
Testimony

Re-regulate, re-build U.S. railways: maglev technology to lead the way

This testimony was submitted on June 3 to the U.S. House of Representatives, Committee on Transportation and Infrastructure, Subcommittee on Railroads, by EIR Economics Editor Marcia Merry Baker and History Editor Anton Chaitkin.

The breakdown condition of the United States rail system, now receiving special attention by Congress, the U.S. Department of Agriculture, and other agencies, besides the Surface Transportation Board, is not an *episodic* problem that can be fixed by tinkering, but part of the “end of the line” phase of a 30-year decline of the U.S. physical economy, in particular the infrastructure base—water, mass transit, highways.

What needs to be reviewed and acted upon, in addition to immediate interventions to relieve the worst problems, is a policy of rebuilding and expanding the railroad infrastructure base of the United States, and of the hemisphere and continents abroad. We here provide guidelines for that objective, including the historical precedent of how the U.S. rail grid was originally constructed by backers of the “American System” of economic development (see appendix).

First, we turn briefly to the global context of financial crisis, then to the background of how the U.S. rail grid was subverted under the merger mania/“free” market years of deregulation, and finally what can be done—development policy, new technologies, strategic necessities.

Throughout this testimony, we refer to the perspective repeatedly provided to U.S. policymakers in recent decades, by our founding editor, economist Lyndon LaRouche. To begin with, his forewarnings years back, that the global financial system faced imminent breakdown, are now confirmed in day-to-day crisis events, as of June 1998.

End of the IMF-era: chaos or ‘New Bretton Woods’?

The special impetus for a rail- and infrastructure-building policy, is that, at present, the world financial system of the “IMF-era” is blowing out, and new financial emergency measures are required—a “New Bretton Woods,” which should serve nations and build economies, not further speculation and social destruction. Financial bubbles (speculation on mergers, “emerging markets,” stock shares, foreign currencies, derivatives) are beginning to pop, that were ballooned

to cancerous proportions over the past 25-30 years, during which time, investment *declined* into building and maintaining infrastructure, and other aspects of the real, physical economic base.

The present-day blowout, which for certain reasons (involving George Soros, hedge funds, and London policy), started in East Asia in 1997, and is now hitting Brazil, Russia, and spreading elsewhere, will either result in chaos and devastation, or we can make it into an opportunity to intervene with new, nation-serving financial measures.

Thus, taking on the challenge to rebuild and expand railroads, is one part of the sensible approach to reversing the financial and economic breakdown.

The essence of a “New Bretton Woods” approach to the systemic crisis, involves actions, by a concert of nations, to take such obvious “1950s” measures as re-pegging currencies, imposing capital controls, replacing “free”—which is really *rigged*—trade, with nation-serving, mutual-interest trade, etc. One vital improvement on the original, 1940s Bretton Woods system, is to back nations in setting up a system of national-interest central banking, and put an end to private central banks, such as the U.S. Federal Reserve System.

In this kind of context, “Chapter 11-style” bankruptcy re-organizations can be pursued for whole nations, to protect and restore priority economic activity, for example, in Indonesia, South Korea, Russia, and, in fact, the United States. The pursuit of continental development projects—for example, the grand “New Silk Road” rail scheme of China, to form a Land-Bridge of rail-based development corridors, across Asia and Europe—can re-start economic production, and restore hope.

Decrepit U.S. transportation system

America does not have a rail system to move goods, or people, commensurate with either its real needs, or with even what existed 30 years ago. That fact is dramatically apparent in the inability of Union Pacific to move even bulk grain—the staff of life—cross country. Though the Agriculture Department and farm state Congressmen chose the diversionary tactic of focussing on European farm subsidies to take the blame for the shipment of Finnish barley to California for dairy herd feed, the truth is that California feed suppliers cannot rely on the U.S. rail grid to deliver grain in a reliable

way, to meet the schedule for the cows' lactation rations! Another case of, "You can't fool Mother Nature."

In the course of its hearings this spring, the Committee has had extensive testimony on the many other aspects of the railroad breakdown situation, and the resulting harm and losses to the economy. We here provide just some summary parameters of the take-down of the rail system:

- *Rail density shrinks.* In 1929, America had 229,530 route miles of track in operation; by 1995, it was down to 109,332 miles. Between 1950 and 1995, on a per-household basis, America's Class I carrier road mileage dropped by 73%. In Iowa, a premier farm state, the railroad track length decreased by one-third in the 1980s.

