

[3/6/79-Not Submitted-DF]

Folder Citation: Collection: Office of Staff Secretary; Series: Presidential Files; Folder: [3/6/79-Not Submitted-DF]; Container 109

To See Complete Finding Aid:

http://www.jimmycarterlibrary.gov/library/findingaids/Staff_Secretary.pdf

THE WHITE HOUSE
WASHINGTON

DF

Date: March 4, 1979

MEMORANDUM

FOR ACTION:

FRANK MOORE
LONDON BUTLER *NC*

Alfred Kahn

Thomson thing on Hill - maybe used.

FOR INFORMATION:

THE VICE PRESIDENT
HAMILTON JORDAN
JODY POWELL
JERRY RAFSHOON
JACK WATSON
ANNE WEXLER

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: EIZENSTAT MEMO, "RAIL DEREGULATION"

no extensions

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: 9:00 AM

DAY: TUESDAY

DATE: MARCH 6, 1979

ACTION REQUESTED:

Your comments

Other:

STAFF RESPONSE:

I concur.

No comment.

Please note other comments below:

*Sta says ok if late -
can wait til after Res trip*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone 7052)

FOR ACTION
FYI

<input checked="" type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND
<input type="checkbox"/>	NO DEADLINE
<input type="checkbox"/>	LAST DAY FOR ACTION

<input checked="" type="checkbox"/>	VICE PRESIDENT
<input checked="" type="checkbox"/>	JORDAN
<input type="checkbox"/>	EIZENSTAT
<input type="checkbox"/>	KRAFT
<input type="checkbox"/>	LIPSHUTZ
<input checked="" type="checkbox"/>	MOORE
<input checked="" type="checkbox"/>	POWELL
<input checked="" type="checkbox"/>	RAFSHOON
<input checked="" type="checkbox"/>	WATSON
<input checked="" type="checkbox"/>	WEXLER
<input type="checkbox"/>	BRZEZINSKI
<input type="checkbox"/>	MCINTYRE
<input type="checkbox"/>	SCHULTZE
<input type="checkbox"/>	ADAMS
<input type="checkbox"/>	ANDRUS
<input type="checkbox"/>	BELL
<input type="checkbox"/>	BERGLAND
<input type="checkbox"/>	BLUMENTHAL
<input type="checkbox"/>	BROWN
<input type="checkbox"/>	CALIFANO
<input type="checkbox"/>	HARRIS
<input type="checkbox"/>	KREPS
<input type="checkbox"/>	MARSHALL
<input type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	STRAUSS
<input type="checkbox"/>	VANCE

<input type="checkbox"/>	ARONSON
<input checked="" type="checkbox"/>	BUTLER
<input type="checkbox"/>	H. CARTER
<input type="checkbox"/>	CLOUGH
<input type="checkbox"/>	CRUIKSHANK
<input type="checkbox"/>	FIRST LADY
<input type="checkbox"/>	HARDEN
<input type="checkbox"/>	HERNANDEZ
<input type="checkbox"/>	HUTCHESON
<input type="checkbox"/>	KAHN
<input type="checkbox"/>	LINDER
<input type="checkbox"/>	MARTIN
<input type="checkbox"/>	MILLER
<input type="checkbox"/>	MOE
<input type="checkbox"/>	PETERSON
<input type="checkbox"/>	PETTIGREW
<input type="checkbox"/>	PRESS
<input type="checkbox"/>	SANDERS
<input type="checkbox"/>	WARREN
<input type="checkbox"/>	WEDDINGTON
<input type="checkbox"/>	WISE
<input type="checkbox"/>	VOORDE
<input type="checkbox"/>	
<input type="checkbox"/>	
<input type="checkbox"/>	ADMIN. CONFIDEN.
<input type="checkbox"/>	CONFIDENTIAL
<input type="checkbox"/>	SECRET
<input type="checkbox"/>	EYES ONLY

ID 790738

THE WHITE HOUSE

WASHINGTON

DATE: 26 FEB 79

FOR ACTION: STU EIZENSTAT

JACK WATSON

CHARLES SCHULTZE *nc*

FRANK MOORE (LES FRANCIS) *attached*

ANNE WEXLER *- will comment - Mon pm*

ALFRED KAHN *will comment on SE memo*

decision memo forthcoming part of larger package

INFO ONLY: THE VICE PRESIDENT

BOB LIPSHUTZ

SUBJECT: WHITE MEMO RE RAILROAD DEREGULATION

+++++

+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: 1200 PM WEDNESDAY 28 FEB 79 +

