



330
B385
no. 177
cop. 2

Faculty Working Papers

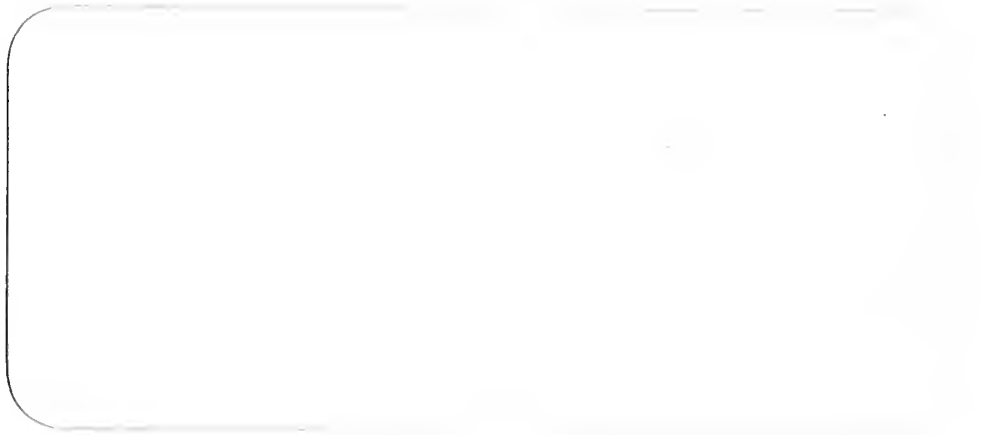
A PRELIMINARY EVALUATION OF THE
DEPARTMENT OF TRANSPORTATION'S REPORT,
RAIL SERVICE IN THE MIDWEST AND NORTHEAST REGION

John F. Due

Transportation Research Paper #2

#177

College of Commerce and Business Administration
University of Illinois at Urbana-Champaign



FACULTY WORKING PAPERS

College of Commerce and Business Administration

University of Illinois at Urbana-Champaign

April 10, 1974

A PRELIMINARY EVALUATION OF THE
DEPARTMENT OF TRANSPORTATION'S REPORT,
RAIL SERVICE IN THE MIDWEST AND NORTHEAST REGION

John F. Due

Transportation Research Paper #2

#177

... ..

... ..

... ..

A PRELIMINARY EVALUATION OF THE DEPARTMENT OF TRANSPORTATION'S REPORT,
RAIL SERVICE IN THE MIDWEST AND NORTHEAST REGION

John F. Due
Professor of Economics
University of Illinois, Urbana

In December of 1973, Congress enacted the Regional Rail Reorganization Act, which was signed by the President in January, 1974. Pursuant to the terms of this legislation, the Department of Transportation (DOT) was required to submit, within 30 days, a report containing conclusions and recommendations for restructuring rail service in the area served by the Penn Central and other bankrupt northeast railroads. On February 1, 1974, this report was issued, based in substantial measure on the study, Improving Railroad Productivity, Final Report of the Task Force on Railroad Productivity (1943),¹ and on the report prepared by R. I. Banks and Associates for the Federal Railroad Administration, June, 1973, entitled Development and Evaluation of an Economic Abstraction of Light Density Rail Line Operation.²

The 1973 Legislation and the DOT Report

This DOT proposal will go through several stages of review before becoming effective:

1. The new Rail Services Planning Office of the Interstate Commerce Commission (ICC) will prepare a report, following hearings (which have now been held).

¹Washington: National Commission on Productivity and the Council of Economic Advisers, 1973.

²Washington: Federal Railroad Administration, 1973.

The DOT report is entitled Rail Services in the Midwest and Northeast Region (Washington: U. S. Department of Transportation, 1974).

2. The newly created United States Railway Association (USRA), a Federal agency created to plan and finance the restructuring of the northeast rail system, will develop a preliminary plan based on the original DOT plan and the ICC report on it.

3. The ICC will hold hearings on the preliminary plan and prepare a report on it.

4. USRA will then develop a final system plan.

5. The ICC will evaluate this final plan.

6. Congress must approve or reject the final plan. If rejected, it will be revised.

7. Once approved, the plan will serve as the basis on which the property of the bankrupt roads¹ (and on a voluntary basis, the lines of solvent carriers) will be transferred to the new enterprise, Consolidated Rail Corporation (CRC), a privately owned, profit making enterprise.

The Act prescribed the various guidelines for restructuring; in brief, it seeks:

1. To create a financially self-sustaining rail system (CRC) in the northeast.

2. To insure a rail system adequate to meet the needs of the area.

3. To preserve existing patterns of rail service so far as feasible; to insure minimization of use of energy resources in providing transportation.

4. To preserve competition in rail and other transport service in the area.

¹Except those that, with Federal Court approval, opt out to reorganize on traditional lines.

Digitized by the Internet Archive
in 2011 with funding from
University of Illinois Urbana-Champaign

<http://www.archive.org/details/preliminaryevalu177duej>

5. To aid in the attainment of desired environmental standards.

The report describes existing rail service; analyzes operating problems and possible improvements; and recommends where rail service should be provided. To accomplish the overall objectives noted above, the report proposed major restructuring of the railroads in the northeast in order to make them self-sustaining by increasing productivity and bringing about improvements of services. The restructuring requires substantial reduction in main line mileage and thus in excess capacity, and streamlining of local lines, with extensive abandonment, estimated to be about 25 percent of the mileage in the area. Rail competition would be retained only on a few high density routes. The report appeals to the solvent carriers for their cooperation.

