Railroads to Shippers: That's Tough!

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For the better part of a century (1880's-1980's) railroads -- for the most part -- tried to accommodate all who desired their service. Many private railroad companies went broke doing it. They were, after all, common carriers. Rail industry culture -- in spite of some external criticism -- largely took that public service role quite seriously. But the world had changed by mid-20th century. Private rail companies were forced to confront the new reality of highway, waterway and aviation competition, most of it generously sponsored and underwritten by taxpayers (including taxes paid by the private railroads themselves). Now in the world of considerable --but not total -- deregulation, roles are sometimes reversed. With considerable monopoly, or near-monopoly, pricing power in some situations, freight rails appear to often wield the whip hand in their relationship with some -- but certainly not all -- of their customers.

We recently saw an article concerning a particular business segment of the rail freight industry, in which the term "reinvestable business" was used in describing a bench-mark revenue standard used by the rail industry to decide whether to continue to serve a market, or a customer within a particular market. If current or anticipated revenue does not meet that standard, the customer may well be told: "That's Tough!" The same article (TRAINS, October, 2013, page 30) quotes a rail CEO as saying: "if we can't get reinvestable levels (of revenue), we'll walk away from the business".

That is good business practice, as taught at Darden and by other graduate business schools across the USA. It tends to maximize asset utilization and revenue, reduces costs, increases profits, and drives share prices upward. Investors applaud. As a minimalist holder of rail industry shares, I like current rail industry financial results. Wealth appears to be created by rising dividends and appreciation in stock prices. That said, is the nation better off or not? Realistically, that may not be a concern of rail CEOs, but it does raise a public policy question for consideration by those who deal with highway taxes and funding. Often, it is underpriced highway access/user costs that thwart rail efforts to generate revenue levels that would make cargo-handling on the rails a "reinvestable business". There certainly are, of course, other considerations as well.

Virginia's recently-enacted transportation revenue "fix" -- welcome though it was -- appears to have once again given truckers a pass on paying their proportionate share of highway maintenance costs. Now, the federal highway trust fund is said to be headed for bankruptcy in 2015. Yes, we understand that the U.S. went off the "boxcar standard", and now relies primarily upon trucks, but railroads could and should be able to do more of the heavy lifting. That won't happen unless the economics of competitive transportation are brought closer into balance. If not, look for more heavy-haul rail freight to migrate to highways in coming years. You might want to share your views with your congressman, as they may take up reauthorization of highway funding in the coming year. The alternative to higher truck taxes is more general fund subsidy of highway maintenance costs. Since 2008 that number is about $32 billion, and counting.