TRANSPORTATION PROBLEMS IN MISSOURI AGRICULTURE

Department of Agricultural Economics
University of Missouri-Columbia

Report of Seminar
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One of the less welcome problems to come into view in Missouri agriculture in recent years has been a range of issues in agricultural transportation.

The issues have taken various forms. A couple of years ago, as Richard Wilson notes in his paper (page 24), agricultural shippers were most concerned about a shortage of rail freight cars. Among more current issues are abandonment of rail trackage, deterioration of highways, weight limits on trucks, user charges on river barge shipments, and the still-uncertain impacts of the federal laws of 1980 deregulating or, some say, re-regulating rail and truck transportation.

The public seminar reported here is the ninth in a series. This year's was sponsored by the College of Agriculture and the Extension Division of the University of Missouri-Columbia. Previously seminars were co-sponsored by the Perry Foundation of Robstown, Texas.

It is expected that the seminar series will continue in 1982 and later years. Each year's topic will relate to an issue in agricultural marketing and policy of current importance. The seminar will be funded via an Agricultural Marketing and Policy Forum Fund that is being established under the UMC Development Fund to provide continuation of the seminar series.

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College of Agriculture
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Extension Division
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held
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Many of our basic concepts and beliefs come from three sources -- the Declaration of Independence, the Constitution, and common law. Some of our cherished beliefs are freedom of speech, freedom of the press, private property rights, free enterprise, and the right to life, liberty, and the pursuit of happiness. One other, which emanates from the common law, and which was much favored in the early stages of the development of our economy, was laissez-faire, a doctrine opposing governmental interference in economic affairs. This doctrine became more or less sacred until after the Civil War.

As could be expected, the Civil War severely disrupted all sectors of human existence. The economic sector of our nation was one area that was affected with dire adversity.

A serious depression followed the Civil War. Like most depressions at that time, the agricultural element of the economy suffered more than most other elements. Farmers were looking for the cause of the depression. At the same time, the public had become disenchanted with railroading. The railway firms were the largest firms in the nation and therefore quite powerful and were, in some instances, taking advantage of their position by some questionable actions. In addition, many people had purchased railway stocks and bonds, expecting large dividends and appreciation of values. But just the opposite happened: no dividends, no appreciation. Consequently, people disliked the railroads.

The Granger movement, a post-Civil-War organization of mid-west agricultural interests, became rather influential in the political arena. In the 1870s, state after state passed laws to regulate and control the railroads.

Legislation is enacted to correct a problem. Legislative actions are intended to remedy an undesirable circumstance. Legislative actions must represent some philosophy. A perceived problem must be considered to be very serious before philosophical changes occur. This is the thread running through transport laws.

Following the Civil War, when the railroads were out of favor with the public, individual states passed legislation to control them. The 14 or 15 laws are known as the Granger laws. The public believed the railroads to be monopolistic. In some cases they were; in other cases, they competed against each other. Granted, the railroad industry enjoyed a monopoly on land transportation. Their only competition at the time was the horse-drawn wagon -- not much of a competitive threat.

If one lived in a small town, only one railroad would serve that town. To the shippers in that town, the railroad was a monopoly. However, several railroads were built between major market areas. In shipping from Chicago to Kansas City, five or six railroads competed for the traffic. Regardless, the public perceived the railroads to be quite monopolistic.

Believing the railroads were monopolies, and believing monopolies to be inherently harmful, legislatures enacting the Granger laws attempted to make illegal those acts which uncontrolled monopolies can force upon the public.

One of the greatest fears people hold about a monopoly is that it can price its product or services unduly high. Consequently, the Granger laws contained provisions controlling maximum rates. Railroads participated in pooling arrangements, both money and traffic pools, and pooling can occur only in a monopolistic model. To forestall this practice, the Granger laws made pooling illegal per se. Since it was believed, correctly, that the railroads were very large business organizations, mergers and consolidations were made illegal per se. The public did not want any one railroad to become larger and thereby more powerful in the market place.
The legislation of the time represented a philosophy of enforced competition. The intent of the regulation was to outlaw monopolistic practices and thereby force the railroads to act like competitors, whether they were or not.

The Congress of the United States also was concerned with the railroad problem. Congressional committees were appointed to study it and instructed to report to Congress and recommend any needed action.

In 1887, Congress passed the Interstate Commerce Act. This act compromised the Granger legislation when it was felt that legislation was not effective. However, it also copied those provisions of the Granger laws which were felt to be effective and in the public interest.

The maximum rate provision in the Granger laws was not effective and in some states had been declared unconstitutional. Congress compromised by stating that rates must be just and reasonable. No criteria were formulated to measure what is just or what is reasonable. Many Commission orders, court decisions, and even more laws of Congress were required to determine some semblance of acceptable criteria.

The Interstate Commerce Act of 1887 also made all pooling arrangements and mergers illegal per se. Here, Congress adopted Granger provisions thought to be in the public interest.

The philosophy of the Interstate Commerce Act paralleled the philosophy of the Granger laws -- a philosophy of enforced competition. It was still generally believed that railroads were big, powerful companies and that the public needed to be protected.

This philosophy of enforced competition was in effect until 1920. Because of World War I, the public's former fear changed to a feeling of sympathy. The citizenry realized the railroads had contributed greatly to the victory of World War I and were appreciative.

Between 1914 and 1920, all efforts were aimed to expedite the movements of troops and war materials and little effort was expended in maintaining the physical facilities or worrying about the economic position of the railroads. Consequently, by 1920 the physical plant had lapsed into terrible condition. It was estimated that $6 to $8 billion would be required to improve the plant to its 1914 condition. In addition, the costs incurred when operating in 1920 reflected 1920 prices, which were inflationary. The rate structure, unfortunately, was based on 1914 prices. So the situation existed where the railroads were in need of billions of dollars with no opportunity to acquire funds. They could not earn enough to have surpluses for capital outlays and could not compete in the private capital market. A dilemma existed. A new philosophy of regulation was sorely needed.

The new philosophy in the Transportation Act of 1920 was -- and remains to a degree -- one of a regulated monopoly. We recognized that railroads are monopolistic in character and we chose to regulate them as such, no longer trying to make them act as competitors. Underlying most regulation since 1920 is the idea that the railroads should be attractive to private capital. To be attractive, they must have an earnings potential comparable with alternative investment opportunities.

An important provision of the Act of 1920 is known as the "rule-of-rate making," Section 15a. In this provision, Congress instructed the Interstate Commerce Commission to help the railroads earn a fair rate of return on a fair valuation of their transportation assets. This provision is obviously pro railroad. If this goal is realized, railroad companies will be able to attract private capital.

Other provisions of the act implemented actions to assist in realizing the income goal -- the recapture clause; the division of joint freight bills clause; and the provision for federal control on intrastate rates, which gave the ICC authority to raise intrastate rates to the interstate rate level if the intrastate rates were a burden on interstate commerce.

Two other provisions of the Transportation Act of 1920 clearly illustrate the change in the philosophy of regulations. Pooling and mergers were absolutely
illegal until 1920. The Act permitted pooling if the applicants could show the pool to be in the public interest. With regard to mergers, the Act not only permitted mergers but actually encouraged them. The Commission was instructed to devise a merger plan, indicating that it was to take the initiative in the merger process. These provisions indicate the willingness to accept some of the formerly feared monopolistic practices, and to tolerate less competition between firms.

Unfortunately, this act was not completely successful. The railroads never did earn a fair rate of return in the 1920s, and, naturally, the depression of the 1930s made the railroads unprofitable as it did most other industries.

The depression of the 1930s was another highly disruptive force in the attempt to regulate railroads. The depression literally made it impossible to realize the goal of the rule-of-rate-making -- to earn a fair return on a fair valuation. Other measures had to be introduced.

In the Emergency Transportation Act of 1933, a new rule of rate making was introduced. It contained a clause which later led to a new philosophy of regulation. The new rule-of-rate-making stated that the Commission must consider the effect of rate changes on the volume of movement. The railroads strongly objected to this provision since they alleged they made such a consideration before applying for rate changes and that they were in a better position to make this determination than was the Commission. At this time, it is obvious that the intent of the provision was solely aimed at the railroads.

In 1935, Congress passed the Motor Carrier Act. The trucking industry has since been regulated by the Interstate Commerce Commission. A serious question developed: if a rail rate change was proposed, was the Commission to restrict its consideration to how the change affected the movement of traffic on only the rail carriers or should it also consider how the change would affect the movement of traffic on the motor carriers? Of course, the same question arose if the proposed rate change related to the trucking industry. As the 1933 rule-of-rate-making is still law, this question has not yet been satisfactorily settled.

In the Transportation Act of 1940, inland water carriers became regulated by the ICC. The above intermodal rate problem now involves three modes of transportation rather than two; it has become even more complex.

The Act of 1940 also contained a comprehensive national transportation policy. One clause in the statement of policy, "...and foster sound economic conditions in transportation and among the several carriers," further complicated the regulatory function and in turn led to a third philosophy of regulation. Congress thereby instructed the Commission to regulate so as to ensure that each carrier be financially viable. To be financially viable, each carrier must have sufficient tonnage to provide the needed revenue to pay the operating expenses and earn a satisfactory return on investment.

The third philosophy of regulation is coordination by regulation. The word "coordination" has been used in transportation parlance in two different ways. When used today, it normally refers to multi-modal shipments. In 1940, the word was used to mean the channeling of traffic to the mode and/or firm that could best perform the service in the social sense. In essence, each shipment would make the wisest use of the scarce economic resources.

How did the ICC channel traffic to certain modes? An example or two might explain the technique. If one would ask the traffic manager of a firm who determined which mode or carrier would get the shipment, the traffic manager would most likely indicate that he made that decision. If asked why he used a motor carrier for a particular shipment, he might respond that the rates were much lower. But if a railroad had earlier applied for a lower rate and the application had been denied, then one must ask, did the traffic manager actually decide a motor carrier would get this business, or did a decision by the ICC determine that the motor carrier would get the business? Or again, if the traffic manager gave a shipment to a railroad because no motor carrier had the authority to serve the destination point and if a motor carrier had applied for and had been denied such authority, who actually was the decision maker? Once more, that decision was made by the ICC.
During World War II and for 10 to 15 years following it, demand for transportation was very high and the ICC did not have to fret about channeling traffic, since most modes and individual carriers were experiencing healthy volumes. In the latter part of the 1950s the economy began to slow down, and some transport firms began to suffer. As the plight of the firms worsened, regulatory concern became more intense.

One of the primary concerns in the early 1960s related to how each mode's regulatory provisions might impact on other modes' ability to obtain traffic. It was thought that no mode should have an advantage because of some federal regulatory provision or policy.

Because of this belief, the ICC and the courts began to relax the restrictions on railroads. For instance, many more incentive rates were permitted, multiple-car rates were allowed, and unit trains and rent-a-train services were permitted. Concern surfaced pertaining to products being regulated in one mode and not in another -- non-manufactured products of agriculture, for instance. Also, the question of whether or not tolls should be charged on the inland waterways came to the fore.

President John F. Kennedy, in his message to Congress in 1963, expressed his serious concern about the state of transportation regulation. Since non-manufactured products were not regulated in the motor industry but regulated in the rail industry, he recommended that at some point in the channel of distribution of these products, they be regulated also in trucking.

All of these concerns has led us, or is leading us now, to a fourth philosophy of regulation. This new philosophy is coordination by competition. Interpreted literally, this philosophy would let the competitive marketing model determine which carrier would get the business.

The much discussed term "deregulation" merely emphasizes this philosophy. However, the term is misused. A better term would be "re-regulation." No one is actually advocating total deregulation. The primary concern at this time is to arrive at some position in which the regulatory provisions are fair for a mode and do not impact unfairly on competing modes.

Transportation regulation has never been very successful. Changes may be regarded as attempts to correct regulatory mistakes or as a response to changing economic conditions, changes in technology, modified trade routes, a change in the character in the products to be transported, and a variety of other factors. Transportation is dynamic. Therefore, regulation must be dynamic. There will be no status quo.
My topic is one of the critical issues facing American agriculture. A transportation system should provide for the efficient movement of products from one point to another, at a given time, and without damage to the product. Unfortunately, the present system has deficiencies which create frustration for its users. Transportation problems are basically the same for a farmer who must move big hay bales to his home from a farm five miles away, as they are for a major grain exporter who must move grain from a Kansas City or St. Louis terminal to some far-distant part of the world.

I was asked to relate to transportation problems in Missouri. Of all the issues involving the Department of Agriculture, the one on which I probably have received most complaints is the bureaucratic morass involved in the movement of hay bales on public roads. Often the farmer has been told by a highway patrolman that he is violating the law when he pulls a trailer load of hay with his pickup. Yet it is perfectly legal if he chooses to pull that same load with his tractor.

Of a more complex nature are the issues surrounding railroad abandonment, and how it will affect the country elevator operator who is trying to determine how he will maintain his operation and what his new cost structures will be. Or, consider the frustration of an elevator operator on an inland water system when he is told he can expect user fees that may alter drastically the competitive climate he is accustomed to.

A rancher faces real frustration when a railroad company that is planning to abandon service to his area is at the same time fighting his only transportation alternative by opposing the recently-passed legislation that would allow larger trucks on Missouri's highways.

We all are aware that our highway system is suffering from a loss of revenue as more efficient cars are developed and as the American public strives to conserve energy.

In the final analysis, it is absolutely essential to develop an intermodal transportation system that will effectively serve rural America.

The problems associated with transportation today are complex, they are multi-faceted, and they are changing rapidly. In the early- and mid-1970s there was a severe shortage of rail cars to move grain from the Midwest to export areas. In an effort to overcome this shortage many large users purchased their own hopper cars. Today there is an abundance of rail capacity and various rail lines are refusing to utilize privately owned cars. The ultimate result of this frustration and chaos in our transportation system is an increased cost to the farmer in the form of a rapidly-widening "basis" for his grain.

During the past few years there have been numerous attempts to address specific agricultural transportation problems. In 1980 the Staggers Act was passed with the intent of deregulating railroads to some degree, allowing for rates to be set based on competition, and to allow the use of multi-car rates. Additionally, we have seen increased user charges on our inland waterways.

As more marginal and light-density railroad lines are abandoned, we will see increased dependence by agriculture on the trucking industry for access to major collection points which are on main line railroad systems or adjacent to navigable water systems. This will ultimately have two effects: initially we will see the country elevator explore methods to reduce transportation costs in an effort to remain competitive. In the broader picture we can expect a further decline in grain movement to the St. Louis, Kansas City, and St. Joseph terminal markets. In place of movement through these historic terminals we will see increased use of 25- to
50-car grain rates to move goods directly to the point of export. In that regard, since 1973 the volume of grain shipped to the Kansas City terminal has declined from 298 million bushels to 225 million bushels, and the volume shipped from St. Louis has declined from a record high of 134 million bushels in 1963 to 71 million bushels in 1980.

