

# States Resort to 'Survival Socialism' in Bid to Preserve Vital Rail Lines

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**I**n the Soviet Union and many other heavily nationalized industrial nations, the state owns the railroads—but so does the state in fiercely independent South Dakota, Yankee Vermont and West Virginia. Those three, and a growing number of other usually conservative American states, have been forced to become railroad owners to protect rail service for their industries and agriculture.

"Crisis makes strange bedfellows," conceded John Killoran, the rail chief of West Virginia. Despite critics who called the program socialistic, his state plunged into the railroad business three years ago to preserve a freight rail link to distant chicken-feed sources and save West Virginia's vulnerable poultry industry.

Here on the edge of Iowa, where tracks of the South Dakota state railroad reach across the Big Sioux River, South Dakota has carried its pragmatic brand of "survival socialism" across state lines—part of a stop-gap program to return rail service to its abandoned grain-producing regions.

With one of the nation's most agriculture-dependent state economies, South Dakota's conservative Republican administration under Gov. William J. Janklow last year led a stormy political battle for creation of the country's largest state railroad. It acted because the collapse of the bankrupt Milwaukee Road left nearly half the state's prime farm land without rail access to markets.

Only a crop-devastating drought prevented grain supplies from choking grain elevators alongside the idle rail lines stretching toward unreachable markets on the Gulf and West coasts.

After some wrangling, legislators temporarily increased the state sales tax and raised \$25 million for rail acquisition and repairs. By the end of this year, South Dakota will own about 1,300 miles of track in five states—by far the largest state-owned rail system in the United States.

"This issue wasn't political philosophy—it was economic survival," said James Myers, South Dakota's director of railroads. "The governor and I share significant frustrations with this sort of state role, but we will run the railroad as businesslike as you'd expect from conservative Republicans."

The giant Burlington Northern Railroad operates the trains on South Dakota's extensive state rail system, but in other states it is more common for small, short-line operators to lease taxpayer-owned track or receive state subsidies to operate over it. Only West Virginia with its motley fleet of Army surplus trains, operates as well as owns a state railway.

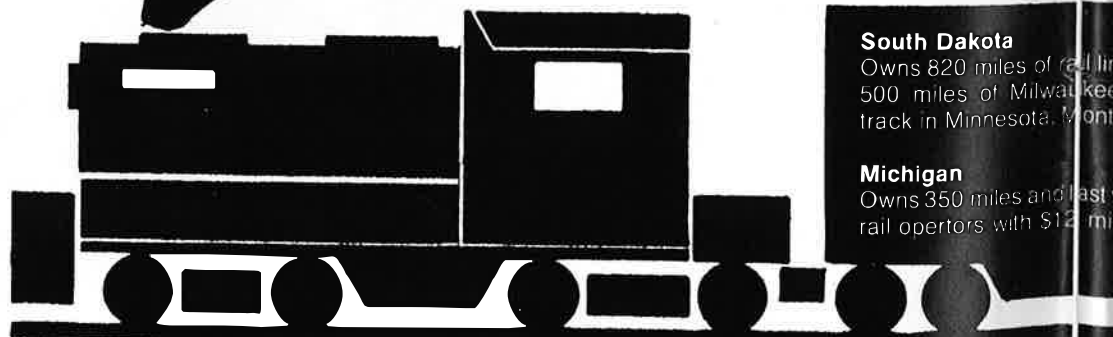
These are revolutionary times in the

railroad industry, historically the very symbol of American capitalism. The transportation system that opened the American West and carried the nation into the 20th Century is being forced to change to meet modern shipping and economic demands.

The U.S. rail system was built almost entirely in the horse-and-buggy days, and the nation's rail mileage peaked at about 250,000 miles in the early 1900s. Since then, paved highways have been built, commercial airlines created and a trucking industry born—entire transportation systems competing for passengers and freight have been superimposed on territory once exclusively served by rail. And when railroads tried to desert routes made unprofitable by the new competition—routes established when it was important to have rail stations within a day's round trip of a farmer's horse drawn wagon—federal regulations and political opposition often prevented abandonment.

But since the mid-1970s a series of

## State Governments Take to the R



### South Dakota

Owens 820 miles of rail line  
500 miles of Milwaukee  
track in Minnesota. Mont

### Michigan

Owens 350 miles and last y  
rail operators with \$12 mil

major railroad bankruptcies and sweeping regulatory reform have set off a nationwide wave of track abandonments that have radically altered the still-bloated 180,000-mile U.S. rail network.

