will depend heavily on implementation of the numerous studies conducted by the USRA in developing the FSP. While management will not be obligated to follow the FSP, it represents a $30 million investment to study ConRail's problems . After conveyance the time

ll Yearbook of Railroad Facts 1975 Edition, AAR, p. 12, 29, 58.

and resources to repeat the process will not be available. The viability of the plan will depend on management's ability to adapt it to changing conditions.

While considerable criticism has been levelled at the Penn-Central management, USRA staff members, consultants and railroad industry people have quite divergent views on the exsiting management's capabilities. Several people indicated that Penn Central management was out of date and incapable of implementing the reforms suggested by USRA. A more prevalent attitude, however, described Penn-Central management as capable and well intentioned but constrained by the deterioration in the Northeast and the lack of funds in the company to implement reforms.

The major unknown when control of the bankrupts passes to ConRail will be the ability of new management to make a difference in the operating efficiency of the bankrupt railroads. Optomists point out that new management will:

- have the benefit of the USRA studies which have evaluated the operations of these railroads more thoroughly than any railroads in the nation.

- have flexibility to implement necessary changes because of the available federal financing. Previous managements have not had adequate funding.

- include a new group of non-railroad men who can apply the systems analysis techniques developed at USRA and innovate without being constrained by the traditional railroad mentality.

Some felt that the techniques developed by USRA were sufficient to guide almost any management to successfully operate the restructured system. Consequently, management was not a particularly crucial factor.

A more prevalent view however, held that the impact of new management would be minimal. This pessimistic view concludes that:

- ConRail must integrate the managements and operating systems of six firms into one. Historically, mergers of this type have not been very successful or have taken a long time to complete. (i.e., Pennsylvania RR - New York Central merger and C&O, B&O merger) .

- The new president succeeds two presidents who were successful managers with railroads outside the Northeast indicating that the problem may be systemic.

- Existing staffs cannot be rapidly "shaken up" without disrupting the ongoing operation of the companies. These staffs have been decimated by the loss of young staff due to the stagnancy of the company, demoralization and the stringent controls of the bankruptcy court.