Recently, major discussions have centered on the decision by the South Dakota Legislature to authorize the sale of Missouri River water to a "slurry pipeline" in Wyoming. On this issue it appears that the railroads and the water carriers will join in opposition.

The challenge before us is to determine how to bring together all segments of a diverse transportation system. Obviously, compromises must be made. We must decide the role of government and the philosophy which will direct governmental actions. We react negatively to further encroachment of government into our lives. However, unless we forge a more productive relationship, under existing circumstances I believe we will see a need for expanded governmental direction and leadership.

Today there is a need for an unselfish direction by our transportation system so that such an improved relationship can be developed. There has been an adage in agricultural circles that "a farmer doesn't want to own all the land in his area, just that that joins his." In Missouri as well as throughout the nation, we must recognize that no one transportation system can serve all areas of our state or nation. We cannot expect that one system will retain all the high-volume, economically-beneficial business and leave the less beneficial business to another mode. But it should be reasonable to expect that an ultimate willingness to work together for the common good would maintain economic vitality, not only for the transportation industry, but for agriculture and all sectors of our economy.

FREIGHT TRANSPORTATION FOR MISSOURI AGRICULTURE -- THE SITUATION AND THE PROBLEMS

Jon C. Hansen
Assistant Vice President, Transportation
Kansas City Board of Trade

My remarks will reflect the fact that on the Kansas City Board of Trade we deal only in grain. Moreover, our principal concern is with rail shipment. The rails are regulated, but trucks and barges are not. Trucks and barges are not a problem to us. Their rates are all contractual.

As I see it, the rate problem on rail transportation was solved to a degree early in 1981 when railroads serving our area put in mileage rates. Previously the rates on grain to Kansas City were disadvantageous to Missouri producers. Mile for mile they were much higher than those from Kansas and Nebraska. When the mileage rates were put in this ironed out one of our problems. Even so, we face what appear to us to be a number of inconsistencies in rates. Some of the carriers, the MKT for example, presented a problem on the rate from southern Missouri. Her main competitor let us use the shortest mileage, that of the MKT and Missouri Pacific via Sedalia rather than the circuitous route through Joplin, which kept them in business.

The Missouri Pacific had mileage rates in effect on soybeans for quite a while. The road's new rates on grains other than soybeans, for distances up to about 150 miles, are lower than those for soybeans. The M-P will not lower the soybean rates; I do not understand why. The mileage scale from Kansas City to around Jefferson City or south to Nevada is higher for beans than for grains. Those counties produce 10 percent of Missouri's soybeans. I consider those rates detrimental to soybean producers in the area.

North of the river, though, around Carrollton, beans move on the Santa Fe anyway. The Rock Island line's abandonment from St. Louis to Kansas City was a detriment to producers in the area served. The Southern Pacific, in acquiring that line of the Cotton Belt, has as one reason that the Rock Island was a shorter route to St. Louis and from there to the west coast. We will not have that unless the
Rock Island line is rehabilitated. To do that would be expensive. I believe the State of Missouri is working on that problem.

In the northern part of Missouri, north of the river, concerns are expressed regarding forthcoming potential abandonments by the Burlington Northern. In their three year plan the B-N plans to abandon much of the lines north of the river, including a branch to Maryville. It will abandon Laclede, Meadville, Wheeling, Chillicothe, Breckinridge, Hamilton, Cameron, Stewartsville, Kearney, Liberty, Wayland, Granger, Arbela, Memphis. The branch line over toward Edina will be in operation up through March of 1982. If these abandonments go through, can trucks handle the grain? Can the bridges take the weight? Are the highways adequate?

Another problem we have in grain movement in Missouri concerns the Burlington Northern's rate structure. If you ship export grain from Cameron, Missouri to Houston the rate is $2.01 a hundredweight, for 900 miles. You can go out as far as Beverly, Nebraska to Houston, 1,200 miles, at that same rate. The Burlington Northern needs to review its rate structure in Missouri, to make the Missouri side competitive with the Kansas and Nebraska side. Fall City, Nebraska is 117 miles north of Kansas City, and Chillicothe is 120 miles northeast of Kansas City. The export rate from Fall City is 50 cents less than that from Cameron. For five miles, you pay $1,000 more per car moving your grain to export on the Burlington Northern. At Bigelow, Missouri the export rate is $1.50. Four miles away at Mound City it is $2.08 per hundredweight. What do you pay for four miles? These are some of the problems in the rate structure for export movement.

Domestic rail carriage has been taken care of by the mileage rates, if they remain in force.

Since October 1980, railroads have had much more freedom than before in rate making. The change has not affected the rate levels per se, in my mind, except that the railroads can change rates on much quicker notice. Prior to that it took 30 days' notice to increase or decrease a rate. Now railroads can decrease a rate on 10 days' notice, and increase on 20 days' notice. Of course, you always have short notice in special circumstances. The Interstate Commerce Commission is very liberal as to short notice, permitting reduction in even less than 10 days. These quick notices make it so that shippers, such as Lowell Morse of MFA (see page 47), do not know what rates are going to be from one day to the next. A railroad will reduce rates, and the tariff in your hand may have been in effect for a week. It is a nightmare keeping abreast of other rates and knowing what they are.

Rates are an administrative problem for shippers, and for all managers who try to keep their clients and bosses aware of what is going on -- what the rates are and when and where they might change.

Rates are a competitive problem for Missouri agriculture. There are problems of discrimination, as I see them, on some of the rates in the northern part of Missouri, into Kansas City and elsewhere in a big producing area. These are putting most producers behind the eight ball in marketing their agricultural products. Any inequity in charges for grain transportation of similar distance is clearly injurious to the producers affected.

FREIGHT TRANSPORTATION FOR MISSOURI AGRICULTURE -- THE SITUATION AND THE PROBLEMS

John M. Ringenberg
Executive Vice President, Mid-America Farm Lines, Springfield

First, I want to make it clear that I speak from a background of knowledge and experience different from that of the people who have preceded me on this program. All of my experience has been weighted toward food transportation. With regard to barge problems and hopper cars and matters of that nature, my knowledge is very limited.
My present responsibility is management of Mid-America Farm Lines, Inc., a trucking cooperative owned by 27 farmer member cooperatives located throughout the United States. Some of the members' names are familiar, such as Ocean Spray Cranberries, Welch Grape Juice, Land O' Lakes, C&H Sugar, MFA, Mid-America Dairymen, and Farmland Industries. This cooperative truck line operates under that portion of the Interstate Commerce Act which grants exemption from regulation, except for safety and hours of service, to any bona fide cooperative or any federation of cooperatives. Our basic purpose for existing is to have the means whereby all of these cooperatives can pool any or all of their transportation needs that they want to, and thereby insure dependable service for their members at a competitive price. That portion of the Interstate Commerce Act gives the cooperative the right to haul products for any of its members; in addition, in order to prevent the trucks from returning empty it is permissible to haul 25 percent of members' interstate tonnage for so-called non-members. To state that in another way, for every 100 pounds of farmer member tonnage that we haul, we can haul 25 pounds for anyone. That freight can be bathtubs or carpets or airplane parts or whatever can be obtained. The freight can be carried as trucks move to a location to bring back a load to a cooperative, or return after delivering a load of cooperative freight. This authority for back haul has been a big advantage to farmer cooperatives in years past, primarily because they have had a limited number of carriers available at their disposal. Prior to the truck deregulation act of 1980, if any motor carrier desired authority to haul any freight, except primarily fresh fruits and vegetables, it was necessary to file an application with the Interstate Commerce Commission. After the application was filed, a hearing was held wherein the person desiring the service made a presentation and he was cross-examined by any carrier who desired to protest the application. This resulted in rather lengthy and costly hearings, and decisions were usually slow to come. And normally if an application were made to, say, haul building materials from Missouri to Texas, when that grant was finally made, it would be phrased on the order of not building materials in general but some portion, such as bricks; not from Missouri but maybe Columbia; not to Texas but maybe Austin. So the outcome might be bricks from Columbia to Austin. As a result the number of carriers permitted to supply service to any company including farm related ones was very limited. It was almost impossible to expand the number of carriers available.

In the truck deregulation act of 1980, the rules are relaxed so that a carrier need only show that it is fit, willing, and able to provide carriage and that the carriage would serve a useful public service. And the only basis on which another carrier can oppose that application is to show that this service would be inconsistent with public convenience and necessity.

As a result of this change in criteria for granting authority, about three things have happened. One, the millions of dollars that the over-the-road common carriers have spent to obtain authority to haul various products have become virtually worthless. In the case of Roadway Express this amounted to $26.8 million. I noticed Yellow Transit wrote off over $15 million last year as a worthless asset. Two, we are told that over 1,000 new carriers have been granted authority. Three, during the past year alone, over 44,000 pieces of authority have been granted to common and contract carriers. And contrary to the previous attitude of the Commission, whereby very limited authority might be granted, the request is that a carrier file for a general classification of product. The authority might apply to "foodstuffs," for instance, even though only canned goods were to be hauled. And the policy now is that a request should apply to shipping from general areas to other general areas.

These new rules are a great advantage to most shippers. In addition to having a large number of carriers to choose from, it gives them the opportunity to bargain with those carriers for cheaper rates. Companies can now get into the freight hauling business without any great outlay of money, and without serious obstacle in obtaining legal authority. All the rolling stock can be supplied by a greatly expanded breed of self employed independent businessmen, called owner operators.

In this method of hauling freight, a company receiving authority to haul certain products makes a contractual arrangement with an individual to do the hauling. He will receive a certain percentage of the gross revenue, normally 75 to 80
percent. The freight company is relieved of the financial obligation to buy equip­
ment, and is guaranteed 20 to 25 percent of the gross revenue -- enough for a pro­
fit if the owner operator can be kept happy, and if enough shippers can be found to
balance the freight outbound and inbound.

The owner operator buys his own fuel, usually at a cut rate self service sta­
tion, makes most of the minor repairs to his tractor himself, and drives his equip­
ment in a more prudent manner than the normal company truck-driver employee. All
he normally needs is a great number of miles. All truck rates, regardless of how
quoted, must be based on some sort of cost per mile; and the longer the run, gen­
gerally, the less cost per mile.

The situation in highway transportation is basically that an increasing number
of carriers, primarily non-union owner operators, desire to haul freight for long
distances and can do so at very competitive rates. This has to be good for Missouri
agriculture and for freight movements in general.

Yet some pitfalls may become evident in the next few years. Survival will be
very difficult for companies owning their equipment, paying high priced union wages
including fringe benefits, pensions, hospitalization, vacations, layover time, un­
loading time, breakdown time, etc., and maintaining their equipment in their own
shops, where the total costs today are about $20 an hour. We are seeing some of
these carriers go by the wayside every day. One viewpoint is that if a company can­
not remain competitive, so be it. In any case, this is happening and at present no
one is suffering from lack of truck service.

One problem is starting to appear among owner operators even this early in
the game. Most of those operators are former truck drivers who have been able to
scrape up enough money to make a down payment on rolling stock. Under normal cir­
cumstances a set of new radial tires would last about 120,000 to 150,000 miles. An
engine will run 300,000 to 600,000 miles before an overhaul is necessary. During
all this time money is flowing in like manna from Heaven and the former truck driver
now turned independent businessman is more firmly convinced than ever that he was
right and that the company makes a fortune at the expense of the lowly truck driver.

But at 150,000 miles that 18 wheeler must have 18 tires for 18 wheels. Each
tire, depending on type, costs $275 to $350. The honeymoon starts to end when an
invoice for $6,300 for the tires is presented. The man then finds that the engine
needs overhauling. The cost may be $8,000, $10,000, $15,000. Meanwhile he still
must make payments on his original purchase. High interest, fuel, minor repairs
and so on suddenly add to more manna going out than coming in. Unless the owner
operator is a good businessman and makes allowance for these expenses he will surely
cease to exist and his equipment will be taken from him.

The only unknown is how many owner operators will go this way. For the present
we can be assured of an ample supply of truck transportation at very cheap rates for
the long haul freight.

As we see some of the old line freight companies go by the wayside and newer
freight companies turn only to long haul movements, two things may happen. Rates
for short haul movement will certainly rise. Just as the airlines are quoting bar­
gain fares from New York to California, or Chicago to Miami, so will the long dis­
tance truck haulers. However, what about shorter distances? Could you get a bar­
gain air freight rate from Columbia to Little Rock, Arkansas? Not likely. It
would probably be as high as Chicago to Miami. In trucking, it would be safe to
assume that where rates are about 80 cents per mile for coast to coast traffic,
they will be $1.15 or more on trips of 500 miles or less.

Over the longer future other changes seem to be taking place in the transporta­
tion picture. With the cost of a barrel of crude at $32 or $34 and due to double
or triple, everyone will be seeking the cheapest possible method of moving product
over long distance. Steel on steel has always been, and for the foreseeable future
probably will continue to be, the most efficient method of transportation. As costs
increase there seems to be no doubt that trailer on flat cars (piggyback) will be
the method to replace over-the-road trucks. The pattern will probably be that
some motor carriers will pick up freight from a 500 mile radius and bring it to a
central location where the railroads will take the trailers across country to another location for delivery by another motor carrier. It remains unclear who will handle this pick-up and delivery function. It's very doubtful the owner operator will have enough advantage to offset the large buying power of the larger freight lines.

Also worth mention among problems of Missouri agriculture is the disadvantage placed on Missouri shippers by the lower truck weight limits in effect in Missouri. Only Missouri, Arkansas, and Illinois remain at the 73,280 pound gross weight limit. This lower limit must place these states and their farmers at a competitive disadvantage with their 45 sister states.

In summary it is my opinion that (1) it appears that we have an abundance of motor carriers available at competitive rates in the near term; (2) we should have some concern for short haul rates and rates from country locations; (3) most major freight lines will be relegated to LTL traffic with a number of closures (I am not referring to the extra large freight lines such as Roadway and Yellow -- the problem area will be the 200-truck operator, the middle class carrier); (4) over the long haul we will see a rapid increase in piggyback movement as energy costs increase; and (5) Missouri needs to get in step with other states in a uniform weight and length bill.

FREIGHT TRANSPORTATION FOR MISSOURI AGRICULTURE -- THE SITUATION AND THE PROBLEMS

Jay J. Vroom
Merchants Exchange, St. Louis

Let us establish the relevance of our subject: if you do not know transportation you do not know agriculture. Agricultural products are bulky, presenting an inherent transportation problem. This obvious fact, though, does not assure that transportation problems and opportunities are always kept in the forefront in national and state policy decision making. In particular, in Washington decision making in transportation has generally been done on a putting-out-fires basis. We do not have a good long range national transportation policy.

