The Consequences of Rail Deregulation

By Richard L. Beadles

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Thirty years ago today, President Carter signed into law the Staggers Rail Act of 1980, the so-called deregulation bill, which has since been celebrated by many as the defining act from which came the financial rebirth of the rail freight industry. Consider CSX 3rd Q 2010 earnings, for example. A recent article in **TRAINS** magazine exclaims: "*How Deregulation Saved Railroading*". Well, it certainly has been important to the surviving rail freight operators, especially to the big four, and that is surely good, but there were some other less-well-publicized aspects, including unforeseen consequences.

A point of personal privilege, please. Having had a ringside seat, this writer witnessed the sickening downward spiral of the rail industry in the 1960's. For 130 years railroads were railroads, without distinction as between passenger, freight, and many other ancillary services. The late fifties and the sixties were a miserable time for railroading. Federal transportation policies which promoted air, inland waterway and highway transportation, coupled with 19th century attitudes toward rail transportation, operated to greatly disadvantage private rail operators. Mindless regulation was a major factor contributing to the decline of U. S. railroads. There were other issues as well.

Amtrak, created in 1971 to extricate the private railroads from that hopeless situation, was a major step, but it wasn�t enough to save the private railroads. Massive interstate and other highway construction projects, coupled with the attraction of socialized highway freight transport was simply too appealing for shippers to ignore. Why not use it? So simple, so easy, so nice not to have to deal with railroads and all of their complicated, highly-regulated business requirements and service quality issues. America went for the road big time. Meanwhile, smoke-stack industry in the northeast was imploding. New York Central and the Pennsylvania Railroad collapsed into each other's arms; Penn Central was the result. Then the wheels came off of PC and other railroads. The Feds gave us Conrail, but even with "unit trains" of public funds dispatched from DC to Philadelphia, Conrail wasn't making it either. Labor was a big issue; not to mention too much track, terminals, and some ossified rail management.

Finally, and largely because congress did not have the stomach to correct the economic inequity in national transportation policy, they cut the rails loose with modified deregulation. With that the new bread of rail chiefs did what their former B-school tutors would have applauded. They shrunk the plant, fired hundreds of thousands, shifted from a retail to a largely wholesale model, ran off business, focused on those customers who had few options, and flexed their pricing power. The financial result has been impressive. Rail shareholders and executives have done very well, but how about the general public?

The U. S. lost about 43% of its rail route mileage, much rail freight was dumped onto the highway, and the nation lost billions of dollars worth of rail rights of way which only now we are beginning to realize is often irreplaceable. Was all of this good public policy? A muted Staggers Act anniversary celebration seems appropriate.