For purposes of analysis, the area involved was divided into some 184 zones, with analysis of traffic between and within zones. Stress is placed on the major traffic generating points and service among them.

Proposals Relating to Main Lines

The report distinguishes sharply between high volume, interstate lines and local service lines. The former operate between main traffic generating zones; local service lines connect shippers within the zones to the interstate network. So far as the main lines are concerned, the objective of the report is to concentrate the traffic on a much smaller number of lines in order to bring utilization nearer to capacity. A figure of 30 million gross ton miles per mile of line is regarded as the minimum necessary for the main

lines;¹ this would constitute about 30 percent utilization of a single track CTC controlled line. By eliminating duplicating lines and reconstructing the remaining lines to higher standards, and eliminating duplication in terminal yards, substantial savings would be made. Only 10 percent of the main line mileage in the eastern region now has the desired density-- primarily because the flow is divided among a number of lines, as shown on Figure 1, reproduced from the Report. Competitive routes would be sanctioned only if traffic volume was sufficient to allow at least four freight trains each way daily.

The general reasoning involved has merit. But several major questions can be raised:

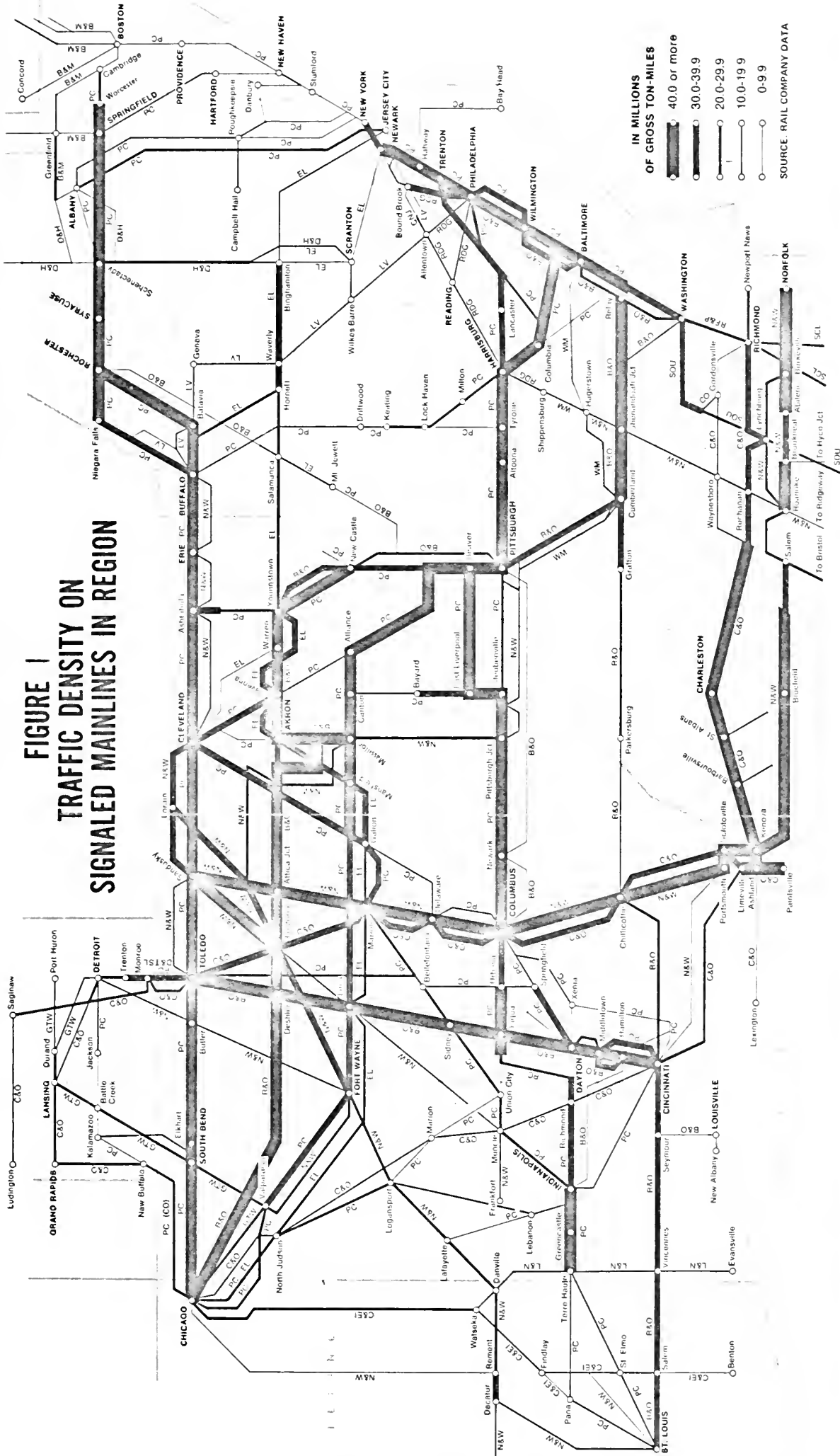
1. The report does not present data to show the amount of cost savings from successive increases in density of traffic on main lines. Some Class II railroads, with relatively light traffic, show cost per ton mile only slightly higher than the heavy traffic routes. For example, with 1968 data, the cost per ton mile for the following five roads is one cent per ton mile or less, although none has more than 8 million gross ton miles per mile of line:

<u>Road</u>	<u>Net ton miles per mile of line</u>	<u>Cost per ton mile</u> ²
Lehigh and Hudson River	3,568	1.04
Pittsburgh and Shawmut	1,115	.93
Alabama, Tennessee and Northern	2,387	.99
Tennessee, Alabama and Georgia	1,625	.88
Kansas, Oklahoma and Gulf	2,318	.50

¹This is, for example, approximately the volume on the Illinois Central Gulf main line, Chicago-Centralia; the Penn Central, Chicago-Ft. Wayne-Pittsburgh; the Rock Island, Chicago-Moline.