One good case example has to do with thought being given in Washington to increasing the waterways users' fees. I will comment later on the negative impact it would have, potentially, on agriculture. For now, the important point to be made is that we at this seminar ought to remind ourselves, and Washington -- policy makers and the public in general -- that transportation is the lifeline of agriculture and agriculture is the lifeline of the nation.

I speak from my experience with Merchants Exchange. I do not have rail expertise like Jon Hansen's. Our market is primarily a barge grain market. Our members represent the major international grain firms, local and regional cooperative grain firms, barge lines, local grain terminal merchants, and barge carriers. Our export volume is essentially made up of corn, wheat, and soybeans that move on the Ohio, Illinois, Mississippi, and Missouri rivers for export at New Orleans. Our trading volume -- trading takes place every day on our trading floor -- last year amounted to 525 million bushels. This compares with 1.9 billion bushels of total export movement of those grains by barge last year. We account for a little more than a fourth of the total.

I prefer to rephrase my assigned topic in terms of Missouri's transportation opportunities. Missouri, particularly the eastern half, and much of Illinois are in position to capitalize on some important water transportation opportunities. Those opportunities lodge in the fact that Missouri and Southern Illinois have access to the Mississippi below the locks, where it is ice free. Publicity about lock and dam 26 has revealed to everyone that locks are a potential bottleneck. But even the rebuilding of lock 26 does not alter the fact that large tows moving below lock 27 near St. Louis must be broken up and moved piece by piece if they are to go through the lock system to the north. With regard to winter ice, we can
expect some severe winters and the nearly ice free river water below St. Louis gives Missouri and Southern Illinois a geographically advantageous location.

I digress to comment a little more about lock and dam 26. Congress has appropriated only for a single lock chamber. The old dam has had a second, auxiliary, lock chamber. In order to enact the 1979 law for rebuilding lock 26 it was strategically necessary to confine the program to a single chamber. Although the new chamber is larger and more efficient, it is now time for agribusiness to marshal its political strength to get authorization for a second lock chamber. It is still technically possible to add a second chamber, which is necessary as back-up for efficient long range use of the facility.

Even though the Merchants Exchange is primarily related to grain transportation, the barge industry serves agriculture in ways other than grain alone. It moves inputs for the farm sector, as well as the outputs. These are bulk materials -- fertilizer and petroleum products, plus coal for the Missouri utilities that farmers, like others, depend on. All this movement is tied to Missouri inland ports.

As improvements on the river system continue and the private sector invests more money in the barge and towboat fleet, Missouri and Southern Illinois will be able to exploit even further their two advantages (below locks, and year-long operations). Ports along the river will increasingly become pooling and storage centers for agricultural inputs and outputs. A case in point is the building of several bulk handling facilities in or fairly near St. Louis. Obviously, the private sector recognizes that there is a need to have handling facilities that accommodate intermodal connections with truck and rail. For example, in the last two years the Pillsbury Company has brought on stream a very efficient facility for handling fertilizer and grain.

Now I cite a few data on grain exports in 1981. Wheat exports for the first nine months were actually slightly ahead of 1980. However, corn, soybeans, and sorghum fell well below year earlier levels. So we have now a lower volume of the feed grains and soybeans which move principally by barge through the inland waterway to the port of New Orleans. At the same time we have an expanded capacity on inland waterways to provide transportation. More money has been put into barges and towboats, but demand for grain hauling slacked a little in 1981. In addition, we had a mild 1980-81 winter so that transport equipment was used more efficiently. For these reasons the values for barge freight service have dropped. Prices have responded to the supply-demand cycle, dropping to the point where a lot of service on inland waterways is being provided at below cost in the hope that the situation will right itself. In the summer and fall of 1981 we saw prices for barge freight service go from a high of 265 percent of the benchmark, equivalent to 36½ cents per bushel from a point on the Illinois river at Peoria, to a low of around 14½ cents per bushel. The change shows how the barge transportation system reacts to supply and demand, responding to the opportunities, or lack of them, in the market place.
FREIGHT TRANSPORTATION POLICY: THE PHILOSOPHY AND THE CONTENT

Harold F. Breimyer
Professor of Agricultural Economics and
Extension Economist

My role is to put the transportation issues of this seminar into perspective.

The story has been told often about the death-bed comments of Gertrude Stein. Supposedly she whispered, "What is the answer?" Still in possession of faculties and breath she followed with, "Come to think of it, what is the question?"

The story is instructive even if apocryphal. It fits our seminar topic of freight transportation in agriculture. How indeed do we pose the question?

It's easy to recount ailments, grievances, shortcomings. Our highways are breaking down; rail freight services and charges for them are almost a lottery; rail freight shippers owning their own cars can't get somebody else's locomotive to pull them; whether a business in Fulton, Mexico, or Kirksville survives may depend on decisions made in Washington or Jefferson City; barge carriers and shippers come up against a true Gertrude-Stein question, namely, who owns the water in our rivers? Each mode is sensitive to what happens in competing modes. And so on.

Much of the seminar was devoted to bringing to light the experiences and the problems of Missouri carriers and shippers. This is a proper format, if only in that it provides a mix of points of view.

Even though problem-oriented it was a policy seminar. Policy ought not be made piecemeal. So we ask for perspective.

During my tenure on the Rural Transportation Task Force (1979) of which Richard Wilson also was a member, I raised my voice often that we were fractionating too much and integrating too little. We suggested reasonable solutions to narrow problems, without really considering how well they added to a coherent whole. But that is par for any policy course. In all policy debates in agriculture or elsewhere the charge is levied as routinely as the Amen to a prayer that everyone worries about bits and pieces when what is needed is a well-thought-out, consistent, coherent, unified policy.

We seem always to use those same adjectives.

Of course we need such a basic policy for freight transportation. We also need a Solomon to make it and a Pericles to administer it.

But we are lesser mortals. All we can do is expose the issues, exchange ideas, and perhaps come to a few tentative judgments.

Elements of Transportation Policy

The central theme of Dr. Edwards' message is that our nation has always had a policy for transportation. Not since our earliest years has transportation been left entirely to chance.

In the U.S. tradition policy-making has been more pragmatic than conceptual. Nevertheless, origins of national concern can be named. First was simply the obvious need for good transportation in a country that is so geographically dispersed. Only the Soviet Union is burdened by such a buckshot scatter of people, energy sources, metals, and farmland. People are congregated on two coasts, 3,000 miles apart separated by two mountain ranges, and in a new third center also on the continental border, Florida and Texas. Iron ore is in one place, coal to smelt it another, timber in the South and West. Farmland is in the nation's center, remote from all else.
A second and different reason for a public role is the fact that all transport requires a right of way, which is to say, an access to the public domain whether it be land, air, or water. Further, once that access is attained it often conveys a degree of protected privilege, an element of monopoly.

If anyone supposed waterways not to be in the public domain, recent aggressions about disposing of river water correct the notion.

The third root of public interest is least understood but most powerful. It is that transportation plays a uniquely strategic role in our kind of economy. It is not just a matter of geography; it is also that ours is an economy of dispersed specialized enterprises most of which -- nearly all in agriculture -- depend crucially on transportation as provided by a third party.

Transportation is not a final product but an intermediate service; and the terms under which it is provided are critical to the welfare or even the survival of shippers, receivers, or both.

Professors Binkley and Casavant write that "the only role of transportation is one of a facilitator of trade . . . . It is not desired for its own sake."¹ I sometimes use a more Missouri-style idiom that we don't ship a steer by truck or freight car in order to let it see the country. We have an economic need to get the animal moved.

The poetic language is that transportation is the lifeblood of an economy.

I never tire of quoting a line from Beale and Wyman of 1915, "The power to make freight rates is the power to turn a wilderness into a city or a city into a wilderness."² A few cents change in a freight rate, a narrow decision to keep or abandon a branch line, a similar decision to build or not build a lock on a river, or still another decision of the same kind to rebuild a bridge on a highway -- each of these can make or break the economy of farms, businesses, cities, even whole areas.

And so it is that shippers, receivers, communities, and whole regions are sensitive to the terms under which third-party transport is made available.

My next point is more subtle, and some carrier people may hesitate to accept it in pure form. There can be an imbalance between the interests of shippers or receivers in getting transport, and of carriers in providing it. In many instances it may be more important to a shipper or receiver that goods be shipped than to the carrier that it have the shipping business. What is optional to the carrier may be essential to the shipper or receiver.

To be sure, this is not an invariable rule. Yet I remember vividly the story the peach growers of South Carolina told the Transportation Task Force. Their target was those free enterprisers the independent truckers, whom they called gypsies. I offer no overall judgment about the independents but I quote accurately what the growers said. In their language, they can have their peaches loaded for trucking to Philadelphia early Monday morning. The trucker has caroused too much Sunday night and does not show up. It was only an evening of entertainment and loss of a few hours pay to the trucker. To the shipper it was the difference between delivering fresh and timely, versus delayed and possibly damaged, peaches; that is to say, the difference between profit and loss on a whole year's peach crop. That is imbalance.

¹Kenneth L. Casavant and James K. Binkley, "Transportation Changes and Agricultural Research," in Future Frontiers in Agricultural Marketing Research, Paul L. Farris, ed. (in draft).
It is not necessary to say more about the place of transportation in our economy. Freight transport has long been viewed as "affected with the public interest." The axiom does not predetermine what policy should be, but it virtually assures that transportation will be on the public policy agenda.

The Economics of High Overhead Cost -- and of Who Bears It

The economics of freight transportation is dominated by just one feature. It is the high overhead component.

This feature can be seen most clearly by thinking about the infrastructure of transport -- the railroad land and trackage, the highways, all the docks and dredged channels in waterways. But the provision of power and carriage is an overhead cost too. And even labor that is under contract represents overhead during the term of the contract.

The big overhead component in cost is the origin of many policy issues. First there is the question of whether it will be public policy either to subsidize overhead or to reduce it to a variable cost by converting to user charge. Differences among modes in practices employed to date give rise to the contentious issue of modal equity.

Secondly, the latitude in allocating overhead and basing rates thereon is so great that practices followed have underlain policy disputes ever since the 1800s. The matter is of most concern in rail transport, where most overhead is borne by the carrier. According to much economic theory, all economic product should be priced in line with marginal cost. I put my students through the exercise: what is the marginal cost when Amtrak carries me from Jefferson City to St. Louis? The answer: because the fuel cost of my extra weight is infinitesimal the marginal cost is that of printing my ticket, plus any paper I use in the washroom. I'd like to buy my ticket at that marginal cost.

As a more realistic example, what does it cost to move a carload of grain? If it is the 100th car on a 100-car train, virtually nothing. If it is a single car picked up on a spur, it costs a great deal indeed.

Allocation of overhead is at the heart of debates and disputes over the difference between a shipper who has several alternate carriers available to him, and another who is "captive" (economically if not physically) to a single one. Where much transport is available, little overhead cost is allocated and rates are low, but where a shipper is captive lots of overhead goes into the rate: such is the allegation that is heard often.

The Common Carrier Principle

My next comment may surprise. It is that even though transport rates are a sensitive topic, the terms of availability of service may be equally or more important.

The issue may be capsuled in the opposite philosophies of common and of contract carriage. Common carriage has been implicit in rail and regulated interstate truck policy for a century. It means that a carrier setting itself up to provide freight service to an area will do so regularly, dependably, and without arbitrary discrimination. In terms of cost and returns this means that some of the shipping at some times will be very profitable, and other shipping at other times will not be profitable by any test. But it all averages out, presumably. Also implicit is pre-announcement (guarantee) of both rates and service.

Contractual arrangements, encouraged by the two recent deregulation laws, are opposite in all respects. And the greater the trend toward contracting, the less will common carriage apply. The language of the Staggers railroad deregulation act contains a provision intended to keep rail freight contracting from ending all common carriage in shipping farm products. Whether that safeguard can be effective is a question beyond my assignment.
The difference between contractual and common carriage lies less in the kind of freight service made available than in the effect on competitive relationships among various shippers. Some shippers can use contracting advantageously, and others cannot.

If all this seems a little too theoretical, I convert to everyday language that this fundamental choice in transport philosophy is analogous to a difference between moving people by bus and by taxi. The bus offers service regularly, whether used or not. Taxi service is similar to a contract. As a citizen of Columbia I appreciate having a bus system available even though I do not use it often. On most days I drive to work; I do not need a bus. But occasionally I rely on the bus. I am most grateful that it runs regularly irrespective of my failure to hail it daily and pay my share of its cost. I am glad to contribute to the cost of the bus system through my property tax, because without public funding the service would stop. Of course I could afford a taxi; only low income people could not.

Jurisdictions and Innovations

The few conceptual or philosophical principles presented here can be applied to many of the debates of our day over freight transportation. They surely bear on how railroad companies provide rail freight carriage. They give cause to ask whether those companies should be kept numerous and, supposedly, competitive, or allowed to become few and monopolistic. User charges find obvious application in barge transport but highway transport in Missouri raises a similar question: should highways be maintained by an excise tax on gasoline, or from general revenues? Or maybe we ought to go back to toll roads, or even toll bridges. I've thought that coin operated mechanical gates could be put at the approaches to a bridge. Maybe the device could be linked with a scale, so that the amount of coins that had to be inserted would be proportionate to the weight of the vehicle. In today's mood of resentment at governmental funding of public service, the idea is not inane.

A more serious aspect of policy is that of jurisdiction. Over the years a tacit understanding has been worked out among local, state, and federal authorities. The federal has dominated but the states have by no means been frozen out. In my judgment state governments have had more opportunity to enter into transportation policy than they have acted on. Now the trend is to relinquish, or disavow, federal responsibility. What the terms of relationship will be in the future I cannot even guess. But jurisdictional relationships are a sensitive part of the whole transport picture.

But the matter does not end there. Particularly in rail branch lines we are seeing various private groups come into being -- associations, cooperatives, or other arrangements -- for the purpose of maintaining service. Whether these attempts are desirable or feasible is a proper question. Perhaps there is opportunity for what economists call institutional innovation. I do not know.

Somber Concluding Note

As a veteran in public affairs (I became a program planner for the old Agricultural Adjustment Administration in 1936) I conclude on the somber note that these are not propitious times for resolving fundamental questions in the area of economic policy.

It would be nice to believe that policy decisions are arrived at through logical, rational, carefully reasoned weighing of pros and cons, costs and returns, positives and negatives. Even though I tend to defend the political process I cannot deny that the outcome of the policy-making process is affected, first, by the balance or imbalance among the interest groups that take part, and, second, by that powerful intangible, the state of mind, the mood, of the public.