- *Rail workforce shrinks.* In 1980, there were 458,000 railroad workers employed; by 1994, there were only 190,000; 59% of the rail workforce were axed over that time. Many workers 50 to 65 years old, were forced into early retirement; most were skilled, such as engineers or trainmen, with 30-40 years experience. The railroad companies, during the "free-market"/deregulation years, squeezed out profits by such cuts as reducing rail crews from four workers per train, to three and even two workers.

All of this directly contributed to a decrease in safety. As LeRoy Jones, national legislative representative and executive vice president of the National Brotherhood of Locomotive Engineers, said in a Feb. 29, 1996 interview, "When you remove workers, you remove an extra set of eyes on the train. When you travel, that becomes extremely important, because often an engineer can't see everything because of all he has to do." Moreover, he warned of the consequences of the practice of compensating for so many layoffs, by requiring the remaining workers to put in long hours. They could be told to work 60- to 70-hour weeks, back-to-back double shifts, and irregular hours. "You can be called to work one day at noon, then the next day at 9 a.m., and the following day at 9 p.m., to work through the night. Your body gets messed up. It's like having constant jet lag."

- *Locomotives.* In 1980, there were 28,094 locomotives in operation. As of 1996, the figure was 18,505, a plunge of 34%.

- *Rail cars.* In 1980, there were 1,068,114 Class I carrier-owned freight cars in operation; in 1996, that was down to 590,930, a collapse of 45%. The loss in freight-car capacity showed up dramatically in the food chain. During the summer and winter of 1995, grain piled up on farms and at silos in the Midwest; again, in 1997; and the same situation is projected for 1998.

'Deregulation': another word for looting

In 1980, the law deregulating the railroad industry was enacted, the 1980 Staggers Act, named after Rep. Harley Staggers (D-W.V.). This act was one part of a de-reg orientation of U.S. economic policy, in line with what became known, over the 1980s, as "Thatcherism." In practice, the

policy consists of granting looting rights to private networks to privatize, asset-strip, and profiteer off the economic base of a nation. In Britain, this process went so far that as of 1996, rail cars were taken out of train museums, to try to meet rolling stock needs of the stripped-down rail system!

In the United States, all aspects of the transportation system were degraded through deregulation over the 1980s and 1990s. The result was indisputable — looting of the rail assets of the nation, against the public interest.

The 1980 "free-enterprise" rail deregulation was the excuse for financial circles (interconnected with London directly and indirectly), and with the Big Five (as of 1998) rail cartel companies — Union Pacific/Southern Pacific, CSX, Norfolk Southern, Burlington Northern Santa Fe, Consolidated Rail (ConRail) — to restructure the industry to maximize speculation and short-term returns on profit.

Originally, private rail companies were understood to have a role in fostering the public good. The Interstate Commerce Commission (ICC) was created in 1887, which gave the rail service a mission of building the nation. Rate-setting bureaus, in which railroads participated under the supervision of the ICC, set rail rates at levels that allowed owners to earn a return that covered capital and operating costs, including a fair wage to labor, and some profit, for technological improvement and expansion. The railroads had to agree on a rate for a particular zone of the country, and get the ICC's approval. The railroads had to agree to serve customers, no matter how small, in every region of the country, at the same rate that was offered to large, influential customers.

Nearly a century later, after deregulation, a railroad company could raise its rate as much as 180% of its operating cost, without getting prior ICC approval. It only needed approval, if it went above that level. A spokesman for the Association of American Railroads (AAR), which represents the Class I carriers, explained in February 1996, that 130% of operating costs was breakeven. So, at rates of 180%, returns are more than 38% above breakeven. Another AAR spokesman explained in March 1996, that, prior to 1980, no specific rate of return was aimed for, but records show that an average annual return on net investment of 5-7% was achieved in years which did not have significant economic downturns. He said that as of 1996, the industry was shooting to get an industry-wide 12.2% rate of return, double the level of the 1970s. In 1995, the rail industry was the favorite of Wall Street, as rail stock prices rose 20%.

The recent history is well known to the Committee. In 1995, the ICC itself was abolished; rail corporate consolidation continued. The number of Class I carriers in the United States fell from 25 in 1980, down to 4 in 1997. In September 1996, the infamous mega-merger of Union Pacific and Southern Pacific occurred. The facade of profiting off looting continued, when, as of summer 1997, UP announced that second-quarter earnings were up 33%. But soon, reality asserted itself.