+++++

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

FEB 23 1979

MEMORANDUM FOR: THE PRESIDENT
FROM: John P. White
SUBJECT: Railroad Deregulation

*Ransom Wheeler to JFW
W. Brown*

Because outdated government regulations have contributed significantly to the decline of the railroad industry, OMB strongly supports comprehensive deregulation after a relatively brief transition period. During this transition period maximum rate regulation will be retained in modified form to ease short-term inflationary pressures and to provide safeguards for rail shippers while they adjust to deregulation. We believe that Secretary Adams' recommendations generally represent sound Administration policy objectives with the exception of his proposed rail line abandonment provisions as discussed below. We note, however, that since the Secretary has attempted to make his recommendations generally acceptable to Congress, the Administration has little room to compromise further with the Congress and still achieve our policy objectives in this area. Therefore, in any communication from you the Secretary should be instructed to push hard for achieving all the major deregulation proposals without falling back to more modest reforms.

The critical financial state of the nation's railroads makes it essential for the Administration to propose comprehensive deregulation of the rail industry if we are to avoid large increases in government subsidies for bankrupt and financially-weak railroads. Although railroad deregulation is not a complete solution by itself to restore financial health to the industry, it is an essential first step. Furthermore, with ConRail, three railroads currently bankrupt, one more dependent on Federal subsidy to avoid bankruptcy, and at least three others near failure, we must deregulate quickly to avoid Federal "bailouts" for other railroads along the lines of our current, expensive bailout of ConRail.

OMB disagrees with DOT's recommendation on rail line abandonments. DOT would keep the present abandonment rules and procedures for three years before switching to more liberal rules that would allow abandonment on 240 days notice unless the railroad is given a full cost subsidy or an agreement to purchase the line at net liquidation value. Even though some congressmen may perceive rail abandonments as a threat to the economic well-being of their constituents, almost all analytical studies done to date indicate that rail abandonments seldom cause severe disruptions since alternative transportation means are usually readily

available. We think we can convince some congressmen of these facts. We also believe that new rules and procedures are needed immediately and not three years after enactment for the following reasons:

- 1) The financially-weak railroads are losing money at a staggering rate. In the first 9 months of 1979 ICC reports indicate the following losses for some of these railroads:

