

I. INTRODUCTION

A. Purpose and Scope of the Study

The purpose of this study is to explore the proposed mechanisms for injecting federal funds into the rehabilitation of railroad fixed plant--that is, the roadbed, ballast, ties, signaling systems, yards, and terminals that make up the nation's physical rail system. Such proposals are generally motivated by recognition that the railroads play a vital role in the nation's economy and that their fixed plant is deteriorating to the extent that it interferes with that role.

The study accomplishes two specific tasks:

- (i) It identifies and describes selected alternative mechanisms in a way that facilitates comparison among them.
- (ii) It identifies key issues arising from the wide range of funding mechanisms and informally reviews the reactions of major interests to these issues.

In the course of the study, contacts were made with railroad executives, the Association of American Railroads, shippers and labor representatives, spokesmen of competing modes, and the administration. While an attempt was made to secure unbiased representation (interviews were conducted with strong and weak railroads, Eastern and other railroads, and so forth), this was not a rigorous sampling and no quantitative results were derived.

The study is fairly narrow in scope. It accepts as a starting point the assumption that some federal involvement in rail rehabilitation is desirable, without evaluating the wisdom of that popularly held assumption. It does not embrace the related question of whether or to what extent service on the so-called light-density branch lines should be curtailed or subsidized. This question has been widely discussed and analyzed elsewhere. Finally, the study is descriptive and expository in nature and does not involve analysis or evaluation of the various points of view expressed. For this reason, the study is not intended to result in a recommendation regarding a preferred alternative.

A recurring observation by railroad industry sources and others contacted in the course of the study is that federal assistance in rail rehabilitation is not, in itself, enough to achieve a viable rail system. Many of those who feel that rail should play an expanded role believe that other government actions are required to complement the beneficial effects of rail rehabilitation.

Those who desire a contracted level of rail activity argue, as noted below, that the effect of rehabilitation without other actions would be detrimental to the nation's rail system in that it would postpone the needed reduction in excess capacity. Among the other rail-oriented actions being discussed are the reform of rate regulation and regulatory procedures for industry restructuring (for example, through mergers); the subsidization of light-density branch lines (or the easing of procedures for their abandonment); the prohibition of discriminatory taxation; and the encouragement of integrated transportation companies to promote efficient allocation of traffic between modes.

Many of the proposals for federal assistance in rail fixed plant rehabilitation are presented as legislative packages which incorporate one or more of these related actions. While the current focus on mechanisms for rehabilitation is a valid and useful one, a broader perspective embracing other federal actions is also necessary.

Although this study was precipitated by the impending congressional review of the U. S. Railway Association's final system plan for the Northeast and Midwest regions, the majority of the proposals for federal involvement in rail rehabilitation are national in scope; consequently, a national focus was taken in the research. The establishment of Consolidated Rail Corporation (Conrail), an entity formed under the Rail Reorganization Act of 1973, is a special case in the sense that it reflects much more direct government involvement than other railroads. Conrail is also special in that its funding has implications in terms of the liability of government, through a claim under the Tucker Act. It is not a special case, however, except in degree, in terms of the existence of deteriorating fixed plant or the availability of internally and externally generated capital, without government assistance, for rehabilitation. Where the unique aspects of Conrail appear to be important, they are pointed out in the balance of this report; otherwise, the observations made can be assumed to apply to Conrail as well as to other railroads.

B. Organization of This Report

Following this Introduction, Part II describes and discusses the essential components of the range of alternative mechanisms, including their objectives, scope, funding considerations, and degree of government control. It does this largely without reference to the proposals themselves, in an attempt to lay out the fundamental considerations involved. Part III surfaces some additional key issues, or impacts. Part IV describes selected alternative mechanisms, and Part V closes with some general observations arising from the study effort. An abbreviated format showing the pros and cons of key issues related to the proposed alternatives for federal involvement in rail plant rehabilitation is appended.