And as a veteran I testify that the mood just now is as unpromising as any in my memory, with the exception of the beginning of the depression of the 1930s. The truck and rail deregulation bills of recent years were not enacted following careful estimates of what transport would be like after a period of, let us say, ten years. When the Carter Administration proposal for rail deregulation was
presented before the Rural Transportation Task Force, the sweet young lady lawyer, advocate pro tem, was asked what the studies of its likely effect had shown. Her guileless answer was that she did not know because none had been made. Deregulation was sought because it was known implicitly to be good, she implied.

Neither regulation in any given form, nor deregulation of any particular variety, is implicitly good or bad. Any given policy is to be judged solely in terms of its operational effects as measured against our criteria of what we want from a transportation system.

And finally, drawing on my veteran status once more, even though the present national mood is glum I know that all moods are fleeting. They change, sometimes fast. We'll get over our sense of resignation, of disavowal, before too long and will address our problems responsibly once again. Education in public affairs can help. The seminar was staged in the hope that providing the opportunity for exposing the problems experienced by shippers, carriers, and receivers in Missouri, and for giving thoughtful attention to them, can be a positive contribution.
I am grateful for the opportunity to share thoughts about transportation as it affects agriculture. In my years of railroad marketing activity I have had the opportunity to be acquainted with people in many areas of commerce and industry. Among them, I hold farming and agriculture in the highest esteem.

It is my practice to preface my remarks by assuring that any positive statements are not intended to be offensive. The world of freight transportation in our country has changed so dramatically in the past 18 months that it is very difficult to engage in any relevant dialogue without some degree of debate. I possibly have developed a reputation as a strong opponent of deregulation, by virtue of some of my statements made publicly. I do not feel that is accurate, although I believe that deregulation is not the panacea that many people, carrier and shipper alike, regard it to be. My thinking is no doubt influenced by the fact that I represent a regionally oriented, not a giant railroad system, and therefore I am prejudiced. Maybe that is true.

In view of all the recent, as well as current, changes in the transportation environment, I reflect first on the future for railroad transport not only in Missouri, but in the United States in general. Few persons live day-to-day with rail transportation, and not many have had the chance to think about it in depth and to analyze specific railroads; how they operate; what they haul; who and what areas they serve; and how one relates to another. Often overlooked is the interwoven nature of the business which makes it possible to operate as a nationally coordinated system. When one really looks at it objectively, he has to conclude that it is pretty remarkable. Even many people inside rail transportation fail to realize that fact! I therefore start with a basic review of Missouri's rail network and the role each of our state's rail systems plays in the national scheme of things. I will review the players in what might be called Missouri's transportation game -- where they go today and where they may go tomorrow, and in general how they serve the state.

If we exclude Rock Island, there are 10 separate systems serving Missouri, or, specifically, traversing the state in various directions. The line of the Rock Island from Kansas City to St. Louis remains, even though it is not operating for the most part and is now owned by Southern Pacific.

Some facts ought to be highlighted about Missouri railroads. In terms of the number of carriers serving any one state, we rank at the top with 10. Our state's rail mileage of 5,902 is sixth in the nation, trailing only Texas, California, Illinois, Pennsylvania, and Minnesota. Another feature worthy of note is the recognition that most of our rail trackage is main line and unless some very dramatic things happen in the future, it should remain intact. We see this illustrated as we study the individual carriers' lines across the state.

Where is rail transportation today, and where is it heading? In regard to the latter -- where we may be going -- I often wonder if any of us really know. For sure, many forces at work are shaping the future, but the ultimate actual outcome is not certain. I think most of us would admit that significant change is in store for the short term, so much so that by 1985 we may not even know ourselves. The industry is not only going through a major restructuring but its traditional approach to meeting the needs of the marketplace are going through a literal upheaval. My reference to restructuring specifically means the mergers that have been and are still taking place east of the Mississippi River, as well as those beginning to take form west of the River. It is in the latter regard that Missouri would be
affected. I am going to avoid trying to predict which carriers merge with which
and what the 1990 picture will look like. I will say that mergers will occur as
a result of marketing issues more than operating efficiencies as they have in the
past.

The industry is at a crossroad today, obviously. Or you might call it a
position of transition or gear shifting. It has, of late, been making strides
toward roadbed rehabilitation, and upgrading of rolling stock and locomotives.
It has achieved a high degree of progress in using computer systems in managing
its business, and has improved upon its communications network -- an area of
railroading which far too many people take for granted. Whether railroads are
to regain their stature in the marketplace is yet to be seen. And this very
issue will dictate more than any other what the future holds.

These past two years have brought forth a whole new environment in which
railroad marketing exists. Just over one year ago the 1980 Railroad Regulatory
Act, commonly called the Staggers Act, was signed into law. Two specific findings
precipitated its passage: (1) that many government regulations affecting rail­
roads had become unnecessary and inefficient; and (2) that modernization of economic
regulation for the railroad industry with greater reliance on the marketplace was
essential. While these findings were of paramount importance, there were additional
Congressional findings, namely, that --

(3) only 33 to 35 percent of our nation's freight movements were via rail;

(4) railroad industry earnings are the lowest for any transport mode and are
not sufficient to generate funds for needed capital improvements; and

(5) failure to achieve increased earnings in the industry will only result in
further deterioration of the rail system or the necessity for added
federal subsidy.

That all sounds well and good, but other aspects of Staggers and deregulation
were handed down that we did not bargain for, and I fear will more than offset any
gains we will achieve as a result of the law. I refer specifically to the changes
in our procedures for setting of prices, not the least of which is a dramatic re­
duction in the degree of anti-trust immunity in making rates the carriers have had
under the ICC Act. Though it has not been free of imperfections, the rate structure
of America's railroads is just as important as the physical plant including car
design, communications, and other features. If it is permitted to deteriorate or
be dismantled in any way, the fiber that holds us together will suffer immeasurably.
If the past six months are an indicator of the future, the railroad industry will
be set back many years. The events I refer to arise from the perceptions of
several carriers and shippers alike as to what the Staggers Act means in general
as well as specifically. It has generated more intramodal price competition than
intermodal, although it was designed for the latter. The short-term gains in
decisions being made today will have long-term adverse effects on all of us.

Though the Act is comprised of seven sections or titles, the two most signif­
icant are number 2, dealing with pricing practices, and number 3, which covers cost
finding which is, of course, required for pricing. While there is some relief for
 carriers in the short term in that it is easier to recover cost increases by
quarterly increases in rates, some other aspects may in the long run prove to be an
impediment. I refer specifically to the possible outlawing of general rate increases
beyond 1984.

Rail transportation pricing is a strange phenomenon, unlike pricing in any
other business I know of, and as a result it warrants careful attention. More
often than not, the slightest change or adjustment in one instance will trigger a
raft of changes elsewhere. I would hope that as we carriers and our customers
adjust to the new environment, we will develop maturity and react to market changes
in that light rather than in a knee-jerk manner as we have done before and still
are doing. If we do not, then I feel strongly that deregulation could well affect
the railroads just as it did most of the airlines when they were deregulated. Third
quarter 1981 revenues of most Class I railroads were not bad but do reflect the soft­
ness of our economy, but were also down somewhat because of developments in the
grain market plus some rather severe price reductions made in certain commodity
groups, which I feel were direct results of the Staggers Act.

How long will the transition period last? At the moment, I would estimate
that it would extend until 1984-85. By that time the carriers and the ICC alike
will have had more experience in their new world, and by that time some very major
developments will have taken place. I refer specifically to the possible restruc-
turing of the industry by mergers.

Persons who follow developments in rail transport know that east of the
Mississippi River two giant railroad systems are emerging as a result of CSX, the
merger of Chessie and Family Lines, both of which are mergers of C&O-B&O and
Seaboard Coast Line - L&N in recent years. Pending approval of the ICC is the
NSW - Southern merger which appears to be likely. That new system will be known
as Norfolk & Southern. Conrail, the quasi-government carrier, is still operating,
and if its management can turn it around and create a self-sustaining property out
of it, it will continue to exist as a separate entity. I would prefer not to make
any predictions in that regard. The New England lines seem headed toward an
amalgamation of sorts under the Mellon ownership, but I think it will be a while
before any conclusions can be drawn.

So that leaves the area west of the Mississippi, known as Western Territory,
as the remaining piece of the puzzle. Currently, the ICC hearings on the applica-
tion to merge Union Pacific with Missouri Pacific and Western Pacific are in pro-
gress. They should be completed in January 1982. In terms of size and impact, it is
a giant undertaking. Unlike the mergers in the east and south the opposition is
severe, and almost all western lines are affected adversely and are therefore either
resisting the merger application or seeking remedial conditions should it be
approved. My own company is among them, of course, because we feel rather strongly
about the anti-competitive aspects of the proposal. The only major western line
not opposing is the C&NW, whose lines reach northwest Missouri and for several
years have been closely linked with Union Pacific on joint traffic between Chicago
and the far west.

What happens if the UP/MP/WP application is approved? The ICC must render
its final decision in mid-1982. If it is favorable to the applicants, I feel fairly
certain that court action will result, and it in all likelihood will consume all of
1982 and a large part of 1983. If the merger is finally approved and the lines are
permitted to become a single system, I think it is apparent that others will follow
suit. The ICC will be under severe pressure when making its decision because the
competitive factors west of the river are significantly different from those east
of the river. Transportation of agricultural products, primarily grain, will cer-
tainly receive a great deal of attention in determining the ICC decision.

What if a small regional carrier such as ours or the MKT, D&RGW, or ICG
elects to remain independent? It is possible each can and success in doing so
will depend on the commodity mix and the degree to which each can be individualistic
in the way it serves the public. Direct access to industrial customers whose pro-
ducts are oriented to rail movement will be important. I feel also that independent
survival can be governed by entry into trackage right agreements or marketing
agreements with other independents. The latter are certainly possible but will re-
quire a high degree of understanding and cooperation on the part of each line if
they are to succeed.

Summarizing a bit, the next four years will be interesting for rail transport.
Developments will warrant very careful monitoring if the railroad business is to
survive and provide the service the market requires.

I see some rays of hope. While many of my friends in trucking refute the
idea, I feel the railroads have an excellent opportunity to capitalize on the
energy crisis and regain from trucking a share of the market that trucks have
captured. Just as railroads are undergoing a restructuring, so is trucking. We
have to start trusting each other before any breakthrough towards cooperating
intermodally takes place. I think it is possible for rail carriers to become
intermodal in character. We are already seeing a trend by some rail carriers to
move toward a distribution- or logistics-oriented approach to marketing. An
example is warehousing and storage or distribution terminals coupled with high-
way or water movement beyond. It is unfortunate we have not done this before.
The railroads cannot be complacent; they must react quickly and forcefully if they
are to regain their previous role as the prime mover of America's goods. Again,
time will tell.

How will the shipping public be affected? I contend that the next five years
will answer that. There will be good days and bad days. Shippers will likely lose
some of the options which in the past they have enjoyed without realizing how well
they were served, but they too will mature and adjust to the new world. If nothing
else, the need for efficient transportation of goods should receive more recognition
than before; and that is good, because it has been overlooked badly by industry for
too long.

So, in toto, shippers and carriers alike should watch out for the early 1980s
and monitor developments very carefully.

THE POTENTIAL AND THE PROBLEMS: WATERWAYS

Richard A. Wilson
President, Agri-Trans Corporation, St. Louis

The University of Missouri deserves credit for presenting the conference on
agricultural transportation at a time other than a crisis. Two or three years
ago transportation was a real bottleneck. Rail freight and barges were in short
supply. Commodity movement was slow. Transport problems were in the public eye.
Now there is plenty of transport capacity, and it is good that the University is
looking at long range issues and prospects in transportation.

I would like to present as much detail about our industry as possible. We
are a less visible industry than truckers and rails. Sometimes we are glad of
that and at other times we are not. Right now is the time that we need to get
publicity, because we have a few woes. So I will give a little background about
the river transportation industry, making a connection to river transportation for
agriculture. I will go from there to a glimpse of the future for the river indus-
try and some of the challenges we face. I will summarize with respect to a
strategic comment about the importance of the inland waterway industry.

That industry, the river industry, is the smallest of the three modes (rail,
truck, water). We move about 12 percent of all inter-city freight. The railroads
move about 35 percent and the truckers a little over 50 percent. Our market share
has stayed relatively stable over the years. The trucks have encroached on rail
but we have remained in about the same relative position as earlier.

We are involved in basic commodities -- no hula-hoops or TVs. We are in-
volved in moving petroleum, our biggest volume item, and coal, the second in rank.
Coal comprises about 20 percent of our tonnage. Grains amount to 10 percent.
Chemicals and construction materials are other basic goods we move.

Now as to some attributes of our industry. We are the lowest cost mode.
The 12 to 14 percent of the inter-city freight that we do move is handled with
about 2 percent of the total national freight bill. Our freight rates are anywhere
from a half to a third of rail rates, depending on the situation. We are very
fuel efficient. Fuel efficiency is one of the attributes with a long term poten-
tial. Trucks move about 60 ton miles per gallon of diesel, railroads on the aver-
age around 200, and the barge industry about 500.

Another attribute is that we have good rapport with our labor people. In
my 10 years of experience we have never had a work stoppage on the river of any
significance. We are not highly organized, although there are some unions. Our
company once was unionized, but is no longer so. We work a lot harder toward good
labor relations now but essentially we have a good labor climate.
Another attribute is that we are not regulated by the federal government with respect to price and service. We are regulated only by that strongest force of all, competition. At any given time, five to 50 companies compete to move cargo. Its competitive nature makes the industry responsive. We think it brings about innovation, and we think too that it brings about, over the long term, cost-based pricing to the shippers.

The last attribute to be mentioned is that we have good access to financial markets. Financial constraints are not a factor in our industry. There are always many people willing to invest in marine enterprises. Investors' confidence traces to the historically good retention of value in capital equipment, and the industry's general success.

Looking now to agricultural transportation, I emphasize how closely water carriage is related. In fact, we feel as though we are as close to agriculture and agribusiness as rails and trucks are. Essentially our involvement is with grain transportation for export. The river industry handles about 40 percent of total grain exports. This market share has been between 35 and 40 percent for the last five years. In the early 1970s we only had about 20 percent. We now move 60 percent of all soybean exports and 50 percent of all corn exports, but only 20 percent of the wheat. Obviously, we do not move commodities that are not close to inland water. We also move chemical fertilizer out of the Gulf as a back haul -- millions of tons; also a lot of the diesel oil that goes into the mid-West. So you can see that we have a very heavy involvement with agriculture. Although coal and petroleum rank higher in our total industry, 25 to 30 barge lines in our area are almost totally dedicated to movement of grain.