Little-used branch lines that once carried boxcars to country grain elevators or rural industries are obsolete in the modern railroad era of milelong "unit trains." These supertrains, the landlocked equivalent of seagoing supertankers, are more efficient on long hauls, saving time and money by avoiding branch lines in favor of large regional terminals along main lines.

### **A Crippling Disease**

However, a lot of America still straddles these obsolete branch lines—including towns the railroad built a century ago, when the railroad was the link to mail, news and baseball scores, as well as to commercial markets. Some towns harboring dreams of industrial and economic growth regard rail abandonment as a crippling disease.

Abandonments, whether forced by bankruptcy or designed to improve the profits of an operating rail company, often leave economic dislocation behind.

Cranberry farmers in northern Wisconsin, for example, recently lost their train link to markets when the Chicago & North Western shut down a route into the bogs. An Iowa toy maker faces suspended rail service from failure of the bankrupt Rock Island. Around tiny Rapelje, Mont., farmers who sold their wheat through the local grain elevator are wondering whether they will have to stop growing grain if the Burlington

Northern Railroad succeeds in abandoning a branch line to their little country terminal.

In some cases, loss of rail service affects the public interest beyond the narrow economic interests of individual shippers. That is why states are pouring millions of dollars into the purchase of lines, into subsidies for short-line operators and into costly state-assisted rail rehabilitation programs to save service that private railroads found unprofitable.

Over the last several years, states and local governments have stepped in to save vital commuter passenger rail service or, as was the case in California with a San Diego-to-Los Angeles train, create a commuter service. However, state entry into the rail freight business is a relatively recent phenomenon.

Wisconsin, for example, bought a lightly traveled line that serves a lime quarry essential to the area's potato and vegetable farmers.

In Vermont, the state was able to attract Canadian business investment by creating the state-owned Washington County Railroad. A manufacturer of commuter rail cars moved about 100 jobs across the border when it built a plant along the state's 14-mile rail line.

Oklahoma, which just paid \$3.1 million for a run-down 52-mile segment of Rock Island track serving a region active with gas and oil exploration, considered the effects of increased truck traffic on state roadways.

"We were concerned about our deteriorated highway system and bridge replacements that would be required if trucks replaced rail on a large scale," said William Bennett, Oklahoma's rail-planning coordinator. He called the

public benefits of retaining rail service "overwhelming," even though rehabilitating the track is likely to cost as much as buying it.

### **Different Principles**

"States work on a different set of principles than private railroads," noted Stuart Gassner, assistant general counsel for the Chicago & North Western, the self-proclaimed champion of rail abandonment.

Since 1968, when a company survey showed that 40% of the railroad's track was producing only 4% of the freight revenues, the Chicago & North Western has abandoned nearly 4,500 miles of track—more than any other solvent railroad carrier in the country. Most of that has been in the Midwest and Great Plains states.

The Burlington Northern, suffering from the historic hangover of a 1905 rail war across Montana and North Dakota, has listed about 4,000 miles of track for possible abandonment—inviting angry protests from governors there.

Nearly 80 years ago the corporate ancestors of the Burlington Northern and the Soo Line raced to see which could capture the most territory in what was—and still is—a sparsely populated region. They left what one railroad executive described as "a worm farm" of unprofitable branch lines that state officials are jealously trying to protect from abandonment.

"States make social decisions—we make economic decisions," said the Chicago & North Western's Gassner, adding, "A state doesn't have to be profitable, but our whole purpose in life is to make a dollar."

## **Rails**

Los Angeles Times

line and will buy another  
Kee Road line, including  
Montana and North Dakota.

last year subsidized private  
million.

#### **West Virginia**

Owens and operates a 500-mile line given it by the Chessie System.

#### **Oklahoma**

Owens 62 miles of track and plans to acquire 300 more.

#### **Wisconsin**

Owens about 500 miles, and will eventually add about 200 more.

#### **Iowa**

Has invested more than \$16 million to rehabilitate 1,045 miles of rail line and is considering purchase of its first track segments.

#### **Vermont**

Owens about 300 miles of track and is negotiating for 18 more.