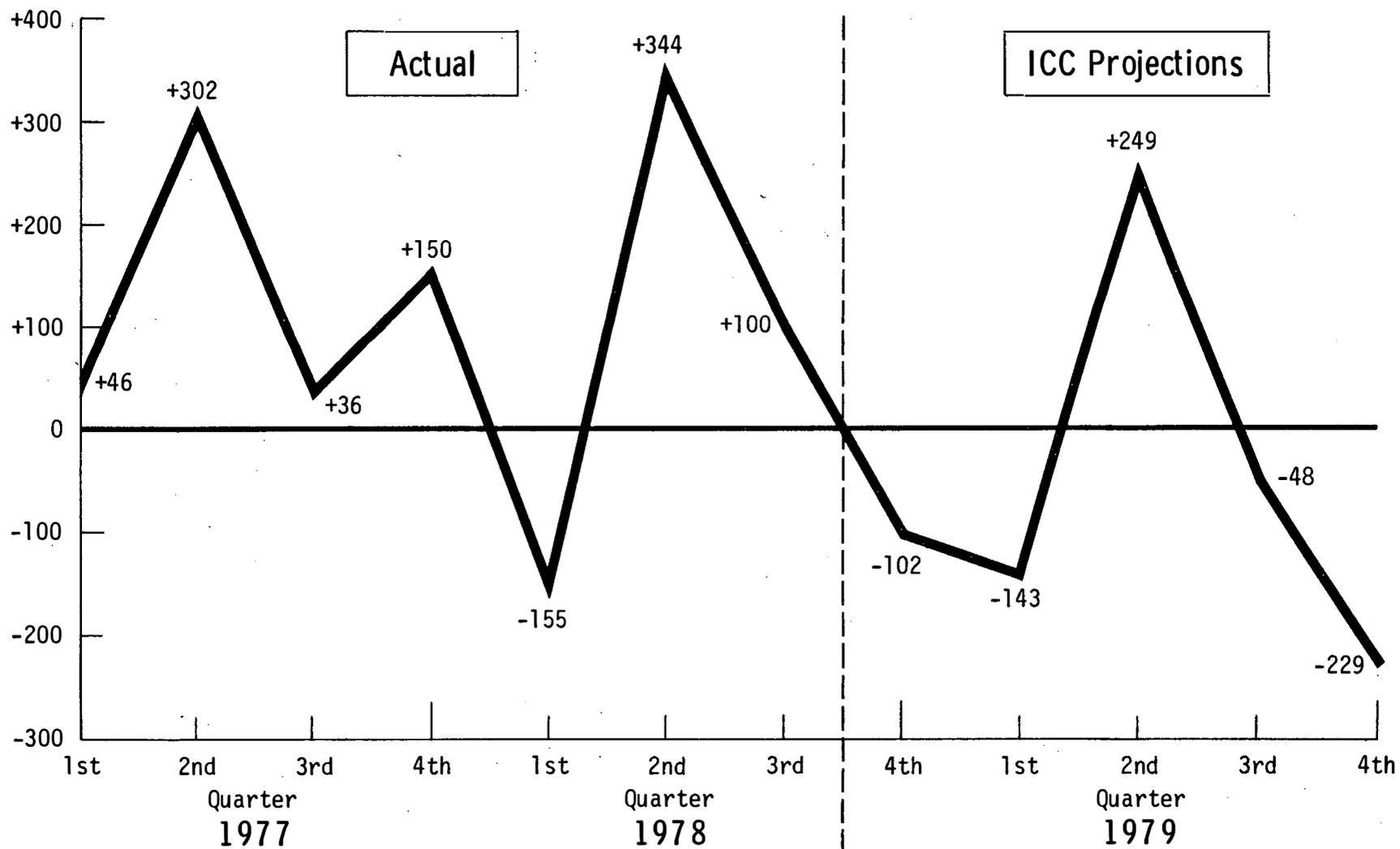
Rock Island	- \$ 13M
Milwaukee	- \$ 52M
Illinois, Central Gulf	- \$ 22M
Louisville & Nashville	- \$ 29M
Boston & Maine	- \$ 2M
ConRail	- \$540M
Delaware & Hudson	- \$ 9M
- 2) The ICC's near-term projections for Class I Railroads as a whole estimate that in 1979 they will lose \$171M (after making \$534M in 1977 and \$187M in 1978). Attached is a detailed graph illustrating these figures.
- 3) We estimate conservatively that out of approximately 200,000 railroad route miles there are 30,000 to 35,000 miles of uneconomic lines on which operating losses plus maintenance expenses total \$315M to \$365M per year.
- 4) The existing abandonment procedures have, in the past 2 years, allowed only 5000 miles of line to be abandoned, and at this rate it would take 12 to 14 years to abandon only those rail lines which are presently losing money at a total cost of \$1.5B to \$2.0B over this period -- not considering the prospect of additional lines becoming uneconomic due to changes in shipping patterns.
- 5) Uneconomic rail lines which should be abandoned or subsidized are concentrated in the Northeast and Midwest on the financially-weak railroads.
- 6) DOT's recent study of the industry's capital needs estimated that financially-weak railroads -- not including ConRail -- would require almost \$8 billion in external investment (e.g. from government or other non rail sources) by 1985 to maintain their current level of operations.

We believe that making liberalized abandonment procedures effective immediately will not encounter significantly more opposition than DOT's proposal. Since we are firmly convinced that new procedures are needed eventually, we ought to propose the more far-reaching alternative and retain the option to soften our position, if necessary, to overcome Congressional opposition.

If we cannot overcome the opposition by demonstrating that rail abandonments would not significantly harm shippers and local communities in most cases, we might fall back to 1) a longer notice period such as 360 days, 2) a 1 year transition period instead of 3 years before the new rules and procedures take effect, or 3) an expanded branchline assistance program that gives states and localities more than the \$67M already in the 1980 budget for subsidizing railroad branchlines that are uneconomic.

Attachment

QUARTERLY
OPERATING PROFITS AND LOSSES
CLASS I RAILROADS
 (\$ in Millions)



Source: ICC Transportation Outlook and Projections, December 1978

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

February 28, 1979

TO: Bill Simon

FROM: Les Francis

SUBJECT: CL Comments on White Memo Re: Railroad
Deregulation

Jim Free: Have already had consultations with House Members involved. All are supportive except for Staggers. DOT should work.