²Cost includes all operating expenses, railroad retirement taxes, and return on salvage value. Other taxes are omitted.

**FIGURE 1
TRAFFIC DENSITY ON
SIGNALLED MAINLINES IN REGION**



From: Rail Service in the Midwest and Northeast Region, A report by the Secretary of Transportation, Volume 1, 1974.

In general, questions can be raised as to how great the savings from concentration of traffic on a few lines actually are.

2. The proposal, through concentrating traffic on fewer lines, would result in the elimination of a number of lines with ton mileage in excess of one million gross ton miles per mile of line, even though it is generally agreed that any line with this volume of traffic is economically viable. DOT's justification is that by eliminating these lines and concentrating the traffic on a smaller number of retained lines, average cost could be reduced and service improved by reconstruction of track and more frequent train departures. Without question this argument has some merit. But there are significant costs involved, which the report ignores:

a. The sharp increase in the volume of traffic to be handled in yards in major metropolitan areas. The report, for example, calls for the elimination of three east-west routes across central Illinois, as noted on Figure 2: the Toledo, Peoria and Western; the Norfolk and Western's Peoria-Lima line (formerly Nickel Plate); and the Penn Central's Peoria and Eastern (Peoria-Indianapolis). All three of these lines have annual traffic volume in excess of one million gross ton miles per mile of line. The traffic now moving on these lines, much of it bridge traffic from the west routed by these lines to minimize loss of time in Chicago terminals, would have to be routed via the Chicago area. Substantial additional investment in terminal yards facilities would undoubtedly be necessary, or the chaos encountered in the Penn Central's restructuring of operations would be encountered. But apart from this consideration is the question of whether the gains from greater concentration of traffic would more than offset the costs from the