In Iowa, that difference of philosophy packs controversy. The state has levied a railroad fuel tax, now being contested in court, to raise funds for the possible purchase of a portion of Rock Island's 900 miles of Iowa rail lines. But the Chicago & North Western, for one, also wants to buy those lines and isn't happy about paying a fuel tax to help the state bid against it.

"We're concerned about preserving competition as well as service," explained Iowa's Les Holland, director of the state railroad division.

Countered Gassner: "Private railroads are willing to invest in Iowa—it's not like South Dakota at all. The result of Iowa bidding against us is unspeakable—it could create a semina-tionalized railroad where a state railroad isn't needed."

Not all state railroads are successful. In Michigan, the disappointing showing of the nation's only minority-owned, state-subsidized railroad company has led the 41.7-mile line to be placed on the state's list for abandonment. The Kent-Barry-Eaton Connecting Railway has annual operating costs of \$900,000, nearly five times higher than the previous operator, Conrail, had when it dumped the route.

And in Wisconsin, two short-line operators on state-owned tracks lasted barely a year before closing down. State rail director Paul Heitmann said that shippers promised more business than they delivered, a situation common across the country. Another factor was inexperienced rail operators.

The Kent-Barry-Eaton Connecting Railway, for example, was operated by a man whose only experience in the transportation field was 30 years as a bus and streetcar operator.

Wisconsin's Heitmann said: "A lot of would-be railroad operators are guys who had trains under their Christmas trees when they were kids. They find out pretty quick that they aren't 'playing train' at a one-to-one scale. You've got to know about revenue divisions, contracts, insurance . . . and have enough capital to survive your initial mistakes and unexpected costs."

The people of West Virginia, with their state-operated, state-owned railroad, know about unexpected costs. They took over one of the most decrepit 50-mile segments of track in the country

when it was donated by the Chessie System. They found 20 miles of worn rail, 70,000 rotted cross ties and sections so bad that the federally imposed 10-mile-per-hour speed limit was still too fast for safety.

One obvious hazard of state rail operations is the threat of excessive political influence in route selections.

Legislators in Vermont bought 100 miles of railroad across the northern part of the state nearly 10 years ago that Sterns Jenkins, chief of railroad operations, says, "hasn't been profitable from the day it was born." Now legislators down south want to spend \$150,000 for 18 miles of line that would serve only one customer—a maker of folding lawn furniture who long ago switched to trucks.

"It's got zero value. We don't see any hope for profit," acknowledged Jenkins, who bluntly called the purchase "a political deal."

And Bill Druhan of the National Conference for State Rail Officials observed: "Politicians are a bunch of kids—they all want a choo-choo in their district."

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**Environmental Considerations**  
COURSE 601

## **FRA, South Dakota Sign \$30 Million Agreement For Rail Line Rehabilitation**

Federal Railroad Administrator Robert W. Blanchette today announced an agreement to provide South Dakota with \$30 million in Federal funds to rehabilitate and preserve service on the 482-mile Ortonville, Minn., to Terry, Mont., railroad line.

The track, referred to as the South Dakota Main Line, traverses nearly the length of the State east to west. It is being purchased by the State from the former Chicago, Milwaukee, St. Paul and Pacific Railroad Company.

During signing ceremonies with South Dakota Governor William Janklow, and Congressional members from South Dakota, North Dakota and Minnesota, Blanchette said, "This agreement, combined with the revenue bonds the State plans to issue shortly, ensures this service will continue."

"We at FRA are pleased and proud to be part of the great effort put forward by the people of South Dakota to preserve this rail line which is so important to the State's economy."

Preservation of the line will ensure the continued steady flow of coal by railroad from the Knife River coal mine

at Gascoyne, N.D. to the electric utility at Big Stone City, S.D. which serves the citizens of South Dakota and neighboring states. The line also connects with the core of South Dakota's branch line system providing grain shippers and other local customers with mainline, east-west access.

The \$30 million loan is being made available under provisions of the Railroad Revitalization and Regulatory Reform Act of 1976 and will be used to finance rehabilitation of the 482-mile line. The agreement is between the FRA and the South Dakota Railroad Authority and is contingent upon final purchase of the line by the Authority. The Authority plans to issue revenue bonds to finance the purchase now that rehabilitation funds will be forthcoming.

Major items of work to be done in the project include installing ballast and crossties and repairing highway-rail grade crossings as needed. Rehabilitation and operation of the line will be by the Burlington Northern Railroad under a separate agreement with the State's railroad authority.