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State Government Policies in Great Plains Rail Restructuring
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Although states are charged with rail system planning responsibility under the Railroad Revitalization and Regulatory Reform Act of 1976, these plans and their implementation are subject to approval by the Federal Railroad Administration. Therefore, the role of state government in restructuring the rail system must be placed within the perspective of Federal policy.

Federal Rail Policy

Current Federal policy includes the following elements.

1. Railroads ought to be privately owned businesses earning the going market rate of return on investment if they are to attract private capital and survive.

2. This rate of return ought to be earned on each line from revenue earned for services provided. Each line should provide revenue sufficient to cover operating and maintenance costs and the return on investment.

Federal funds will not be available for subsidy and a railroad cannot burden interstate commerce by cross-subsidizing local branchline service with earnings from other lines. However, if state or local officials believe that local rail service provides benefits beyond those received and paid for directly by shippers on a line, they can offer a subsidy to the railroad. In negotiations concerning possible state subsidies, the railroad often has an advantage because of their federally supported threat to abandon lines not earning the market rate of return.

3. Without such possible state subsidies, the prescribed return on local lines can often be achieved only if rates are raised or rail costs are reduced. General rate increases are not allowed with the one exception noted below. Rates are to be adjusted individually to reflect the demand for service rather than the cost of service.

In regions where water transportation is relatively accessible, demand for rail service is constrained by this competition and rates will also be constrained. Rates will increase for "captive" traffic; i.e., large volume shipments of bulk commodities such as coal and grain for which there is no nearby water transportation alternative. This suggests that much of the railroads' revenue shortfalls will be extracted from the Great Plains region.

This rate making philosophy implies that price discrimination within commodities and between shippers and locations is now necessary and desirable rather than illegal, as it was for most of this century. Where there is no competition among railroads, rail rates will be based not upon rail costs, but upon truck costs. With respect to reducing costs, there is a Federal Catch-22 for local branchlines: (i) general rate increases are allowed in order to recover cost increases; (ii) where trucking costs exceed rail costs, competition among railroads is to be relied upon to constrain cost increases; and (iii) where traffic is not sufficient to economically justify such competition, costs are to be reduced by elimination of competition among railroads.

Thus, rate of return policy, rate policy, and cost policy all suggest greater rail rate discrimination against those regions already paying higher transportation costs. What does this suggest for the role of state governments in the Great Plains?
State Rail Policy

First, states must attempt to retain rail competition by keeping more than one transcontinental carrier or a regional carrier with access to more than one of the transcontinentals. This will require financial and political commitment from the states.

Second, states may need to purchase lines which provide interchange capability and potential access to the national rail system and world markets. These lines need to be retained to provide both a hedge against increasing highway and truck costs, and the ability to change private rail operators without going through periods of deferred maintenance, poor service, and the abandonment process.

Third, where continued rail service is deemed essential for local agricultural or employment reasons, states may have to subsidize such service. The provision of direct subsidies, however, may require long term state commitments that are politically impossible or unconstitutional.

Various forms of indirect state assistance, such as the following examples, may be more feasible. Highway authorities might accept responsibility for rail crossings and signals. Tax relief may be granted to rail operations. States may purchase rural lines to reduce a railroad’s investment and the revenue required to achieve the necessary rate of return. If such purchases are funded by bond issues, traffic surcharges or taxes may be needed to retire the debt. If a railroad operates on publicly owned track, it might be allowed to charge rates which include a return on taxpayers’ investment. The state might provide legal and administrative assistance to shippers and local governments who wish to organize and support continued rail service.

For the long term survival of service on lines deemed essential, state government may also need to provide incentives for traffic development. It might assist in attracting new rail-using industry to locate on essential lines and in helping existing shippers to expand their rail use. State industrial and agricultural development agencies could assist with site identification, leasing or acquisition; identification and coordination of potential sources of financing; state and local tax incentives; market analysis and feasibility studies; and negotiation of rail rate and service provisions.

Thus, although the role of state government is limited by Federal policy, there are ways in which states can actively participate in determining their future rail service. Without such participation, states may find their transportation service eventually eroded and their economies curtailed.

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