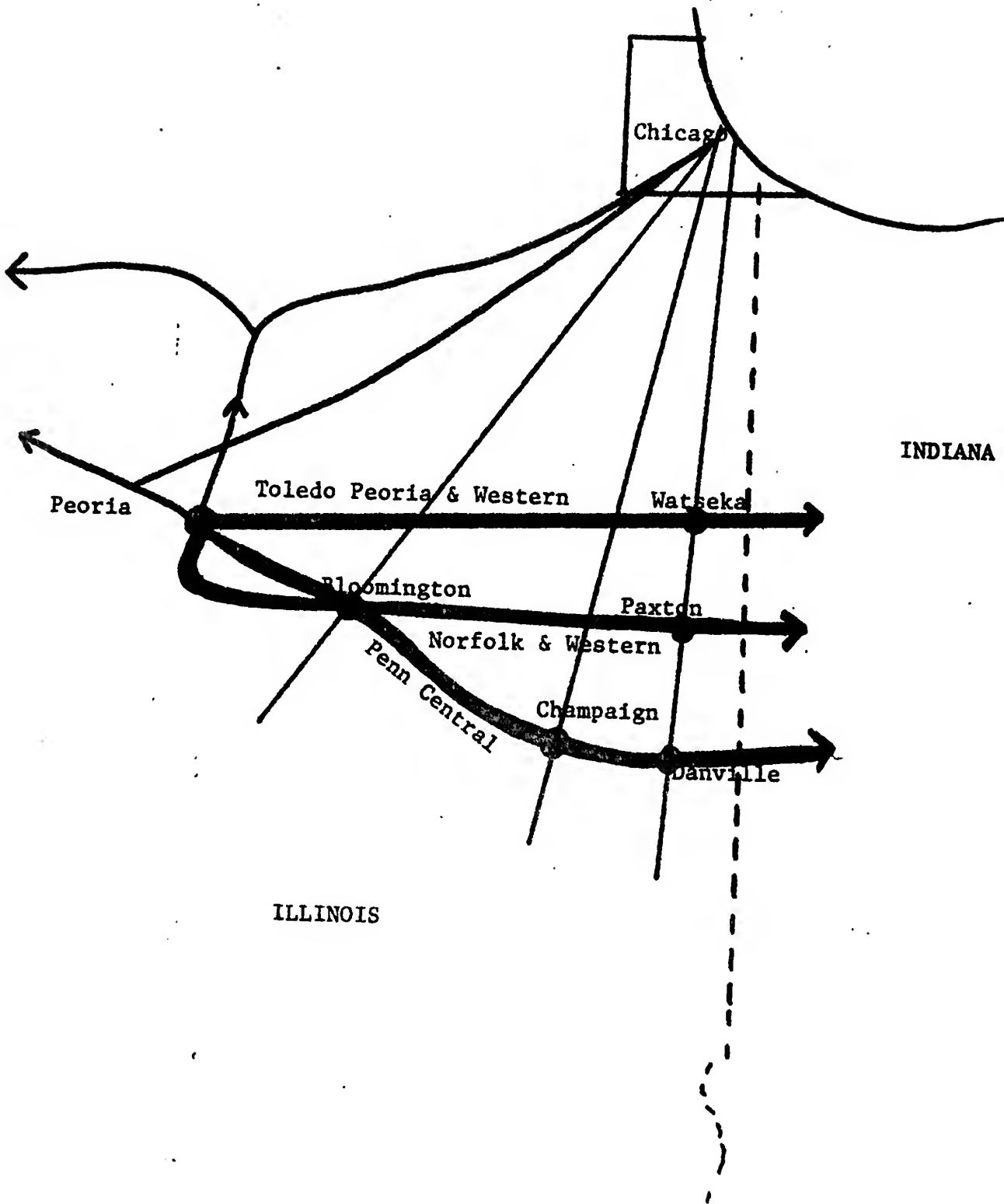


Figure 2
East-West Lines in Central Illinois Proposed for Abandonment
Heavy lines show routes to be discontinued.

additional complications created in the major intermediate terminals.

b. Circuity. The elimination of such lines would result in substantial increase in circuity of routing for various types of traffic. With the same example as given above: grain originating at such Illinois points as Gibson City, Farmer City, Champaign, Fairbury, Forrest, and Gilman, all major elevator centers on the lines indicated above, could no longer move directly east, as much of it now does, but would have to be rerouted north or south initially. The total eastbound traffic from these and similar points is very substantial--thousands of carloads a year.

3. Community loss of service. Elimination of these lines would leave hundreds of communities without service at all, since with all the bridge traffic removed, as well as that from communities also served by other lines to be retained, the remaining traffic does not, in most instances, meet the minimum requirements discussed in the next section of the chapter. Thus a part of the price to be paid to gain greater concentration of main line traffic on a few routes is the complete loss in service to large numbers of communities, where there has been every expectation of continued rail service, as the lines involved were known to have adequate traffic to be self-supporting.

A few communities on these lines offering enough traffic to meet the report's formula would be left on dead-end branch lines instead of through lines, with substantial deterioration in quality of service, as for example, Paris and Robinson, Illinois.

In the table below the lines in Illinois to be abandoned under this policy are listed as an example of the extent of elimination of lines that would occur.

Penn Central:

Peoria and Eastern, Peoria-Champaign-Indianapolis

Kankakee-Indianapolis

Chicago-Danville-Cairo

Terre Haute-Mattoon-St. Louis

Illinois Central:

Evansville-Mattoon-Decatur-Peoria

Pana-Decatur-Freeport

Effingham-Indianapolis

Champaign-Havana

Louisville and Nashville: St. Louis-Evansville

Toledo, Peoria and Western: Peoria-Effner

Portions of some of these lines would be retained.

The traffic volume on all of these lines is between one million and 4.9 million gross ton miles per mile of line, except portions of the Penn Central's Chicago-Danville-Cairo line (between 10 and 19.9 million gross ton miles per mile of line from Robinson to Eldorado and 5 - 9.9 million north of Robinson).

Proposals for Local Service (Branch) Lines

The basic principle followed in the report, so far as local service lines are concerned, is that there must be a high probability of economic viability--the possibility of covering all costs--for them to be included in the restructured system. The recommendations, as with the main lines, include lines of solvent roads in the area as well as insolvent ones, even in situations in which the lines are in no way competitive with a restructured Penn Central system.

The Banks Study

The basis of this portion of the DOT plan is the Banks report noted above.¹ The aim of the study was to analyze the relationship between volume of traffic and profitability on light traffic lines (defined as those with traffic of less than 500 cars originated or terminated per mile per year) in order to develop a formula to predict the profitability of any branch line. A sample of 100 light traffic lines in each of the three ICC regions (including independent Class II roads and branches of major systems) was selected, with varying length and density. For each line, revenue attributable to the line and the costs for which the line was responsible were calculated and the profitability thus determined was related to the traffic volume.

Revenue was estimated on the basis of traffic originated or terminated on the line, all bridge traffic being eliminated and any traffic both originating and terminating on the line (which is negligible on such lines) excluded. The revenue attributable to the line was calculated by multiplying the cars originating or terminating on the line times the sum of three elements: (1) revenue contribution to the railroad system from traffic originating or terminating on the line less the variable costs of handling that traffic off of the branch; (2) the cost of originating or terminating a car in the district (since the branch is performing this function for the system); (3) the average haul on the line times the variable cost of hauling a loaded car mile in the district (since the branch is performing this service for the system).

¹Light Traffic Density Rail Line Operations, op. cit.

The cost figures for each line were built from data for the type of operations regarded as typical for branch lines, given the length and the traffic volume of the line:

A. Costs Related to Track

1. Direct maintenance of way costs, ascertained from Class II data, regressing maintenance expenditures against volume of traffic. For direct maintenance, a minimum of \$2,335 per mile was ascertained, plus an increase of \$1.97 per mile for every 1,000 gross ton miles per mile of line. Superintendence of maintenance was added. Adjustments are also made for higher speeds.
2. Ten percent return on salvage value of the line. Salvage value is calculated by a formula based upon an estimated typical salvage value of \$9,000 a mile. The formula establishes the value per mile as four times the constant maintenance of way element (\$2,335 per mile) plus four times the incremental cost of maintenance per 1,000 gross ton miles.
3. Property tax, an arbitrary \$50 a mile.
4. Return on the value of land, 10 percent on a value of \$5,000 per mile of line.

