

The Impact of the Staggers Rail Act of 1980

ASSOCIATION OF AMERICAN RAILROADS

OCTOBER 2011

Summary

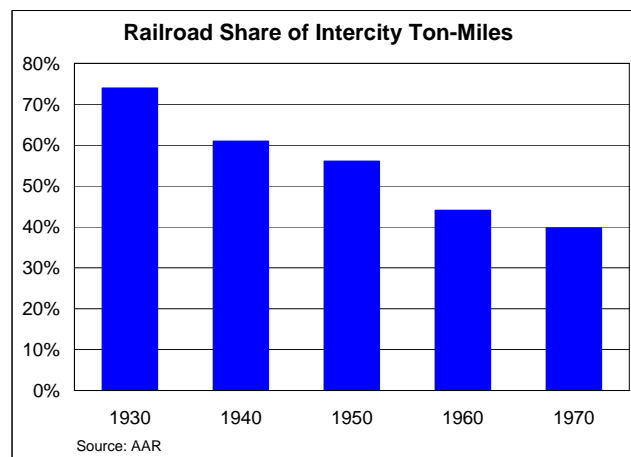
By the 1970s, decades of increasingly stringent government regulation had brought the U.S. freight rail industry to the brink of ruin. Today, though, U.S. freight railroads are the **envy of the world**, providing a **huge competitive advantage for U.S. businesses**, **huge savings for American consumers**, and strong support for our nation's **economic recovery**.

What brought about this change? Congress passed the Staggers Rail Act of 1980, which instituted a system of **reasonable regulation** in the rail industry, ushering in a new era in which railroads could largely decide for themselves — rather than have Washington decide for them — what routes to use, what services to offer, and what rates to charge. Since Staggers, average rail rates have fallen **51 percent**, rail accident rates are down **77 percent**, rail traffic volume has nearly **doubled**, and railroads have reinvested **\$480 billion** back into their systems. Balanced, reasonable regulation works — for rail customers, railroads, and America at large.

The 1970s: Railroads at the Brink of Ruin

By the 1970s, excessive regulations, intense competition from trucks and barges, and changing shipping patterns **drove railroads to the brink of ruin**.

- During the 1970s, most major railroads in the Northeast, including the giant Penn Central and several major Midwestern railroads, went bankrupt. More than **21 percent** of the nation's rail mileage was accounted for by **bankrupt railroads**.
- Between 1970 and 1979, the rail industry's return on investment never exceeded 2.9 percent and averaged 2.0 percent — **well below what a child could earn at the time on a savings account**. Railroads' low average rate of return had been falling for decades: it was 4.1 percent in the 1940s, 3.7 percent in the 1950s, and 2.8 percent in the 1960s.
- By 1978, the railroad share of intercity freight had fallen to 35 percent, down from 75 percent in the 1920s.



- Railroads lacked the funds to properly maintain their tracks. By 1976, more than 47,000 miles of track had to be operated at reduced speeds because of unsafe conditions. Deferred maintenance — maintenance that needed to be done but railroads could not afford — was in the billions of dollars. The term “**standing derailment**” — when stationary railcars simply fell off poorly maintained track — **was often heard**.

The weakness of the rail industry was no surprise. As the U.S. Department of Transportation noted in 1978, “The current system of railroad regulation ... is a hodgepodge of inconsistent and often anachronistic regulations that no longer correspond to the economic condition of the railroads, the nature of intermodal competition, or the often-conflicting needs of shippers, consumers, and taxpayers.”

The status quo was untenable, so Congress essentially had two options: nationalization, at a continuing cost of untold billions of dollars; or a move toward more **reasonable, balanced regulation** to replace the excessive regulation of the past. Congress wisely chose balanced regulation and passed the Staggers Rail Act of 1980.

By passing Staggers, Congress recognized that railroads faced intense competition for most of their traffic, but excessive regulation prevented them from competing effectively. To survive, railroads needed a **common-sense regulatory system** that allowed them to act like most other businesses in terms of managing their assets and pricing their services.

What Did the Staggers Act Do?

The Staggers Act eliminated many of the most damaging regulations that hindered efficient, cost-effective freight rail service. Among other things, Staggers:

- Allowed railroads to base most of their rates on market demand;
- Allowed railroads and shippers to enter into confidential contracts;
- Streamlined procedures for the sale of rail lines to new short line railroads;
- Explicitly recognized railroads’ need to earn adequate revenues; and
- Expanded regulators’ authority to exempt categories of rail traffic or practices from regulation if not needed to protect shippers from an abuse of railroad market power. (For example, traffic that could easily be carried by truck could be exempted.)