Over succeeding months, UP—the owner of 36% of all Class I rail operations in the United States, and biggest on the continent—couldn't move the goods. Grain piled up in the farm states; containers piled up in the Port of Los Angeles; thousands of stranded rail cars filled yards and sidings in Texas and elsewhere.

Not only UP's earnings went down, but the losses to farmers, factories, chemical, plastics and other plants, and to all manner of vital economic activity have soared to the multi-millions of dollars. The only thing missing is a 19th-century railroad ballad, on the "Wreck of the Old UP!"

For the immediate financial breakdown crisis situation facing the United States, and all nations, undertake domestic precautions and emergency measures based on the spirit of the U.S. Chapter 11 bankruptcy laws—namely, to keep vital functions of the economy and social life of the nation intact and in operation (physical production and trade flows, food, medical care, pensions).

Restore railroads; rebuild economies

What is required? Rebuild the railroads; rebuild the economy; maglev technology is essential. The following are relevant points for this task. They are based on the white papers from 1992, on "Building New Railways, Waterways, and Highways," and "Maglev: The Technology of the 21st Century," from the national campaign program book of LaRouche for President, Independents for Economic Recovery. (The papers were also run as full-page advertisements in the *Washington Times*, in 1992.)

1. *Overview.* Mandate a Federal assay of the priority routes, components, and densities, of a surface freight and passenger movement system (coherent with air traffic, waterways, and marine shipping), required to serve an expanding economy of the United States, and interconnect with Canada, Mexico, and beyond.

2. *Reconstruction.* In the context of the emergency financial measures cited below, initiate a national railroad reconstruction project, as part of an overall infrastructure-building drive (water, power, mass urban transit, flood protection), involving the use of public and private contracts, at Federally-set low-cost financing, to undertake the work. Make provision

for appropriate public and private ownership of new and restored rail companies. Make provision for regulating rates and services in the public interest.

3. *Financial emergency measures.* For the immediate financial breakdown crisis situation facing the United States, and all nations, undertake domestic precautions and emergency measures based on the spirit of the U.S. Chapter 11 bankruptcy laws—namely, to keep vital functions of the economy and social life of the nation intact and in operation (physical production and trade flows, food, medical care, pensions). In response to financial crashes and insolvencies of various kinds: Be prepared to differentiate between "worthy" and "unworthy" internal and foreign debts and obligations; to impose capital movement controls as needed; to participate in re-establishing pegged currency rates; and to move to put an end to "free" trade practices and presumptions, and resume traditional mutual-interest national trade.

In this regard, for example, it is essential to restore such domestic policies as parity-based pricing for farm commodities, which means cancelling the 1996 "Free Markets" Farm Law, and reverting to the 1949 standing-law for parity pricing.

The sovereign interest, in all decisions, lies with honoring those claims, obligations, and needs respecting the health and welfare of households and essential economic activities, and *not* honoring unpayable demands created by speculation.

Cease the mandate for private central banking in the United States, by "nationalizing" the Federal Reserve System, as a national-interest central bank. Among the first tasks of the national bank, in conjunction with the U.S. Treasury Department, is to make low-interest credits available for priority contracts for production and services on designated national infrastructure projects.

New Bretton Woods. These kinds of nation-serving (not "markets"-serving) measures, amount to the kind of national bankruptcy reorganization approach which is needed around the globe, and which the United States is uniquely placed to initiate, as a "New Bretton Woods" effort among nations. It goes without saying, for the purposes of this testimony, that the International Monetary Fund is defunct, and should be terminated.

4. *Labor force development.* A vastly increased demand for skilled jobs in the United States will be created by this infrastructure development drive. The job creation effect will amount to more than 3 million directly, and another 3 million indirectly, from the workforce required to construct needed projects and provide supplies and services. Also, U.S. involvement in contracts for construction of such world-priority strategic development projects as China's "New Silk Road" plan for Eurasian Land-Bridge routes, will create demand for even more jobs and output.

In this context, the opportunity is posed for the restoration of classically-based education, and abandonment of the dead-end, "outcome-based" schooling that has dumbed down millions of Americans.