The Industry's Potential

A national waterways study just concluded found that the growth potential for our industry is very significant. The tonnage moved on rivers is expected to double before the end of the century. The stars in the cast of commodities would be first coal, as coal transportation would triple. The explanation is that we will be more dedicated to energy and electricity production in this country, and that we will be exporting significant quantities of coal. Chemical movements also may triple. Grain volume may gain by close to 80 to 90 percent.

When growth prospects are combined with attributes of low cost, fuel efficiency, capital accessibility, and a favorable labor climate, there is good likelihood that the industry will capitalize on that potential.

Yet like all modes we face challenges. I will discuss two of them specifically. I am optimistic about the first, and very concerned about the second.

The first has to do with the river system itself -- the navigation facilities that comprise it. Ours is the best river system in the world. The natural aspects have been enhanced by improvements made especially the last four decades, so that it is a multiple beneficiary type of system. One of the beneficiaries is commercial navigation.

To reiterate, the river system is outstanding and except for three bottlenecks there will be little need to upgrade the rest of this decade and probably this century. One trouble spot is lock 26, at the confluence of the Illinois river and the Mississippi above St. Louis. The new facility going in there will about equal the combined capacity of the two rivers coming into it. The Gallipolis slot on the Ohio river factors in heavily in expected coal movements. The Bonneville locks and dams on the Snake river in the Columbia system are also a bottleneck and also are being considered for replacement. These are three relatively moderate replacements, and with them we will have an overall system that will serve us well into the next century. Facilities do involve waging some battles but they are the challenge that I am optimistic about.

The second problem gives me more concern. It is waterway user taxes.
It is legitimate to ask why the waterway interests are so exercised about this particular topic. I would like to shed some light from our perspective. President Reagan's full cost -- 100 percent full cost -- recovery scheme is off base principally because it is solely a revenue raising measure, and ignores the national transportation policy implications. The President is talking about raising big revenues from our industry. We are somewhere between a $1 1/2 billion and $2 billion industry. That is less than the railroads will earn this year. The proposal is to collect from water carriers in terms of operation and maintenance for the waterways -- multiple beneficiary system -- including amortized new construction and Coast Guard services (we are going to have to pay for our policeman) a total of about $850 million. In a $2 billion industry, $850 million gets attention. In fact, and in a very serious vein, the proposal has the seeds of destruction of our industry. It is that serious.

I do not say that our industry should be entirely protected from user charges. No industry should be totally protected. But consider the Missouri river. A full user charge assessment would end all barge traffic on the Missouri, unless the railroads should increase rail rates because they would not want to take all the traffic. The same kind of impact issue is being considered in Minneapolis and Pittsburgh; on the Arkansas river system; and elsewhere.

In two respects, the Reagan initiative is fatally flawed, illogical on the surface. The first is modal equity. Modal equity has to do with comparative subsidy. We are a subsidized industry; we acknowledge that. We maintain that all transportation modes, the railroads especially, are heavily subsidized. Our question is, in the interest of equity, why are we being singled out for 100 percent of cost recovery when the railroads are permitted to continue to receive subsidies and in fact to get new subsidies?

The second issue has to do with cost allocation. The river system has multiple beneficiaries but the Administration seeks to recover 100 percent of the cost from one of its users, the inland commercial navigation group. This is unfair; other users, other beneficiaries, should share in bearing costs.

Turning again to the question of modal equity, I have watched the railroads confuse the public and the government in saying that the billions of dollars dispensed to the railroad industry over many years are aid and not a subsidy. Representative Floria of New Jersey, who had much to do with passage of the Staggers Act, said that in the last five years the railroads have received federal subsidies in the amount of 11 billion dollars. The head of the American Association of Railroads responded that the money received was not subsidy but aid. The money was provided by the government and most persons would call it subsidy.

I will categorize some of the items. First, in the Surface Transportation Act of 1977 railroads were given sizable loans and grants. The President of the Chicago and Northwestern railroad was quoted in Forbes magazine that an element in his road's success is the $150 million the federal government lent at 2 1/2 percent interest. He said he would have been a fool not to have taken that 2 1/2 percent money. It was a loan, to be sure, but the low interest is a subsidy. It is not the same as our subsidy where our rights of way are maintained for us, but it is a subsidy. Many other railroads have used the program.

Next, Conrail. Everyone knows that the road is subsidized. Few know that 70 percent of the freight moving on Conrail is interlined with other railroads around the country. Thus the government subsidizes indirectly all these other railroads that must use Conrail to reach their eastern markets.

The railroad retirement fund. We have squabbled with the railroads about this for a long time. The 1982 federal budget specifically identifies the railroad retirement fund as a subsidy, a $350 million annual subsidy.
Next, the granddaddy of all subsidies, the land grants. The railroads are taking out ads in the Wall Street Journal, New York Times, and other publications, declaring that the grants were not subsidy. Last century the railroads received about 130 million acres in land grants, almost 10 percent of this nation's area. The value in terms of land and natural resources was astronomical. As one example, last year the Southern Pacific sold 600,000 acres of that land for $4,500 an acre. The railroads defend in terms that the early grants are now a sunk cost. In a sense that is true but a part of the revenue they earn today derives from it. If waterway carriers had been given the river system as lands were given to railroads we would be getting income from it today, perhaps selling the use of the water, even renting it for flood control. Railroads in trouble are trying to press user charges on us and we are going to resist. Moreover, we want railroads in the western states to keep their money in their operations and not chase it off into holding companies.

Two other quick items on the user charge issue. In the Administration's new economic recovery program the railroads get a big tax benefit, one received by no other industry. The rails are authorized to write off some $17 billion of tax benefits over the next five years. The Wall Street Journal reports that IBM is buying $100 million of those benefits from the Chessie and Seaboard. IC was trying to buy Sunbeam in order to use the tax benefits from the ICC. A further small note is that after 21 western railroads allied with two environmental groups fought us tooth and nail through the courts to obstruct building lock 26, in East St. Louis 15 railroads are going to benefit from a government financed consolidation of rail yards, a $670 million project.

The user charge issue is one of equity, and the barge industry's position is that if the days of subsidy are over, we are ready to give up our subsidies. But if subsidies continue and we are burdened with a huge increase in user charges we want, first a modal equity, balancing subsidy with user charge for other modes. Secondly, we want to make sure that water carriers are protected from rail predatory pricing. Rail deregulation has the potential for consolidation within the rail system resulting in inordinate market power held by a small group of railroads. Those railroads will be able to come at us tooth and toenail. They will charge high rates to the captive shippers in their system that have no alternative means of transportation, and then charge low rates in the territory we serve and drive us out of business. It is a serious threat and we want some protection against predatory pricing. Third is the matter of cost allocation of governmental water programs. It should not be borne only by commercial navigation. The rivers have multiple beneficiaries, including economic development and even national defense. Sharing too are recreation, water supply, flood control, irrigation. So we want proper cost allocation.

Finally, three more brief comments. If the waterway users are going to pay high user charges they want a voice in deciding how the revenue is spent. Two, a new tax system should be phased in gradually. Three is the mechanics -- segment totals versus general taxes, a technical matter. The strategic role of the inland waterway system is to bring competition to the transportation system in mid-America. Rail consolidations under rail deregulation plus excessive user charges on inland waterways could result in harm to this important part of agricultural transportation. We do not believe this should be allowed to happen.
THE POTENTIAL AND THE PROBLEMS: Trucking

George A. Burruss
Executive Vice President, Missouri Bus and Truck Association

The trucking industry of Missouri employs 186,800 persons with a payroll of more than two and a half billion dollars per year. The industry serves all of the state's 1,723 communities, including the 59.2 percent totally dependent on trucks for all shipping service. One hundred percent of Missouri's fresh fruit and vegetables are transported to market by truck, and 51 percent of manufactured tonnage in Missouri is transported between cities by trucks. In addition, the Missouri trucking industry pays 45.3 percent of the total federal and state highway user taxes collected in our state.

Missouri and national agricultural interests depend on trucking as a vital link between production and consumption of their products.

Raw materials, such as seed and feed, arrive on the farm in either the farmers' trucks or those of their suppliers. Products used by the farmer to produce his goods for the market also are delivered by truck.

During and after harvest, grain is delivered to market by trucks, as is livestock.

Processors of feed products receive their materials by truck and deliver them to the retailer by truck.

Naturally, other modes of transportation are involved. However, if the railroads, barge lines, and pipelines were eliminated but trucking retained, trucking could accomplish delivery of nearly all products. This basically is not true of any of the other modes of transportation. Trucking is the vital link. In our industry we like to say, "If you got it, a truck brought it."

Three issues involving trucking form my topic. They are: regulatory reform, highway finance, and weight and length increases for trucks.

Regulatory Reform

The Motor Carrier Act of 1980 was a regulatory reform measure, not, as some refer to it, a deregulation bill.

The changes made in the national law governing economic regulation of the trucking industry by the Interstate Commerce Commission are re-regulation, not deregulation.

The jury is still out on the effects of the new law. Much depends on how the ICC interprets and administers the Act.

One fear that I have is that rural Missouri and small towns there may not continue to receive good service by motor carriers because of the absence of the requirement to serve them. Without the obligation to serve a community, some carriers may no longer choose to serve it. However, it remains to be seen how the Commission will respond to the new law.

In the longer experience under the airline regulatory reform legislation, we know that many small communities have experienced a loss or reduction of air service.

Other aspects of the Motor Carrier Act, such as rates, operating rights, insurance, and so on are still in a state of adjustment and it is too soon to tell what the final outcome and effect will be. Fortunately, the Congress provided for oversight hearings and through these, we hope, needed adjustments for the motor carriers and/or the public can be made.
Highway Finance

The trucking industry believes that we have reached a critical point in funding for our highway system. Missouri has one of the largest highways systems in the country, approximately 32,000 miles. At the same time we have one of the lowest tax rates nationally.

One solution to state funding problems could be to return fiscal responsibility for some of the state system to the counties or cities. However, this would create financial problems for the counties and cities. A solution for one problem would in effect create an equally large problem, with little or no solution for it. It may, however, be an idea to be explored further.

Our industry has adopted a policy to support additional highway financing provided it is equitable to all highway users. The trucking industry now pays nearly 50 percent of all state and federal highway money collected in Missouri.

Increased taxation is never a popular subject, but a sound highway system is vital to agriculture, as well as to the general populace.

Weight and Length Limits

The trucking industry must have increases in its productive ability from time to time. One way to increase production is to increase the load carrying capacity of our equipment. Optimum use of our equipment is vital to a balanced and efficient transportation system.

Yet in spite of the trucking industry's vital role in the state and national economy, trucking companies in Missouri, Illinois, and Arkansas are still limited by outmoded and unrealistically low weight limits.

Why is this the case? The facts are that with uniformity in truck weights and length --

1. Operating costs of the trucking industry could be reduced approximately $1.5 billion annually if all states had this basic uniformity. The figure is from the Highway Transportation Research Board of the National Academy of Sciences and National Academy of Engineering.

2. We know that fuel savings in Missouri alone, according to the Missouri Department of Natural Resources, would exceed 3.3 million gallons annually with this uniformity.

3. We know uniform weights and lengths would allow Missouri manufacturers to be more competitive in the market place; Missouri farmers could realize greater gain from the sale of their products; and the Missouri consumer could benefit from a more efficient truck transportation system.

Are weight limits held down because the damage to our highways would be too great? No. The latest fiscal note prepared on this legislation projected an increase in registration fees of 12 million dollars. This amount reflects a 25 percent increase in truck license fees above 24,000 lb. license category. The Missouri State Highway and Transportation Department recommended the 25 percent increase in registration fees to offset the anticipated maintenance costs associated with the high weights and has indicated that the increased revenue is essential to continued maintenance of our highway system.

It is important to recognize that the interstate system has been constructed to handle this new weight limit and the primary system has been upgraded in areas to where it too can support the proposed weight limit. The Department of Highways and Transportation has statutory authority to designate those portions of the primary system not capable of handling these new weights.
Missouri statute currently provides for axle load limits and gross weights far in excess of those sought in this legislation. In Section 304.190, it specifies that in cities of 75,000 population or more, trucks may operate single axle weights of 22,400 pounds with gross weight controlled by the number of axles. Typical 5 axle tractor combinations are operated in the qualifying Missouri cities at 100,000 lbs.

Is the reason that this uniformity in truck size and weight would pose a safety hazard? No. A misconception of a few is that heavier trucks on our highways result in a greater proportion of accidents and deaths. Yet according to research findings by both federal and private safety organizations, no correlation can be found for associating accidents with truck size or weight.

A 1978 National Highway Traffic Safety Administration study reported that truck size and weight do not contribute to accident frequency or severity.

A 1979 Bureau of Motor Carrier Safety study reported that from the years 1975 through 1977, states which allowed the higher truck sizes and weights had a smaller increase in truck accidents and a much smaller increase in truck fatalities than did states at the current limit found in Missouri, 73,280 pounds.

A 1979 study sponsored by the American Association of State Highway and Transportation Officials and conducted by the Transportation Research Board, upon reviewing truck accidents data, concurred that there is no sound basis for specifically associating accidents with truck weight or size.

Or did the General Assembly of Missouri fail to pass a law bringing Missouri into uniformity? No. As a matter of record, the first opportunity the members of the House of Representatives had to vote on this legislation, it overwhelmingly passed the bill. The Senate had passed this bill on three previous occasions before passing it again this past year.

Governor Bond signed the bill into law this past June and it was due to go into effect September 28.

What happened? Was there a public outcry against the new statute? Did Government agencies voice opposition? Again the answer is no. If anything, it was business as usual in Missouri. That should have alerted us that our old friends, the railroads, were up to their normal business of trying to cripple the trucking industry.

This time they used their relatively new cover called People Associated for Tomorrow's Highways, which goes by the acronym PATH, as the front to organize a referendum petition to place the uniform weight and length bill on the ballot.

As devastating as the end result of PATH's efforts were, it was still humorous to watch their thinly disguised and often confusing efforts of pawning themselves off as a grass-roots organization acting in spontaneous outrage to the passage of this legislation.

Victoria Melcher, the spokesperson for PATH, loudly proclaimed the start of the petition in early June. She claimed at that time to be representative of several consumer groups and an outraged general public.

Several weeks later, Victoria was telling the media her organization could not raise sufficient money to conduct the campaign. The next week she was back in business with the cash.

According to the Kansas City Star, her consumer groups and outraged citizens who were financing the campaign turned out to be the Brotherhood of Railroad Car­men, Brotherhood of Locomotive Engineers, United Transportation Union, and Main­tenanceway Employees Union.