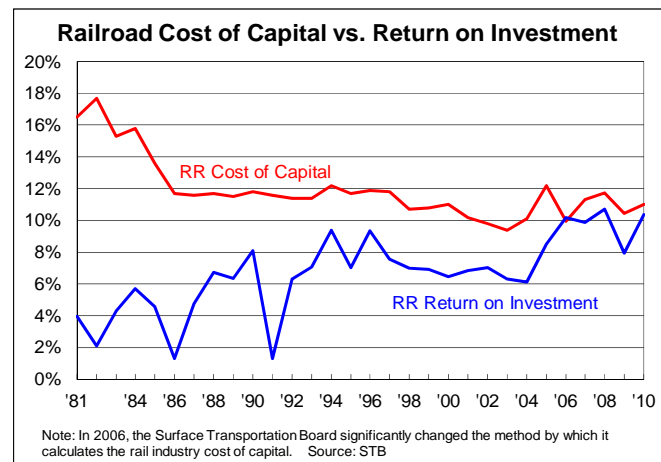
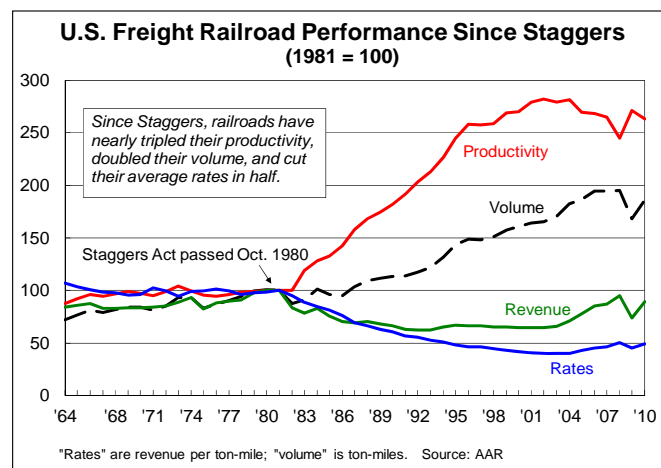
Under Staggers, **regulators retained authority to protect shippers and consumers against unreasonable railroad conduct and unreasonable railroad pricing**, and regulators still have this authority today. This ensures that freight rail is fair and competitive, and that railroads are held accountable for their actions.

Since Staggers, America’s Railroads Have Been Reborn

By permitting a more customer-focused, market-based approach to railroading, the Staggers Act has greatly benefited railroads, their customers, and our economy at large, just as Congress intended when it passed the act:

- Average inflation-adjusted rail rates (measured by revenue per ton-mile) are **down 51 percent**. This means the average rail shipper can move **twice as much freight for the same price it paid nearly 30 years ago** — saving hundreds of billions of dollars over this period.

- After decades of decline, rail market share has trended slowly upward in a growing freight marketplace and is now **43 percent**, more than any other transportation mode. Railroads' share of transportation revenue, however, is less than 10 percent, pointing to the tremendous cost-effectiveness of freight railroads.
- Freight railroads have reinvested **\$480 billion of their own funds** back into their operations to create a national network that is **second to none worldwide**.
- **America's freight railroads now generate nearly \$265 billion in total economic activity each year** including direct, indirect, and induced effects, according to a U.S. Department of Commerce model of the U.S. economy.
- Railroads are much safer. In fact, **2010 was the safest year ever for railroads, breaking the record set in 2009**. From 1980 to 2010, railroads reduced their train accident rate by 77 percent, their employee injury rate by 82 percent, and the grade crossing collision rate by 81 percent.
- Since Staggers, railroads have increased their productivity far more quickly than the vast majority of other industries. Overall rail industry productivity was flat for many years prior to Staggers, but is **up 163 percent** since then.
- **Railroads are stronger financially.** Return on investment, which had been falling for decades, rose to 4.4 percent in the 1980s, 7.0 percent in the 1990s, and 8.2 percent from 2000 to 2010, giving railroads the financial wherewithal to create the world's most productive and affordable freight rail network. That said, based on recent determinations by the Surface Transportation Board, railroads as a group still fall short of earning their cost of capital. Even in recent years, when some rail critics have been decrying "record railroad profits," rail earnings have generally been no better than average among all industries.
- **Short line and regional railroads**, most of which are new since Staggers, operate approximately 45,000 miles in 49 states and employ approximately 18,000 workers, **preserving rail service and rail jobs** that otherwise would be lost.



America's Freight Railroads Since Staggers

