

Why railroads are so "difficult"

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Unresponsive, unrealistic, difficult -- words occasionally uttered by those -- particularly those in the public sector -- who seek to gain the cooperation of private railroads in various "public service" endeavors, most notably of late, in regard to passenger trains. Then there is the new, politically-charged, pejorative: *high speed rail*. If the relationship between the private railroads and the public sector were personal, it might well represent the longest running love-hate affair on record, dating back to 1830.

Government -- initially states, cities and towns -- was a major investor in pre-Civil War rail development. There followed the transcontinental railroad projects which brought the federal government into the mainstream of rail investment. Most started out in a financial embrace, leading to something akin to marriage. After the Civil War, the public began unloading most of its railroad stock, often in deals which reeked of political corruption, Virginia being a notorious example. Private-sector speculation in rail development brought forth more railroads than the country could support (there always was, and still is, more money to be made in design, financing and construction than in the *operation* of transportation enterprises, e.g. think about Virginia's PPTA program). Intense competition led to discriminatory pricing, and related abuses, which ushered in the age of regulation in the 1880s. By then the public sector and the rails were in divorce court. Teddy Roosevelt came along at the beginning of the 20th century with his trust-busting campaign, further weakening the private rail industry. Woodrow Wilson took over the rail system during WWI, which the industry never forgot, nor forgave. It's in the rails' DNA. The Great Depression was a blow to the restored private operators.

With World War II on the horizon, the rails were called upon to give their all, which they did, at great cost to the physical and financial condition of the network. Rail revenue and profits were largely confiscated by the federal government in taxes. As a reward, post-war administrations in Washington seemingly lost no opportunity to punish the private rail industry with out-dated regulation while investing billions, out of the general funds of the U.S.A. (into which rail taxes had gone), in highways, waterways and aviation, all of which siphoned off declining rail revenue. By the 1960's the rail industry was generally viewed as in "terminal" financial condition. This brought forth Conrail and Amtrak. A further insult to the private rails was to have to pay millions into an Amtrak start-up fund, administered by the feds, who promptly cut in half the national passenger system (routes and trains), an action the regulators had earlier rejected when sought by private operators. Finally, with Conrail and others struggling, and because Congress was sick and tired of dealing with railroad problems, the rails were deregulated.

Whereupon, the private rails dramatically restructured the rail freight system and created a business model that works for *private investors*, which is why rail stocks are highly valued. Rail has now been rediscovered. The White House, with some support, wants reconciliation. But can the original love affair be rekindled? We hope so, because the public sector and the rails will need each other in their old age!

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