All of these are railroad unions.
Victoria denied these groups were involved, the day after telling a Kansas City Star reporter of their involvement. Unfortunately for Victoria, the Associated Press came up with the same information and ran the story the day following her denial to the reporter.

You see, the railroads don't like the public to know they are the outraged citizens and consumer groups financing this campaign. They appear as special interest, and so they were finally able to get Victoria to be silent about where the money was coming from.

We also know, but can't prove at the moment, that a certain Missouri railroad was heavily involved.

The manner in which PATH conducted the referendum petition deserves mention, especially in light of the fact that more than 161,000 signatures were initially turned in to the Secretary of State.

In our effort to remove names from the petitions, we started to come across a disturbing and consistent pattern of deceit, fraud, misinformation, and outright lies employed by petition passers working for PATH. Let me outline just a few of the "techniques" used to get people to sign their petitions: (1) people were told a bill was passed to increase their general taxes and this was an effort to stop it; (2) people were told their gas taxes were being increased by 25 percent; (3) people were confronted with two petitions and were told one was for and one against the big truck bill, but they were the same petitions; (4) students were told by petition passers they were running for a student government position and needed student signatures in order to put their name on the ballot; and (5) names were copied out of phone directories and some of these PATH workers were caught, prosecuted, and convicted.

I personally do not like, nor does my industry like, to be placed in a position of bad mouthing another transportation mode. But it remains clear that the railroad industry does not want real competition in the marketplace. Neither do the railroads favor a spirit of cooperation where intermodalism would serve all types of transportation, the shipping public, and the consumer in a positive way.

This "public be damned" attitude was expressed by railroad magnate William Henry Vanderbilt over 100 years ago and has resulted in countless millions being added to transportation costs. Those in the agribusiness community pick up these costs at a time when the railroad abandonments are leaving them with only one option -- trucks.

Farmers and agribusiness people have a right to know, and a mandate to stop, the railroads' destructive efforts.
LEGISLATIVE AND FINANCIAL ASPECTS OF IMPROVING MISSOURI’S RAILS AND ROADS

Robert N. Hunter
Chief Engineer
Missouri Highway and Transportation Department

Two years ago the Missouri Highway and Transportation Department was assigned responsibility for all modes of transportation. Transportation policy is a part of agricultural policy in Missouri, for transportation has been highly involved in the agricultural community throughout the history of the state. Missouri, like many areas, grew up with water transportation. That was our first transportation. Various cities developed along the waterways. The steamboat was a big technological improvement over the primitive boats that used to ply the Missouri and the Mississippi rivers. But the steam engine also gave us the train, and although road development had begun radially from waterport cities it was arrested in favor of the rail lines that soon laced this country, extending opportunities for industrial and agricultural development beyond the water courses for the first time in our history.

A little later the people realized that to move raw agricultural products to railheads and waterports, a road system would be necessary. So about 1920 the agricultural community including the Deans of the Colleges of Agriculture at the University of Missouri and Iowa State University, businessmen, and other like-minded individuals met at Chillicothe. They decided that there ought to be a state road system, and a state road department to run the system. The group was the prime instigator for an engineering college here, to train Missouri young men in the art of road building and improved transportation. Thus developed what became known as the Centennial Road Law, a constitutional change that developed an organizational type program with a bi-partisan non-political Commission. That was landmark legislation. Against this historic background it is fitting that the College of Agriculture look at transportation issues.

First, waterways. We are interested in developing ports. We are blessed here in Missouri with the Missouri river and the Mississippi. One-third of the total tonnage of goods on the waterways is agricultural goods. We think it important to improve ports along the Mississippi as well as along the Missouri. There are problems on the Missouri that are not found on the Mississippi. The channel is more narrow and not as attractive for large barge shipment. The current is something to cope with, and it and the eddies present problems in maintaining proper harbors along the Missouri river. So there are engineering challenges on which we are working with people throughout the state, in the various port authorities.

With regard to railroads, we have the eighth largest rail network in the country, with 6,000 miles of rail lines in this state. Mr. Mitchell would probably call 1,600 miles light density lines, lines that carry less than 3 million ton miles a year. This rail system is very important to us. We have the second and third largest rail centers, St. Louis and Kansas City.

Although the rail industry is private enterprise, government involvement at the national level the last few years has included help given toward resurrecting rail lines that are in trouble. This program has spread from lines east of the Mississippi to the rail industry throughout the country. Rail rehabilitation programs of course carry a requirement for rail planning and corridor selection, and selection of rail lines in those corridors, and some other matters that will prove very difficult. Choices will be hard to make as government decisions are involved. Some mergers have recently come about here in Missouri. Certainly the Frisco and the Burlington-Northern are two of the larger railroads in the country. That merger was very important to all of us. We've seen some bankruptcies, and other rail lines in real trouble. Fortunately, in Missouri other rail lines were interested in segments of the Rock Island that were due to be abandoned. So there has been a takeover by other rail lines.
A recent study for the federal rail administration on the grain route involved the Rock Island line from St. Paul to Kansas City. We of course work with the rail plan that has been drawn up. Everett Mitchell and his staff develop state rail plans. They work with the railroad companies in this development. Little state money is available to go into any of these rail improvements at this time. But we do have some rail rehabilitation projects where we are working with the federal government, railroads, shippers, and others interested in the preservation and enhancement of those lines. We hope that there can be more projects to build lines up so that they handle commerce more adequately.

Abandonment of branch lines is important to agricultural people. We are in a position where we have to look at those lines realistically, to determine where they can be rehabilitated and saved and can continue to serve the agricultural industry. But where the commerce is simply not adequate to justify rehabilitation another tack has to be taken. And we have to try and use our best judgment on that.

At the present time we are limited in Missouri in involvement with rail. The general revenue situation does not look very hopeful and it is unlikely that we will be doing much more. In an appearance before the Senate Appropriation Committee we made some modest requests for additional money for waterways and rail improvements but did not get a very receptive response.

We are subsidizing the operation of AmTrak, the passenger train between Kansas City and St. Louis. This is not particularly of concern in agriculture but is important to the people of Missouri. Ridership is going up. Cost to the state government would have gone down were it not for the increase in the state's share of cost relative to the federal government's. But if ridership continues to climb as in the last few years, we are hopeful that it will be possible to maintain that line as a very important passenger service between Kansas City and St. Louis.

We have the eighth largest rail system in the country, but the seventh largest highway system. We have 32,000 miles of highway responsibility in the state system. This is about three times the mileage for our adjoining states except Kentucky. Kentucky has about 22,000 miles. Other states around us have about 9,000 to 10,000 miles. We have about $8,700 per mile per year to work with. Illinois has $25,000 per mile per year.

When the Missouri highway organization came into being the role was to connect the cities of the state. In fact, the constitution prohibited any construction of state highways in urban areas. Urban areas were defined as those where houses were spaced a certain distance apart. So until the constitution was changed in 1945 there was no state highway construction in urban areas.

After 1945 we began to make highway improvements in the cities to connect highways through those cities.

Over the years much of our responsibility has been rural. Initially the object was to connect, via a primary system of highways, the communities and county seats of the state. This was seen as primarily an agricultural effort. But we had scarcely started on laying out and constructing that primary system when the agricultural community cried that we ought to extend the system to provide an opportunity to get farm products to market. So we developed what we call the secondary system or the farm to market system. Until about 1951 that system was about 12,000 miles in length, and the primary system about 8,000 miles. Between 1951 and 1961 we took 12,000 miles of county roads into the system in a program designed to put 95 percent of the rural units within two miles of a state maintained road. And we brought those roads up to the state's secondary standards. That of course put 24,000 miles in the system and resulted in our ultimate 32,000 mile program.

The interstate system is the most important segment of the primary highway system. Many of the miles of the old primary highways such as routes 40 and 66 were incorporated directly into that system. That constitutes about 1,150 miles of our total system in Missouri. It carries the most traffic. Nationwide the interstate highways, built after World War II as a strategic resource useful for defense and commerce, constitutes about one to one-and-a-half percent of the total road mileage but carries 20 percent of the traffic. It does that and more in Missouri.
The interstate system is exceptional in that it was to be built, whatever the cost. Previously, in funding the primary and secondary system we shared money from the federal fuel tax, the state fuel tax, and other license fees and road fund monies, to improve highways. We did not have unlimited funds. Then the interstate system made available large sums of money. These were attractive and led to adding social programs, environmental programs, additional safety measures, and other things to highway improvement. They were not limited to the interstate roads but were applied to the whole federal aid highway program. Those actions by Congress increased the cost of the highway system. It has been necessary for us to meet those requirements here in Missouri as we try to carry out our on-going program. The federal funding formula has not been improved and we have been falling farther and farther behind.

We of course have made this problem known in Washington. We think that the federal government ought to provide additional money or reduce some of the requirements.

Our job on our 32,000 mile system is to maintain it and to improve the most inadequate sections -- correcting structural inadequacy, operational problems, or safety problems. But the funds available from state sources are those from the fuel tax, the license fees, and more recently a portion of the sales tax on motor vehicles. The problem, in addition to the superimposed requirements that added to cost, is the big increase in price for the materials that go into highway maintenance and construction, such as asphalt and concrete. At the same time, we are all driving more fuel efficient cars. So the average motorist is contributing about two-thirds as much money to the road fund as he did seven years ago. In addition, because the license fee is based on horsepower, he is contributing less via that fee for his lower powered car. So the contribution by road users is going down and the costs are going up. We have been in a terrible squeeze for several years. We tell everyone who will listen that we face a very critical situation, the most critical in the history of the Department. We have cut back our construction program drastically. We are making half the improvements we intended to make, and have reduced maintenance. Much of the secondary system, particularly the 12,000 miles we took in in 1950-1960, was built as gravel road on an earth embankment, then was oiled. It certainly was not a substantial base or surface to carry heavy loads. Now we see the effects. We have tried to do what we call contract maintenance leveling course work, where bituminous material is added to build up strength and base, to keep the surface from breaking up every spring after a bad winter. We made progress, but for the last two years we have not been able to carry on the program. In those two years fund restrictions have kept us from doing any cleaning or painting of our bridges -- the bridge steel -- to prevent rust and further deterioration. We have of course reduced our mowing and we are reducing some of our snow and ice control. We are still going to have those roads open but we are not going to be able to stay out there until we clean them, day and night. All of these cut backs have been necessary because of the reduced funding.

To repeat, we have been trying to let everyone know just what is happening. In 1980 we got the significant attention of the state's press, which brought the attention of the legislature. A interim committee was appointed in 1980 to look into the situation. We have met with that committee as well as with users and industry people and have discussed about 14 alternatives for increasing funding. We have looked at the general revenue area, the user charge area, bonding, at many other possibilities. Last year the legislature considered legislation which would have increased funding.

What kind of funding are we talking about? As a source of data we participated with all states in a transportation needs study -- for all modes. Data that went forward to the Department of Transportation and the Congress indicated that both in Missouri and nationally, 85 percent of total needs for the next 20 years would be roads, streets, and highways. In Missouri most of the needs will be critical not in 20 years but within 10 years. To accomplish the needs as set out in those studies would take a 10-fold increase in highway revenues.

We knew that nothing of that scale was going to happen. So we started taking a look at what we considered to be our basic critical needs, our most serious needs on the system. First we looked at our bridges. We have 10,000 bridges. About 800
ought to have major repair or replacement within 10 years. As to capacity problems, the most serious are those roads exhibiting 180-200 percent-of-capacity. We looked at the resurfacing necessary to maintain the integrity and rideability of those pavements. We considered safety, the high hazard locations, the roadside obstacles. Just to accomplish those basic critical needs was going to require 140 million dollars a year more than we anticipate in revenue. We made this known to people around the state. Even though we are replacing some bridges and making some improvements relative to capacity, other sections of the system are falling into disrepair and we are making no headway at all. The estimate of cost to accomplish those basic critical needs is now on the order of $500 million, over and above what we are presently getting in highway revenue.

But again we have not pursued that level of funding. We approached the legislature on a program to provide $150 million new money annually, a program that we called bare bones. It would at least allow us to continue to match the federal aid highway money (the return of the money you and I pay to Washington with each gallon of gasoline we buy, the federal fuel tax), and to carry on a reasonable program of intersection improvements, modest widening and other work that must be done but does not qualify for federal aid. We almost made it in the legislature last year but I'm sure all of you have heard of the Hancock amendment. So whatever goes through the legislature is going to have to go before the people. Certainly there is a lot of trepidation about that. But we feel the situation to be so serious that we have no choice but to approach that again. So we are again pursuing legislation for this coming year. In fact, a subcommittee made a report to a total tax and revenue committee recommending some increased funding for highways. And should we be successful in the legislature we will have to go before the people. We must do what we can to sell the people on the necessity and wisdom for improving funding. We have to believe that the state is not going to let its road system deteriorate. We cannot continue to fail to resurface pavements, to replace decks in bridges, to paint bridges, without seeing the system in sad disarray. A State Senator said the other day that we were going to allow our bituminous-paved secondary roads to go back to gravel. Not all will go back to gravel. However, it could well be that some of the less travelled roads will revert to gravel. If you apply the pencil to the volume of traffic being served by some roads and the amount of revenue generated by that traffic, you will find that those roads barely pay the cost of maintenance, without any improvement. As maintenance costs go up the imbalance will get worse.

You can see the plight we are in. We will go before the legislature again with an effort to improve funding. We hope we can be successful. We solicit support and assistance.
POLICY CHOICES REGARDING RAILROAD BRANCH LINES

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Abandonment of railroad collector lines has been accelerating recently. Federal policy toward those lines has changed 180 degrees during the last five years. These changes in federal policy lie at the heart of the surge in abandonment activity. They have also placed state governments in a position to assess policy choices regarding railroad branch lines.

This presentation addresses three questions briefly. (1) What happened to give us all of these track abandonments now? (2) What are the policy choices for state and local governments? (3) What are the pros and cons of these choices?

What Happened?

For more than 50 years (1920-1976), the Interstate Commerce Commission used a policy of "cross-subsidization" to maintain collector railroad services. This policy was implemented by allowing railroads to use value-of-service pricing to generate revenues above costs on some transportation services and to use the surpluses to subsidize losses on low-traffic lines, a sort of regulatory Robin Hood.

The cost of hauling a ton of freight on a low-traffic branch line is higher than on a line with higher traffic density. Regulatory rules and the traditional railroad rate adjustment process kept freight rates from rising to cover cost on branch lines as traffic declined. As a result, revenues fell below costs on many branch lines while some traffic continued to be attracted to these lines at below-cost freight rates.

Railroads were not permitted to abandon track which carried very much traffic volume. Also, railroads could not reveal the magnitude of their branch line losses because formulas prescribed to calculate operating cost for abandonment hearings were based on railroad system average costs rather than on the higher costs of serving low-traffic lines. Cross-subsidies from other shippers kept these lines in operation.

