# Railways and Railways Regulation in the United States

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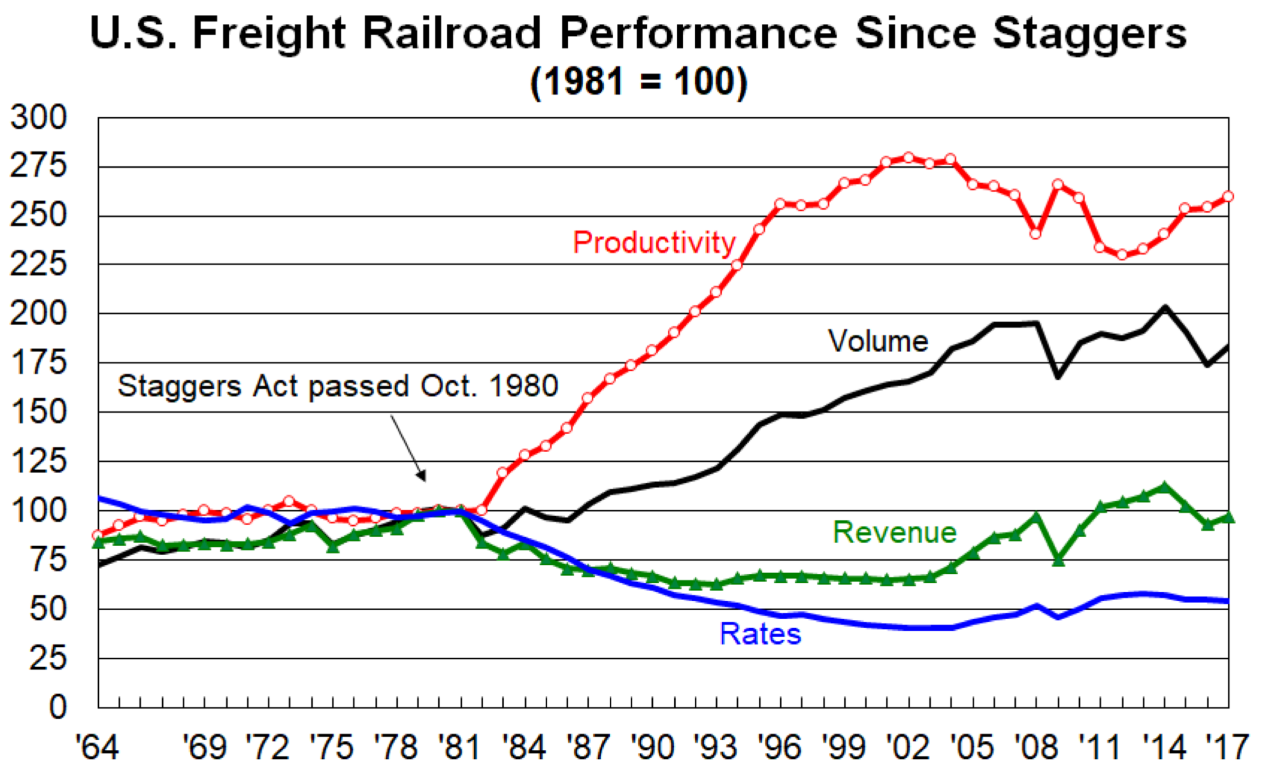
# Background: The US rail system up to 1980

- Setting:  U.S. freight railroads privately owned, vertically integrated
- Multiple railroads serving parallel routes, common points, but competition was feared as “ruinous”
- Many freight shippers captive to rail, especially in early decades before Interstate Highway System
- Thus entire system heavily regulated for 91 years:  1889 (Interstate Commerce Act) to 1980 (Staggers Rail Act)
  - Regulated rates
  - Rates cost-based, providing poor incentives for efficiency
  - “Value of service” pricing, the opposite of Ramsey pricing
  - No discounting, differential pricing, or long-term contracts permitted
  - Allowed “collective rate-making” subject to ICC approval
  - Prohibition of abandonment of money-losing routes
  - Requirement to continue money-losing passenger service

# Staggers Act of 1980: A Success Story

- Results of decades of over-regulation – especially in the face of increasing intermodal competition – were falling rail freight share, poor condition of capital stock, bankruptcies
- Rail Act of 1970 had already freed freight railroads from requirement to provide passenger service, creating Amtrak (government owned passenger operator, using mostly infrastructure of freight railroads)
- Staggers Act of 1980:
  - Freed most rates from regulation
  - Allowed long-term contracts between railroads and shippers
  - Result was a good deal of $2^{nd}$-degree and $3^{rd}$-degree price discrimination
  - Allowed much easier route abandonment (with many abandoned routes taken over by smaller, local operators)
  - Continued regulatory protection – under continuous debate – for shippers “captive” to a single railroad