The total of these elements is \$4,029 per mile plus \$50 a mile per hour of speed of operation in excess of 10 mph, plus \$3.09 per mile per 1,000 gross ton miles of traffic.

B. Maintenance of Equipment. This is calculated on a per hour of use basis from typical Class I data, including return on investment and depreciation.

Per diem charges were used as a measure of freight car maintenance, depreciation, and return on investment.

C. Fuel Expenses. Typical costs per engine mile times hours of engine use.

D. Train Operating Expenses. Based on typical wage rates, hours of operation necessary, and a crew of four.

E. General and other items based on Class I experience allocated to branch lines on a formula basis.

The data show the great importance of track costs for light traffic density lines--54 percent of the total, in the eastern region, including return on salvage value and land. Train crew operating expenses were only 10 percent of the total.

On the basis of this data, the profitability of each line in the sample was calculated, and then related to the volume of traffic. From this analysis were developed estimated figures of the volume of traffic necessary in each of the three regions for a line of varying lengths to break even. In addition to this basic figure, upper and lower probability ranges were ascertained on a 90 percent basis; in 90 percent of all cases the actual break-even point will fall between the upper and lower limits. Thus, for example, a 10 mile line in the eastern district would require an estimated 565 cars per mile to break even, with 90 percent probability that the figure will be between the upper criterion of 734 cars and the lower criterion of 396 cars.

Typical figures are indicated below for the Eastern region:

<u>Length of Line, Miles</u>	<u>Cars Originated or Terminated per Year</u> ¹	
	<u>Upper Criterion</u>	<u>Lower Criterion</u>
1	271	0
5	477	139
10	734	396
20	1,329	673
30	1,788	1,132

The upper criterion figures are lower in the west, higher in the south, than in the eastern district.

Procedures Relating to Branch Lines

For each line not designated to be a main interstate line as discussed above, the procedure followed in determining whether or not service should be provided on branch lines was as follows:

1. Only traffic originating or terminating on the line was considered; all "bridge" traffic passing over the line, and, apparently, all traffic originating or terminating at points to continue to have service on other lines, was disregarded.

2. Traffic to and from points originating or terminating less than 75 cars a year was disregarded. Such points would not continue to have service under the proposal, even if situated on lines to be retained. This policy is defended only by the statement that providing service to such points would not be economic.

¹Banks Report, op. cit., p. 115.

3. The traffic available on the line, under the two rules indicated, was compared with the upper criterion line of the Banks report. Only lines with traffic above the upper criterion would be included in the CRC system.

Evaluation of the Provisions Relating to Local Service

The portion of the report relating to abandonment of light traffic lines is open to serious criticism. Clearly there are lines in the northeast that are uneconomic on any basis and must be eliminated for an efficient system; there are lines that handle, in total, no more than 25 cars a year.¹ But the net result of the proposals go far beyond lines such as these. More specifically, the following aspects of the proposal are open to question, apart from the more general issues noted in the concluding section:

1. Data of shipments from various points. These were, apparently, collected very hastily and errors were inevitable; clearly no final action should be taken until accurate data are obtained. One local shipping point reports that DOT used a figure of 70 cars a year shipped when the actual figure was 700, for example.

The entire proposal was based on 1972 data only, regardless of local conditions, such as a prolonged strike in a factory on the line, that made the figure atypical.

Projection of the figures into the next decade are likewise desirable when feasible.

2. Adjustment of data for car shortages. Particularly in grain movements in the midwest, the volume moving by rail has been much less in

¹There were five such lines in the Banks report sample of 100 eastern railroads.

the last five years than the shippers wished to move by rail because of the shortage of grain cars. This has particularly affected the movements from the smaller towns. Before final decision is made, figures must be corrected upward to take this factor into consideration. Grain elevators can provide almost exact figures of the volume shipped by truck only because of the shortage of grain cars.¹

A more intangible question is also raised: the traffic on Penn Central lines would have been greater in the last several years had service quality been better. This element is very difficult to adjust for in any precise way, but the problem suggests using figures altered somewhat from those in the Banks report.