Attempts to abandon rail lines created considerable conflict between the railroads as subsidizing agents, and branch line shippers as recipients of subsidies. No one wants to lose a subsidy once it has been incorporated in plans.

Railroads experienced growing competition from trucks and barges in nearly every commodity group. Railroad revenues grew slowly; cost grew rapidly. The pool of surplus revenue used to subsidize low-traffic branch lines was drying up. Many railroads fell into bankruptcy; many others stumbled at the brink.

Financial crisis in the railroad industry stimulated Congress to pass the Regional Railroad Reorganization Act of 1973 (3-R Act) for the Northeast and the Railroad Revitalization and Regulatory Reform Act of 1976 (4-R Act) for the rest of the country. These Acts shifted the financial responsibility for money-losing, low-traffic railroad lines from railroads to shippers and other groups and agencies with interest in continued service.

The Staggers Rail Act of 1980 goes much further. This Act permits railroads to calculate the deficit position on each branch line and to assess carload rate surcharges on traffic sufficient for revenues to cover both the ownership and operating costs for each line. Now negotiations between rail carriers and shippers are allowed to test whether shippers will pay rail rates sufficient to cover rail service costs, without implicit subsidies. Where shippers are unwilling to ship on cost-covering rail rates, the case for abandonment is clearer than previously.

Without ICC regulations, many of the branch lines being abandoned today would have been removed years ago. Freight rates and facilities would have evolved grad-
ually over time following a dynamic pattern of evolution typical of other unregulated industries. The group of lines considered for abandonment today represents a railroad wish list which has accumulated for some time as a result of regulatory policy. The quick about-face in policy has unleashed the pent up desires to abandon low-traffic lines only recently, creating an atmosphere of crisis rather than measured evolution.

The new policy has barely begun to be implemented. Today's level of abandonment activity is only the tip of the iceberg. My observations of the North Carolina situation suggest that only the lines with virtually no traffic are being abandoned now; almost no public protest has been heard; the more difficult cases are yet to come.

Policy Choices

The choice of rail line preservation policies must be completed swiftly to meet the surge of line abandonments to come. Policies may emphasize either private action or state action.

The policy to let the private market find solutions (some would call this a lack of policy) has been effective in some instances. This policy is being followed by Kentucky, Kansas, Nebraska, Texas, and North Carolina.

In 1972, the financially troubled Chicago and Northwestern Railroad notified shippers that the 6-mile line to Farmville, Iowa had to be renovated to stay operational. A large, grain-exporting cooperative elevator association lent the railroad $250,000, interest free, to renovate the track; the loan was repaid on a per-car basis. Shippers can subsidize a railroad to avoid abandonment if the traffic is there.

A branch line of the old Penn Central Railroad serving Hillsdale, Michigan was purchased, rehabilitated, and operated by a short-line railroad company. Although subsidized initially, the short-line railroad is profitable today as a result of tailored local service and cost control. Short-line railroads can operate to avoid abandonment if the traffic is there.

The Santa Fe Railroad had applied to abandon its line from Clinton to Cheyenne, Oklahoma. After passage of the branch line surcharge provision of the Staggers Rail Act, the shippers agreed to cut service from three times to one time per week and to pay the surcharge. Branch line surcharges can be paid to avoid abandonment if the traffic is there.

The Roland-Nevada Farmers Cooperative Elevator Association in Iowa fought abandonment of the Chicago and Northwestern line to its elevator at Roland, Iowa on three occasions. Abandonment appeared inevitable. The cooperative built a grain and fertilizer loading and unloading facility on a main line railroad 14 miles away. Sales and profits rose as a result of more modern equipment and reliable delivery. The co-op manager later commented regarding loss of the rail line, "If I had it to do over, I'd spend more time analyzing and less time fighting" (Fertilizer Progress, Dec. 1980, p. 33). Shippers can adjust to abandonment.

When shippers privately subsidize railroads or form short-lines, they do so with the idea that anticipated traffic levels make these good investments. When shippers pay surcharges or adjust to line closure they do so anticipating that these are the least costly ways to continue operating their own business.

Public approaches to rail line preservation include subsidy, rehabilitation, and purchase policies. In Canada, subsidies to cover operating deficits are part of the abandonment process. If the railroad can show a loss on a branch, the federal government covers the loss with a subsidy payment and the line continues in operation. The $100 million spent on the program annually is proving insufficient. Unfortunately, the great likelihood of obtaining a subsidy gives railroads an incentive to put most of their lines up for abandonment.

Iowa and Minnesota have policies of state subsidization of track rehabilitation. The original plans called for original renovation expenses to be shared
equally among shippers, the state, and the railroad. Shippers were repaid by the railroad on a per-car basis at zero percent interest until their share was repaid. Then the state was repaid on a per-car basis until repaid. The funds repaid to the state could be rolled over and used again in subsequent rehabilitation projects. The Iowa Rail Assistance Program, initiated in 1974, has been responsible for rehabilitating over 1,000 miles of track. The Minnesota effort has renovated two lines. The Iowa program was funded by the Iowa State Legislature in amounts initially of $3 million per year and later cut to $2 million and then to $1 million. The Minnesota Legislature also appropriated $1 million per year. In 1981, the Iowa Legislature passed a law to create an Iowa Rail Finance Authority with the power to sell bonds ($200 million worth, backed by a railroad diesel fuel tax) to buy and rehabilitate track. The effort is snagged in court.

South Dakota and Oklahoma have line purchase policies. With collapse of the Milwaukee Road, the State of South Dakota identified a core system of rail lines to be protected, and decided to buy and rehabilitate core main lines and certain branches which were to be abandoned. A temporary 1-cent additional retain sales tax was imposed to finance the program (up to $25 million) along with federal rehabilitation subsidies. Lines are operated by existing carriers under operation and maintenance contracts.

Oklahoma had actually dismantled its railroad planning unit. But when the Rock Island closed, the state established a public corporation to purchase portions of the Sunbelt line (Tucumcari, New Mexico to Little Rock). The corporation is requesting $60 million from the state, which is to come from a tax on every railroad car passing through the state. Two branch lines with moderate traffic also have been purchased, rehabilitated, and leased to operating railroads.

Michigan has a mixed plan. The state bought most of the old Ann Arbor Railroad, renovated it, and leased it to a short-line railroad management firm. The Michigan Northern Railroad is owned as a short-line company, but the state subsidizes its operation. The program is financed with annual legislative appropriations.

State policies regarding branch line preservation include operating subsidies, rehabilitation subsidies, and line purchases. Most line purchases have involved main lines to protect general regional access to rail service; few branch lines have been purchased by states. Over the years, rehabilitation subsidies have been limited to lines which show promise of payback of original capital, with no interest charges.

Pros and Cons

What are the pros and cons of private and public policies? Private initiatives will be undertaken when shippers and closely associated non-shippers anticipate that rail preservation or plant adjustment actions represent a good return to themselves. There is no subsidy implied, but a negotiated settlement. On short branch lines private options are relied upon in most states.

Public options may be appropriate when the lines to be saved are very long and private organization is difficult or when the state has non-transportation objectives to fulfill. Temporary assistance may be useful to save lines of bankrupt carriers. If a state desires that existing shippers have continued access to efficient transportation, the private options probably will suffice. However, other objectives may warrant rail line subsidies.

All state financing of rail line projects represents subsidies. Subsidies are payments to one group of individuals by the general body of taxpayers to achieve an objective. Subsidies act to transfer income and to make some services cheaper relative to others. Policy-makers may desire to transfer income to rural people, by means of cheaper transportation costs, for the objectives of keeping people in the country rather than crowding the cities or of stimulating rural development. Policy-makers may desire to make rail service cheap relative to truck service for the objectives of controlling roadwear and saving fuel. The advantages of transportation subsidies lie in an ability to achieve non-transportation objectives. This may be an effective policy if rail preservation subsidies are more cost effec-
tive in fulfilling state objectives than other actions such as job training, industry hunting, and plant relocation assistance.

Subsidies can have disadvantages, too. Subsidies to protect existing shippers and communities tend to prevent adjustments in facilities which would have occurred without the subsidies. This means that the wealth of those who would have gained as a result of evolution is sacrificed to those whose facilities are being protected. To the extent that subsidies prevent evolutionary adjustment of facilities, subsidies may retard consolidations of facilities to achieve cost-saving economies of large size. Finally, higher taxes needed to support these rail preservation plans discourage the location of new industries which may bring employment potential.

Public subsidy programs for rail line preservation have both pros and cons. Close attention to delineating objectives sought, and analysis to determine how objectives might be achieved, are essential for effective policy.

Conclusion

Rail line abandonment will continue at a substantial level until the rail track network is adjusted to a money-making system. Individual shippers, groups of shippers, and local non-shipper groups have numerous choices to make in the private sphere regarding means to save rail service or adjust to its loss. States also have numerous choices on whether to rely on private or public means to resolve the rail abandonment issue. And, if public means are selected, there are numerous choices as to how, who, and why to subsidize by means of rail line purchase, rehabilitation, or operating subsidies.
IDEAS ABOUT POSSIBLE DIRECTIONS FOR THE FUTURE

Lowell W. Morse
Vice President of Transportation and Distribution,
Missouri Farmers Association

It would be extremely hard to forecast transport happenings in the future without first considering what is taking place in the present transport arena. An arena is probably a just description of the games being played in the deregulatory transport atmosphere that agribusinesses are operating in today.

Let's touch on deregulation just a bit before looking into the future.

Truck deregulation. This hasn't had the effect in our corporate scope of distribution operations that other shippers may be experiencing, primarily because Missouri state regulations have not been relaxed and at times are in direct conflict with federal policy. For instance, even though we have an exempt or non-exempt commodity list at the national level, to the best of my knowledge no such Missouri intrastate list exists. In other words all commodities are regulated in Missouri, even agricultural commodities such as grain. And of course Missouri is one of only three states (at present) that does not recognize the 60-foot length and 80,000-pound GVW limits adopted generally. We are truly archaic in Missouri when trucking regulatory matters are considered.

Even though relaxation of trucking regulations was legislated at the national level, state regulations may in many instances override the potential benefits of the federal effort.

Rail deregulation. The Staggers Act has prompted a quagmire within the rail rate and service structures. As an example, a rail shipper no longer can compare published rail rates to determine his competitive position in the market place. Contract rates negotiated secretly with little or no disclosure to the shipping public are becoming vogue. Rebates or "incentive refunds" have become the practice of the day. Under these conditions small rail shippers will cease to exist or ultimately be forced into a restricted market territory insofar as rail carriage is concerned.

Contractual rates are nothing new to the railroad industry. We have had them for years. In the past, however, these volume-incentive type rates were published as normal tariff procedure and were a matter of public record and available for all to participate in.

MFA Incorporated is not a small rail shipper. Our annual rail freight bill for only one commodity we ship, potash, from Canada and New Mexico amounts to over $7 million (2,000 carloads). We ship in excess of 15,000 rail cars per year. However, when compared to the Cargills, Continentials, and Bunges we are viewed as a small shipper by rail standards and thus not entitled to the same considerations as larger shippers.

Deregulation or commodity exemptions in the barge industry have been a matter of record for years. Barge carriers, perhaps through experience, have become agriculturally oriented in their rate strategies, contractual planning, and thinking processes. They recognize the importance of the large as well as the small agribusiness shipper. Again, this is no doubt due to their years of experience, operating in an exempt commodity environment.

What does the future hold for the shipper and the three primary modes of agricultural transportation, namely, trucks, railroads, and barge lines?

Let's talk about shippers first.

Shippers. I feel that private carriage will experience expansion. Private carriage, while expensive, does offer some measure of control over cost, utilization, and service. This predicted expansion will require sound professional and
economic judgment on the part of the agribusiness shipper. The rapid escalation of equipment and capital costs must receive the utmost attention when private carriage expansion is being considered. Cost justification must overrule emotion.

Marketing patterns will no doubt change in the future with less emphasis on organized market locations and more emphasis on direct farm to final usage point, whether it be processing, consumption, or port of embarkation.

Shippers will become more professional in negotiating contractual commitments with rail carriers. They will become more cognizant of rail costs, rates of return, and logistical limitations of the railroads.

However, shippers know that to negotiate rail contracts successfully one must guarantee large volume future commitments. How does an ag-shipper reasonably do this since weather is the biggest variable we deal with in relation to our bottom line? How can an ag-shipper be able to contract from a position of strength a year in advance unless he can accurately predict weather patterns, crop inputs, and final crop production? This is a large void that a prudent shipper cannot ignore. In fact, it may prove interesting during the next serious drought to see what relief is granted by the railroads to those ag-shippers who have executed large volume tonnage contracts with performance guarantees that cannot be met by the shipper.

Shippers will become more volume oriented (i.e., will give attention to annual tonnage requirements). They will become more adept in bargaining and in trading commodity traffic guarantees for rate concessions. These guarantees and concessions may not always be within the same commodity group.

Future of Trucking. I would submit that at some time in the near future common sense will prevail and uniformity in trucking regulations will be mandated. I feel this will be accomplished at the federal level with individual states following suit reluctantly.

I feel the owner-operator, the cowboy of the industry, will be relegated to a supportive position of shorter hauls that probably will not exceed a few hundred miles. The continued escalation of all operating expenses will dictate this outcome.

I expect to see more inter-corporate hauling, with leasing arrangements between common and private trucking interests becoming a routine practice.

Eventually the crisis of deteriorating roads and bridges must be dealt with. Even though we strive to improve fuel efficiency with all kinds of gadgets, this will prove self defeating from a tax return standpoint. Consequently, I expect fuel taxes to increase at both federal and state levels.

Railroads. Railroads will remain a viable future carrier of agricultural commodities. Abandonments will be expedited both by the Staggers Act and pending mergers. In fact, mergers in many instances are de facto abandonments.

There will be a greater trade off of track operating rights between rail carriers as a means of removing merger opposition.

Railroad pricing methodology will become more innovative and more commodity-rather than market-oriented.

I look for more future integration (perhaps even vertical integration) within the railroad industry. There may be supplier-type companies, and such; also, a reduced rail track system or plant that will enable railroads to become "lean and mean" with competitive modes. Perhaps the railroads may find it advantageous to tender excess traffic capacity to the shipping public through organized offerings designed to improve utilization especially during depressed rail car demand periods.

And finally I look for someone to rediscover the need for regulation. I predict that we will see a return of regulatory patterns over the next 10 to 15 years.
Regulations seem to move in cycles and I expect that period of time to elapse before the present deregulation cycle ends.