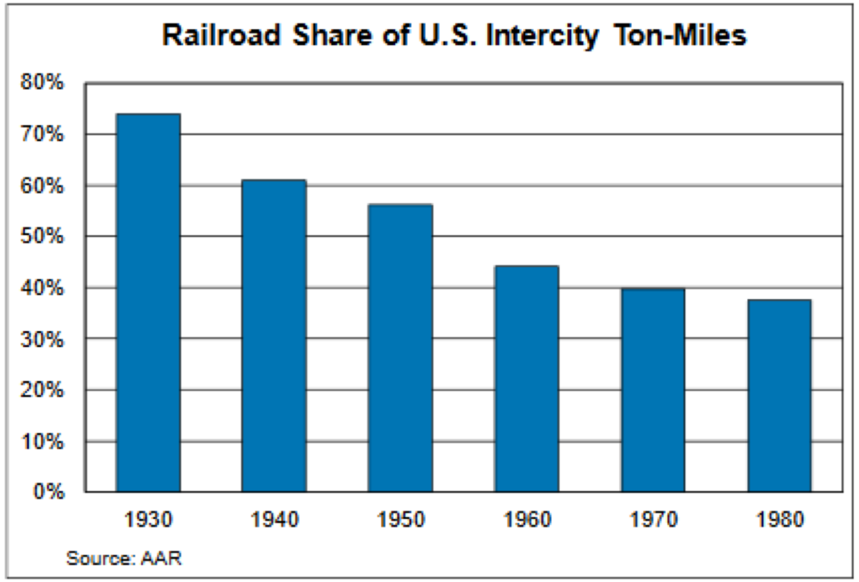
# Staggers was, overall, a dramatic success



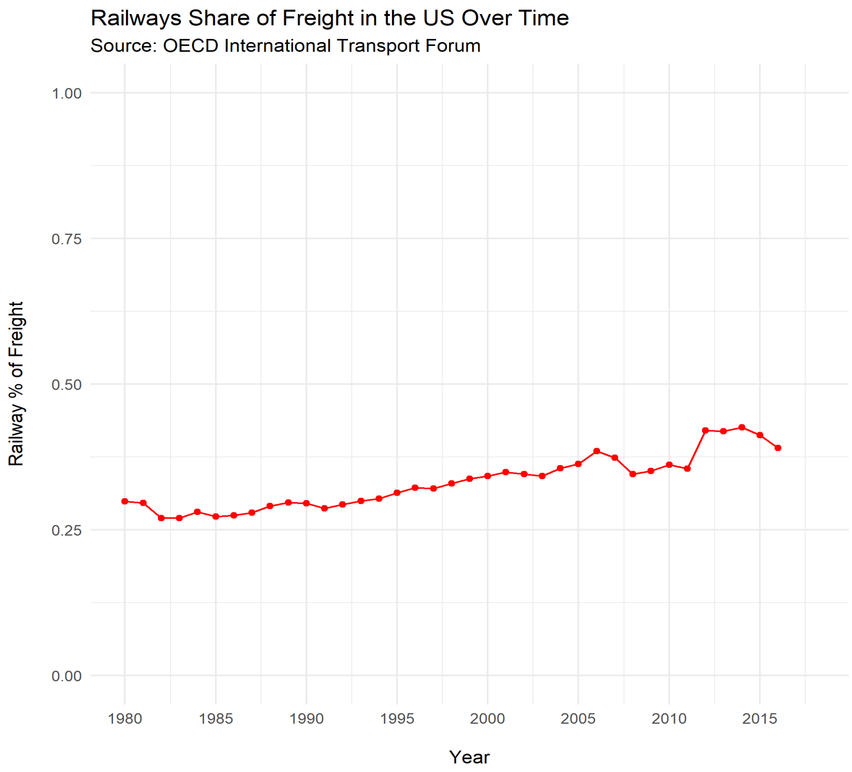

"Rates" is inflation-adjusted revenue per ton-mile. "Volume" is ton-miles. "Productivity" is revenue ton-miles per constant dollar operating expense. The decline in productivity in recent years is largely due to the effect of higher fuel prices in the productivity calculation. Source: AAR

# … including in reversing rail’s loss of freight share

## Pre-Staggers




## Post-Staggers



# Should the rest of the world emulate the US (actually, North and South American) model?

- Competition among vertically integrated freight railways vis-à-vis “above-the-rail” competition over monopoly infrastructure
- Advantage 1 of “Americas Model”: Maintain economies of vertical integration
- Advantage 2 of “Americas Model”: Private investment in infrastructure
  - US: ≈$25B per year in infrastructure and equipment expenditure
  - Mexico and Brazil: $100K per track km just for franchise rights
- Disadvantage of “Americas Model”: Some shippers are “captive”, lacking alternatives either intramodal or intermodal
  - Entry by independent TOC’s not permitted
  - The alternative: Some kind of price or access regulation. Ongoing debates in the US, Canada, and Mexico.

# Finally: But is the Staggers magic over? Did lax merger control kill it? (Similar debate in Mexico)