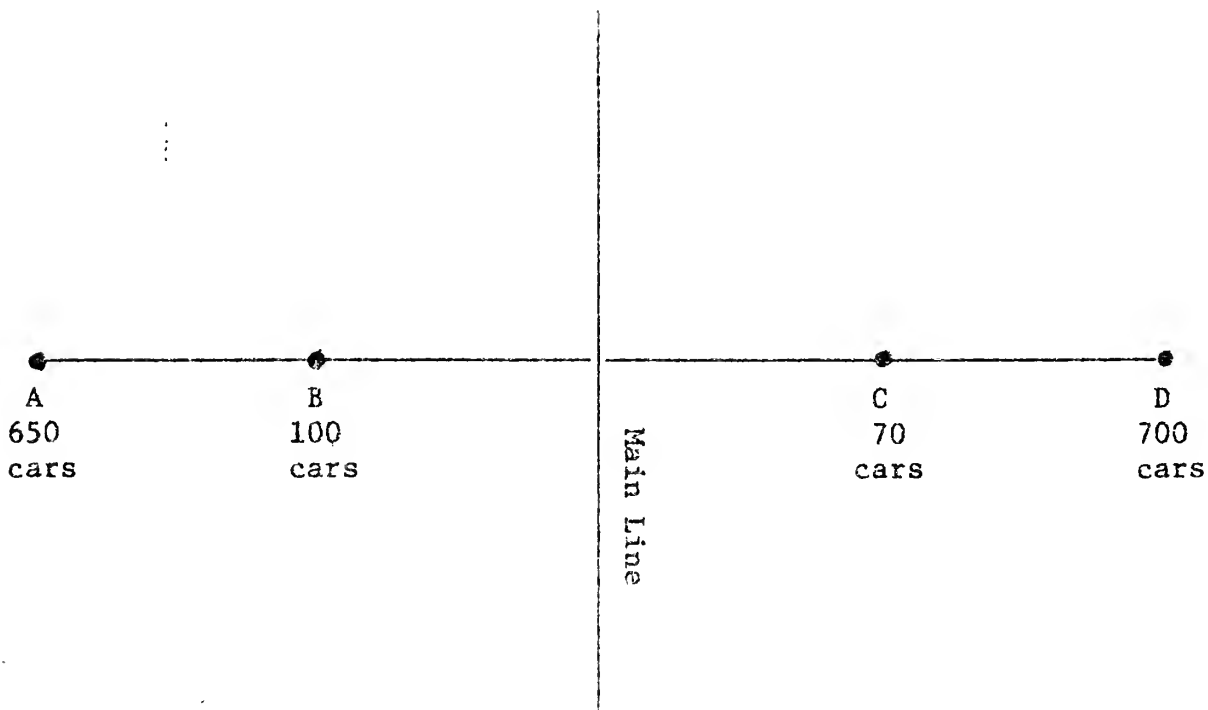
3. The 75 car rule. The most devastating element in the DOT procedure has been that of disregarding any shipping point that originates or terminates less than 75 cars a year; such points would be denied service even if they were on lines retained. This rule is not backed by any statistical evidence and is simply contrary to common sense. On a line to be retained from A via B to C, it costs no more--perhaps even less--to pick up cars from a siding located at intermediate point B than from additional sidings at points A and C, even if point B generates no more than 20 cars a year. The sidings are in place; no station is maintained; switching time is small.

In many instances, the strict adherence to the 75 car rule results in complete elimination of service on lines that would meet the necessary

¹For example, the Gifford Elevator at Gifford, Illinois, shipped 481 cars by rail August 1, 1971 - July 31, 1972. In the following year only 277 cars were shipped by rail because of unavailability of cars; had cars been available about 490 cars would have been shipped. Data provided by the elevator.

traffic volume formula. Note for example the situations below.

Both lines are 10 miles in length and thus require 734 cars a year to meet the DOT upper criteria. There are two towns on each, with the traffic generated as shown on the diagram.



The line serving A and B would be retained; that serving C and D would not be, even though both exceed the required traffic volume figure. The C-D branch has more total traffic than A-B, yet is denied service because the 70 cars available from point C are not counted. This rule is unreasonable.

4. The Banks study upper criteria. Inclusion in the new CRC system only of lines that meet the upper criterion of the Banks report can be

justified only on the basis of complete emphasis on assurance of profitability; presumably if the "estimated" figure were used, half way between the upper and lower criteria, on the whole the lines included would break even, even though some did not.

5. The data of the Banks report. Several questions may be raised about the figures used in the Banks study, although on the whole they appear to be reasonable:

a. The salvage value figure may be unreasonably high; the basic \$9,000 figure which underlies the formula is based on a sample of one, and other studies suggest that a lower figure may be appropriate.

b. The sale value of land, estimated at \$500 an acre, with 10 acres to a mile of line, is unreasonably high for some lines. In small, declining towns, even the land in the towns on which the station and sidings are located may have little sale value. The right of way may have been given on a conditional basis, reverting to the adjacent landowners if no longer used for rail purposes; or there may simply be no bidders.

c. The use of a 10 percent rate of return figure is open to a basic question: should relatively high current interest rates be used, or an average of rates over a period of years? It is quite true that if the line is abandoned today, the money can be reinvested at a relatively high figure. But five years from now, the return figure may be much less; interest rates in part reflect monetary policies.

d. The train operating expenses are based upon use of a four-man crew. This may be reasonable so far as CRC is concerned, but there is the possibility of negotiating agreements with the unions for smaller crews on lighter traffic lines.

e. The conclusion that maintenance costs require an additional \$1.97 per 1,000 gross ton miles per mile of line, in addition to the basic \$2,335 produces nonsense results for high density lines. The figures would be

far in excess of actual maintenance expenditures on such lines that are maintained at high standards (for example, \$41,735 a mile for 20 million gross ton miles per mile of line).

6. The significance of the rate structure. One of the peculiarities of the results of the Banks study is that the minimum number of cars necessary to meet the criteria increases with distance on a linear basis, almost proportionally. Thus, a 10 mile line requires 734 cars, or 73 cars per mile; a 20 mile line 1,329 cars, or 67 cars per mile. It should be noted that if (1) the traffic moves over the entire line in each instance, and (2) the rates are proportional to distance, no more cars, in total, would be required for the longer line to be viable than for the shorter. In fact, fewer cars would be required; because of the substantial terminal cost element in overall costs (switching of cars and assembly of trains), the cost per ton mile falls sharply as distance increases. This is borne out clearly by data of Class II railroads in a study by the author now nearing completion. Even if the revenue per mile falls as distance increases, if it falls no more rapidly than cost falls and the traffic moves over the entire distance on each line, the number of cars required for viability would be the same on the 20 mile line as on the 10 mile line, and therefore half as many per mile.