Water Carriers. Needless to say, the future operations of barge lines could be vitally affected by the imposition of user charges. Currently, charges of six cents per fuel gallon are being assessed by the federal government. If these user charges are increased to the levels being discussed in Washington ($1.20 per gal. or whatever) barge rates will escalate rapidly. This action will have a double-barreled effect on the agri-shipper since water competitive rail rates will surely be increased a like amount.

Barge carriers are the most fuel efficient mode used by agri-shippers. Yet not all shippers enjoy the geographic blessing of being located on a navigable waterway. The Mississippi River does not flow from Missouri to the west coast. Therefore, it does not exert the degree of influence on the levels of truck and rail rate schedules in that direction that it does to the Gulf.

The near future will see a rapid industrial growth along the inland waterways. This will only be tempered by a lack of industrial sites or political upheavals that could interrupt commerce flow via the Panama Canal or the possible land-water bridge concept across Mexico or Central America.

These comments are my Ideas About Possible Directions for the Future. While not everyone may agree with them please bear in mind that they are freely and earnestly given by an operating person whose main interest is the bottom line of a P/L statement for his cooperative, which is believed to be consistent with the interest of all agricultural shippers in Missouri.

IDEAS ABOUT POSSIBLE DIRECTIONS FOR THE FUTURE

Richard Rudel
Professor of Agricultural Economics

The transportation system for the United States contains many private companies performing transportation services within the bounds of different levels of public regulation. Transportation is only one part of the U.S. economic system. Transportation links the production, processing and consumption of goods and services.

Compatibility between the linkage and the production and marketing functions is an absolute requirement. The essence of dealing with transportation issues and in improving agricultural transportation involves the ability to comprehend and analyze the interactions and interdependencies among a complex mix of political, sociological, and market decision processes. It is in this context of a "total transportation system" that I direct my remarks and ideas about directions of the future for agricultural transportation.

I have chosen to draw on three sources that together present a wealth of mind-stimulating (or maybe mind-boggling) ideas about transportation in the future. The first is from a report by James Shaffer and Everett Peterson.

Perhaps the most important question has to do with the mix of political and market decision processes. As citizens we express our preferences by voting and otherwise influencing political decisions. As consumers we express preferences by our action in the market. Firms provide services because they express their own self-interest in seeking profits and providing services.

Decisions as to the quantity and quality of streets, roads, highways, and waterways are made politically. Many market decisions are involved in the supply, demand, and prices for the inputs required to build and maintain these right-of-ways. Most of the travel on these ways is by privately owned vehicles. Payment for the use of roadways is by a combination of user charges and general taxes. Most of the user charges are fuel taxes which may not be closely related to the cost or use of a particular section of the road system. Users of waterways pay a percentage of construction and maintenance costs. Many private firms own and operate their
own transportation equipment. We also have publicly owned buses, commuter trains, and boats which are financed by a combination of user fees and tax funds. Thus, we combine market and political decision processes for articulating societal preferences as to the ownership of facilities, equipment, and right-of-ways.

Railroads and pipelines, by contrast, generally are privately owned but publicly controlled. Some persons have argued that railroad beds and tracks should be government-owned, with equipment privately owned and operated, the same as highways. Several states own railroads. The federal government owns and operates the largest single rail corporation, Conrail, and operates Amtrak, a passenger system, mostly over privately-owned rail lines. Local governments, subsidized by state and federal funds, sometimes operate dial-a-ride systems in competition with private taxis and for-hire private motor vehicles to provide transportation for people in rural areas.

Private transportation companies, including railroads, are also influenced by a variety of political decisions. Railroads and motor trucks are taxed, subsidized, and regulated in many ways. Some of the subsidies are subtle, such as the subsidy of the railroad workers' pension plans through the federal social security system and motor trucks through the highway trust fund.

The major problem in efficient allocation of resources among modes of transportation is to treat them equitably in terms of taxes and subsidies and cost-influencing regulations. In addition, the interdependencies and interactions with the economy must also be realized and dealt with effectively. The pattern is so complex that no one knows the relative distribution under the present system. This issue must be addressed in the future if the mix of political and market processes is to reflect improvements in the performance of the transportation system.1

Professor Morris Taylor of Utah State University has offered the following 15 points about the necessary ingredients for a good freight transportation system. He stresses intermodal aspects.

Development of the total systems concept will require several specific support measures.

1. Of primary concern is the need to evolve specific "system" goals. This involves the development of criteria which would provide the means for evaluating possible configurations of production and marketing channels for the respective modes.

2. There is a need to evaluate the body of law and institutional framework relating to the adoption and development of the "system approach." This evaluation needs to take note of those laws and institutions which are currently designed to facilitate such action, and adopt plans to change those laws and institutions which serve to constrain such development. It is expected, however, that in-depth research will be needed to enable policy makers and industry to come to grips with pertinent issues and evolve operational plans to facilitate the desired development.

3. There is a need for a "system" policy declaration, a declaration treating each mode within the present network as a part of the total transportation "system."

4. The efforts of administrative and regulatory agencies need to be directed toward the "system" approach as contrasted with present procedures designed to maintain separation.

5. There is a need to develop a legal basis for increased joint effort as opposed to the present legal framework, which looks at many such proposals with a jaundiced eye, each suspicious of motives, and with emphasis on the adverse or negative impact.

6. The institutional framework of carriers must submit to operational procedures designed to facilitate greater intramodal cooperation, and then expanded intermodal working relationships.

7. The mechanical and technical means to facilitate greater intermodal movement of freight must be emphasized through research and development.

8. There is need to do some imaginative thinking and planning with the total transportation industry regarding evolvement of a multiplicity of potential configurations in freight movement through development of intermodal mix in the "system" context.

9. There is need to develop a public conscientiousness with regard to the values of alternative combinations in freight movement and in least cost alternatives.

10. The economic viability of rural America is limited only by the supply and the demand for its product. There should be no undue restriction on the ability to move the product. National interest demands access to all rural markets and production.

11. The substitution of new forms of transportation where changes in historical structures are required. These new forms may take the shape of modifying existing structures or of substituting one mode for the other.

12. All agricultural areas should have access via an efficient transportation mode or modes to regional and possibly national population centers and even international markets.

13. The development and dissemination of an adequate knowledge of transportation economics and facilities to permit rural communities to develop within the framework of the evolving transportation structure. This includes the development of a comprehensive data base and information system.


15. An efficient agricultural transportation system that will provide services at a cost consistent with national energy supplies.

A third publication sets forth a number of performance measures for a transportation system.

Objective evaluation of changes in transportation industry structure or regulatory rules requires operational performance measures. For each proposed change in industry or governmental policy, the anticipated improvement in performance should be compared with the cost of making the change. In addition, the distribution of benefits and costs should be identified to determine whether those receiving benefits are the ones bearing the costs.

Measuring the performance of the transportation sector is an evaluation of how well the transportation industries and regulators are serving the public. Performance criteria can also be used as a guide for future development and evolvement of agricultural transportation. Some of the criteria are as follows:

a) Efficiency - Is there sufficient competition among firms or sufficient regulatory guidance to make transportation companies cost conscious? Is there too much competition and regulation?

b) Price level - Do price levels of services represent the cost of producing services plus an acceptable profit margin?

c) Types and quantities of services - Are price signals communicated by transportation users eliciting from transportation providers the types and quantities of services desired by transportation users?

d) Service quality - Do price signals create sufficient incentives for transportation companies to produce high quality services, such as reliable, fast, and secure transportation service?

e) Distribution of service - Do small, productive businesses have access to freight transportation; do poor as well as high income persons have access to passenger transportation?

f) Progressiveness - Do transportation companies actively search for and apply new technologies and new management methods?

g) Industry viability - Does the industry generate sufficient profit to encourage continued application of capital to maintain a strong financial base for reliable and improved services?

h) Energy conservation - Are energy costs reflected in rate differentials between modes to encourage use of the most energy efficient mode, after considering service factors?

i) Environmental protection - Do transportation companies actively apply environmental protection methods in their operations?

j) Safety - Are accident and loss and damage records of transportation companies reasonable; do companies and agencies actively search for and apply new technologies and operating procedures to promote safety?

k) Defense - Are facilities, equipment and services sufficient to support the defense of the country in times of military emergency and disaster?

The basis premise then becomes the assertion that if the nation's network were to be consciously molded into a transportation "system" such a system would redound to the benefit of the public interest, including carriers, shippers, and consumers.  

SUMMARY OF THE SEMINAR

V. James Rhodes
Professor of Agricultural Economics

It is indeed a challenge to try to summarize a conference so rich in its diversity of viewpoints.

Several persons attending commented on the vigor with which the various carriers attacked one another. It is important to emphasize that two current public policy issues emerged:

1. The height of user fees on barge diesel fuel, and
2. The up-coming state referendum on truck size and weight limits.

As to user charges, I expect that reason will prevail and that there will be some raising of the fees but not nearly enough to threaten the existence of the industry.

With regard to truck weight limit, I am not at all sure that we have received the full facts. I felt a little better after Mr. Hunter's presentation. I hope that someone can dig out all the facts and if half as favorable to a higher limit as Mr. Burruss says, all of us should mount an educational campaign to help reason prevail. I agree, however, with the idea that a lot of Missouri citizens are simply going to vote their fear and dislike of speeding and tailgating trucks, unless there is a very convincing story to the contrary.

Next, intermodal bickering. It is a little tiresome to hear the pot call the kettle black as to who gets the most subsidies. It appears that competition among the various modes becomes the most intense when they seek subsidies. The fact is that our society is far more interlaced with subsidies than anyone wants to admit. This fact neither condemns nor justifies the system. After spending six weeks in Sweden last year where there are more subsidies and taxes than here, I was happy to hear the Reagan promise of turning in the other direction. As a Show-Me Missourian, I am not sure yet as to how much was just rhetoric -- rearranging of subsidies is not the same as reduction.

Professor Edwards gave an interesting review of the history of regulation, breaking it into different periods as to the ruling philosophy. How one reads that history depends on his own view of the world. An optimist can see it as a progressive evolution toward what is now the optimal policy -- namely, coordination through competition. A pessimist can see it as a muddling through that shifts every few years from one rather poor policy to another that is different but equally poor.

Various viewpoints on deregulation were exposed at the seminar. The transportation people (carriers) themselves are pretty cautious. Mr. McClain likes a few aspects of the Staggers Act but he is quite worried about price-cutting among railroads. Mr. Burruss also says that we need to see how things shake out in trucking before he makes a judgment on the effects of re-regulation. Professor Breimyer was perhaps the most skeptical and he trotted out the old quotation that "the power to make freight rates is the power to turn a wilderness into a city or a city into a wilderness." To my mind that observation is pertinent but not nearly as persuasive today as a century ago because of the much smaller part of the country that now lacks alternative modes. Marc Johnson is at the other end of the spectrum. He urges us to rely more completely on competition. In his view government has more often been a part of the problem than a solver of problems. Lowell Morse and Dick Rudel suggest that we cycle between more and less regulation.

Harold Breimyer was very right in emphasizing that any transport mode has very heavy overhead costs for the right of way -- the rails, the highways, and the improved waterways. Inevitably, there are the issues of how much the public shall subsidize those overhead costs. Further, how shall the rest of the overhead be
allocated into rates applied to shippers in many different kinds of situations and competitive alternatives? Neither question has a perfectly objective answer. It has been a problem in every nation. As usual, we in the United States have relied a bit more on competition than have most countries.

I, for one, sincerely hope that more competition can be helpful. I do share with the carriers some of their doubts. A bit of history: in the 15 years before the ICC Act, the railroads had a period of vigorous, unregulated competition. The trans-continental networks had been built and the railroads settled down to try to make some money. Although they set rates on captive shippers high enough to inspire the Granger movement, they got into all kinds of rate wars among competing lines, in spite of many illegal attempts to collude. When fixed costs are high and variable costs low, it's very tempting to cut rates. In the 1880s these unregulated railroads tried to compete by building more mileage. In fact, more miles of railroad were built in the 1880s than in any other decade and by 1890, more miles were bankrupt than ever before. I suspect that a disproportionate part of the track abandoned in this century was built in this last gasp of unregulated competition in the 1880s. Ironically, unregulated competition allowed over-building, and then, as Marc Johnson points out, the later period of regulation subsidized those lines for the next century. We have managed to get the worst effects of both policies.

One or two speakers call for more good will and more cooperation between the carriers. While not daring to be against such virtue, I regard such calls as being about as effective as rain dances. Professor Edwards expressed the same skepticism.

On a lighter note, some of us learned new terms such as Regulatory Robin Hood and the acronym MGP-UP.1 We learned that the highway engineers have to design for a lowering eye level (smaller cars whose drivers are closer to the road). Maybe Detroit should build periscopes.

I suspect that most of us learned about some developments that are new to us. The entry of the owner-operator into trucking is impressive, although there seems to be some difference of opinion about his long term prospects. Professor Cramer reminded us that the car shortage problems so prominent a few years ago were not even mentioned. Mr. McClain of K.C. Southern painted a surprisingly optimistic picture of the network of mainline railroads in Missouri and gave his judgment that most of them are here to stay. That is good news. Marc Johnson gave us a very helpful summary of what other states are doing about the abandonment problem. I thought he had an excellent perspective on what states can do.

Mr. Hunter gave us the bad news. On some of our farm-to-market roads we may accomplish in 30 years a complete cycle from gravel to asphalt to gravel again. Certainly he presented a third very real policy issue to use. How long can we continue to finance the upkeep, not improvement but upkeep, of our state road system? I was surprised to learn how extensive our highway network is -- 32,000 miles. And Illinois is spending three times as much per mile on highways as we are in Missouri! Unfortunately, all kinds of state services, including higher education, are all being gutted by declining state revenues. Perhaps the state should drop some of that secondary system. I don't know the answers; but I did get a little better picture of the problem.

Lowell Morse suggests that Missouri regulators have not heard yet about deregulation and that they are busy applying 19th century regulations to 20th century problems. He also brought up the problem of secret contract rates and the difficulties they pose for shippers. He surfaced two more public policy issues.

My colleague, Dick Rudel, proposed an ambitious 16 point approach to a total transportation system. We would all agree on the need for such a system. How to get there? Marc Johnson says through deregulation and competition. Breimyer replies that we still face the policy issues of overhead costs; and how can we rely on competition if only two or three giant lines are left?

1Missouri Pacific-Union Pacific rail lines, which are considering a merger.
As Rudel says, there are legitimate public performance goals of equity and efficiency, and progressiveness. Too much concentration on any one of those goals may sometimes get in the way of the others. We have often made mistakes in the past and we will make more. But we have as a nation a pretty good batting average in keeping our problems down to a surmountable size. Following this seminar I feel encouraged about our transportation system.