5. *Maglev/machine-tool sector.* At the forefront of the

new U.S. railway grid must be magnetically-levitated systems on selected priority lines, for example, the East Coast corridor from Boston to Washington, D.C.; east-west corridors through Chicago; and West Coast corridors for the Pacific cities.

This poses the need to restore the heartbeat of economic development to any nation—science, and the machine-tool capability.

The various maglev technologies are ready and waiting. Sen. John Chafee has become an outspoken champion of maglev in the Senate, and counterparts in the House have had the pleasure of taking a ride on the Transrapid demonstration link in Germany.

Action by this Committee to break with the premises of the “de-reg” era—which, as the U.S. rail crisis shows, is falling apart before our eyes—and to move ahead with a commitment to infrastructure-building, and public-interest policies, will be a much-hoped-for signal to other leaders here and abroad to do the same. Please take this step.

Appendix: Historical precedents for rebuilding U.S. railways: 19th-century origins of railroads

Should nations promote productive industry through government subsidy or other protection and encouragement? Or are such efforts “corruption” and “government interference”?

Public officials are everywhere confronted with infrastructure breakdown, transport crises, and traffic gridlock. Must their impotent lament, that no resources are available to solve these problems, be the final word?

The proud record of America’s own creation of railroads is a useful guide for today’s national strategists everywhere in answering these questions. In the United States, the railroads were planned by the Army, and financed by government, as projects vital for national defense and economic development.

The General Survey Act of 1824 authorized “the President of the United States . . . to cause the necessary surveys, plans, and estimates, to be made of such Roads and Canals as he may deem of national importance, in a commercial or military point of view.”

Under this act, President John Quincy Adams began assigning U.S. Army engineers to design the country’s first railroads. The original such project was the Baltimore & Ohio, chartered in 1827; Adams ordered 14 engineers to plan and supervise that construction, to link the Atlantic Ocean port of Baltimore with the Ohio River and its Mississippi connection. Adams deployed Army personnel to start up several other railroad projects, until the end of his Presidency in 1829.

Adams’s Secretary of War, James Barbour, explained the assignment: “The successful introduction of Rail-Roads, into

this country, is viewed by the [War] Department as of great national importance, and especially any practicable mode of connecting the Atlantic States with the Western; . . . so that the commodities to be found in either can be conveniently and cheaply conveyed to the other, across the barriers which divide them, and which . . . offer the most sure and economical means to the Government to convey, to the different parts of the Union, the means of defence, in the transportation of men and munitions to the seat of war, wherever it shall exist.”

Andrew Jackson, John Q. Adams’s successor, continued assigning Army engineers to plan railroads. Under the General Survey Act, up until 1838, the new technology of steam power and metal rails was implemented by Army design on at least 60 railroads. Army men worked on still other new lines during official furloughs, or in their spare time, with official blessing.

This government action was indispensable, because the U.S. Military Academy at West Point was the only engineering school in America when railroads began. West Point’s officer-graduates made up almost all of the available civil engineers, and Army regulations were implemented to discipline and organize the new railroad companies.

Though these companies were mostly private enterprises, all significant such railroads were subsidized by government funds. The State of Maryland, and the city of Baltimore and other municipalities, put up the bulk of the capital to construct the Baltimore & Ohio. The State of New York paid for the great Erie Railroad, to match its Erie Canal; similarly with Massachusetts and the central line from Boston to Albany. Pennsylvania, state and municipalities, financed massive canal and railroad works, as did Michigan, Indiana, Georgia, and Virginia. Cities and counties also poured huge sums into creating the great railroad network. In the 1850s, the Federal government began making giant land grants to complete the construction in the Midwest. Illinois political leader Abraham Lincoln personally organized the flow of state and Federal subsidies which created the Illinois railroads and made that state the nation’s productive center. After he became President in 1861, Lincoln employed the Army and the nation’s capital to build the transcontinental railroads.

State and local governments provided at least half of the capital for the construction of America’s railroads, most of which took place between 1828 and the 1870s; various Federal subsidies significantly raised this ratio of government involvement.

The fact was that financiers were unable to do the job without such grants, loans, and stock purchases, as different levels of government offered to start up the railroads. Neither the New York Stock Exchange nor the eminent Boston bankers played a significant role, while the Army and the community pitched in to build the rail lines. Later, these financiers bought up lines and began to treat them as speculative instruments. The results were not altogether wholesome. Is it now honest for their heirs to warn us against “government involvement”?