In practice, rate structures affecting branch lines are often not of this character, particularly because of use of rate groups; the rate from various points on the branch may all be the same regardless of distance. Therefore the railroad gets no more revenue for shipments over the 20 mile line than it does over the 10 mile line, and thus must have more cars in total on the longer line for it to break even. Even granted this assumption about rates, however, the Banks figures are suspect because of the importance of terminal costs in overall costs.

7. Problems with the use of a formula. Determination of the fate of particular lines by a formula, while acceptable as a first step, is not satisfactory for the final plan:

a. The formula is based on cars loaded, without respect either to loaded weight of the cars or to rates on the commodities. If two lines of the same length have the same numbers of cars originating or terminating, but one has much higher loading per car and/or has traffic such that rates are much higher per mile, one is clearly more profitable than the other. In other words, lines with light loading and/or low rates may qualify under the formula, while other lines with fewer cars but higher loading and/or higher rate traffic do not qualify but would be more profitable.

b. Lines differ greatly in frequency of service required, a point noted in the report and stressed in the Improving Railroad Productivity study referred to in the introduction. The Penn Central lines causing the greatest losses are not the very light traffic lines, but ones with higher traffic but requiring much more frequent service. Lines differ tremendously in frequency of service required; once a week service may be adequate for handling ore or coal; daily service may be necessary for manufactured goods produced by a factory on the line. Some lines (primarily in the west) require only seasonal operation.

c. Differences in the nature of the traffic influence the suitability of piggyback operation as a substitute for the rail line and thus the justification for retention of the line.

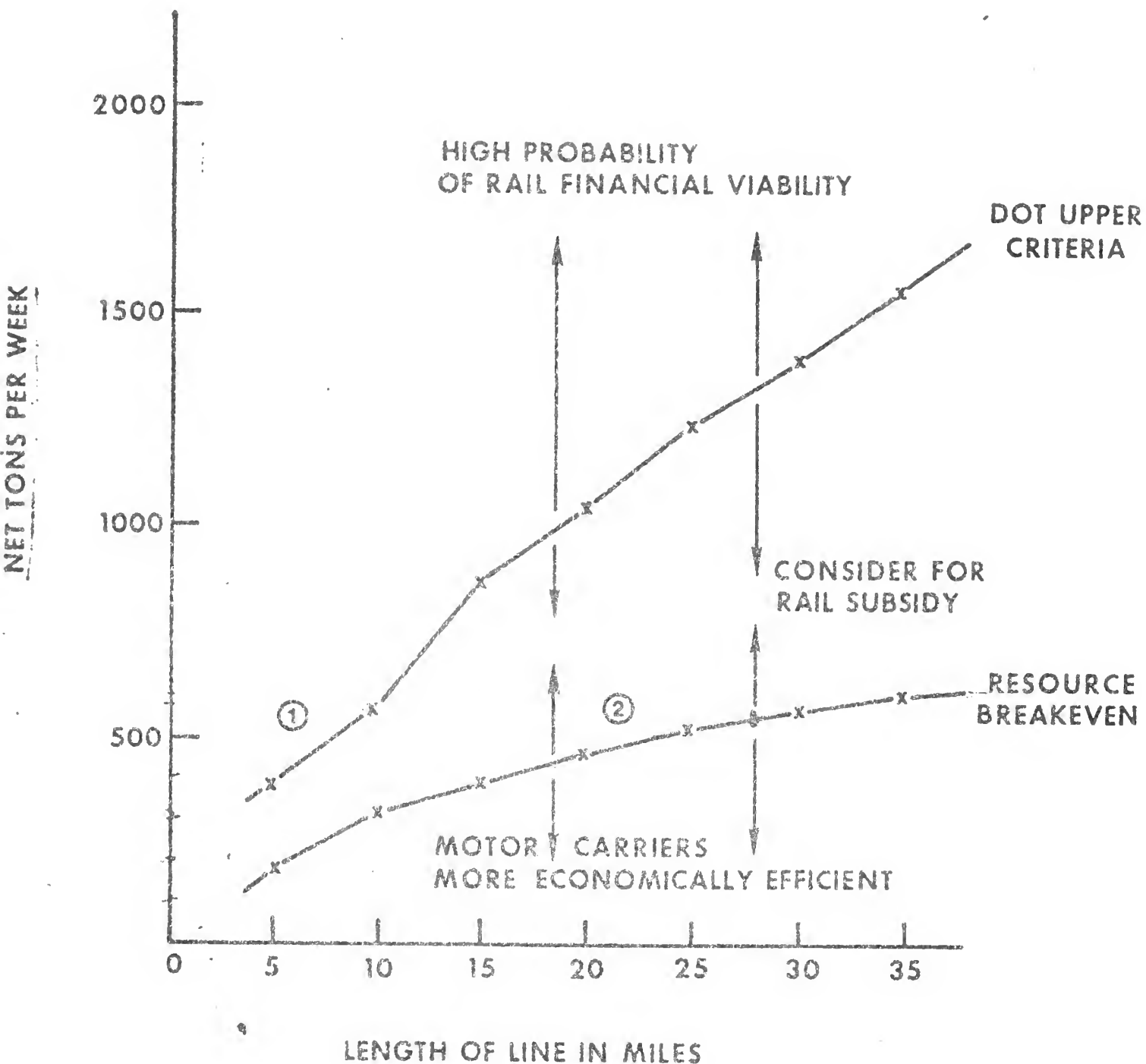
The Lower Limits of Traffic Below Which Support by Subsidy Should
Not Be Considered

The plan also proposes certain lower limits of traffic below which subsidy should not be given, as shown in Figure 3. In other words, lines with traffic above the upper criterion would be included in the CRC; those below the lower criterion would be abandoned without consideration of subsidy; those between the two criteria would be considered for subsidy if initiative were taken by local or state governments. This lower criterion line is not based on the lower criteria of the Banks report, but upon an analysis (the details of which are not revealed) made by DOT of the relative costs of shipment by rail and motor carrier for the given volumes and distances. It will be noted that while the line rises initially it levels out at about 30 miles; beyond this, additional cars would not be necessary for the line to be continued. The initial rise, however, is somewhat surprising, considering the importance of terminal costs in rail operation over shorter distances and the nonrelevance of freight rate structures in comparing rail and motor carrier costs.

The figures of the lower line do not appear to to be unreasonable. They are expressed in net tons per week rather than cars per year, but, with the average car loading of 50 tons (and 52 weeks in a year) the figures, with adjustment of decimals, are almost identical. For a 5 mile line, 175 tons are required per week or 7,800 per year; for a 10 mile line, 275, or 14,300 per year; 20 mile, 450; 30 mile, 525, or 30,000 per year. In other words, for a 10 mile line about 28 cars per mile per year are required instead of the 66 for the upper criteria for inclusion in the CRC.

RAILROAD-MOTOR CARRIER BREAKEVEN ANALYSIS FOR LOCAL SERVICE LINES OF VARYING LENGTH

- ① NET TONS PER WEEK NECESSARY FOR A HIGH PROBABILITY OF FINANCIALLY VIABLE RAIL OPERATION.
- ② NET TONS PER WEEK PER CONSUMPTION OF AN EQUAL AMOUNT OF RESOURCES BY MOTOR CARRIERS AND RAILROADS



SOURCE: (1) FRA REPORT OE-73-3

(2) FRA OFFICE OF ECONOMICS

From: Rail Service in the Midwest and Northeast Region, A report by the Secretary of Transportation, Volume 1, 1971

These figures were compared with the actual traffic volumes of Class II railroads in 1968 (the last year for which published data are available). Of a sample of 207 lines, only thirteen had traffic below this figure (all but one in the eastern district). Three of these roads showed an operating profit. The sum of the operating deficit of five was only \$33,702. A very small sum of money could have insured keeping even these lines in operation.

There is serious objection, therefore, to the use of any one figure as an arbitrary one below which subsidy will not be considered. Certainly these roads are likely to be submarginal, but, given the type of freight and the nature of operations required, they may be able to approximate covering their costs, so that only a small subsidy, justified by externalities, would be required.

Conclusions.

The need for lessening duplication of main line operation and for either abandoning or subsidizing light traffic lines is clear, not only in the northeast but in other parts of the country as well. The general philosophy of the DOT plan along these lines is obviously a necessary one. But serious questions can be raised:

1. The sacrifice of a large number of secondary main lines may result in greater cost than gain--through loss of direct routing, increased congestion in major terminals, and loss of service to the communities involved.

2. The use of the 75 car rule appears to have little justification and is responsible for much of the proposed line abandonment; elimination of it in development of the revised plan is clearly warranted.

3. While the strict policy of DOT in using the upper criteria of the Banks study, instead of the estimated figures, can be questioned, at least a case can be made for so doing.

4. In revising the plan, the rigid formula approach must be abandoned, with proposals modified in light of specific conditions of rail use in various areas and particularly recognizing the significance of freight car shortages in depressing use on certain lines in 1972. The grain elevator lines are particularly affected.

5. DOT has not, in the plans, given consideration to externalities-- pollution, energy use, road costs and congestion, etc. Clearly these need to be considered in determining subsidization policy. Because of these factors, which are of national concern, the rule of the legislation, that initiative for subsidy must come from local and state governments, is unfortunate.

6. Determining of eligibility for subsidy should not be based on a rigid formula, but local conditions need be considered.

7. The radical approach of the DOT plan has created extreme uncertainty in the communities threatened with loss of rail service. Plans for expansion have been stopped; relocation is being considered. The sooner this uncertainty can be dispelled, the better for all concerned. The solvent railroads can assist by making clear to shippers which portions of the plan they do not plan to implement; the most serious problems confront the shippers on the bankrupt lines.

There is some danger that the DOT, through overkill, may have sabotaged what it was seeking to accomplish, by creating intense opposition to the

whole program. Abandonment of a rail line is an action that cannot be undone a few years later; loss of a line has significant long run implications for a community. A case can be made, therefore, for a policy of giving the benefit of the doubt to continued operation--as abandonment is always possible in the future while rebuilding of a line normally is not--whereas DOT went to the opposite extreme.



UNIVERSITY OF ILLINOIS-URBANA



3 0112 060296784