Opinion: After 30 Years, Railroad Deregulation Continues to Deliver

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(Nov. 9) -- Thirty years ago this fall, President Jimmy Carter signed into law the Staggers Rail Act, stripping away a century of freight railroad regulation. The signing was accompanied by lofty proclamations: "By stripping away needless and costly regulation in favor of marketplace forces wherever possible, this act will help assure a strong and healthy future for our nation's railroads," the president's signing statement promised. "Consumers can be assured of improved railroads delivering their goods with dispatch."

Today we know the truth: President Carter was exactly right. The Staggers Act has delivered great benefits to both consumers and railroads.

In the 1970s, the U.S. railroad industry was in critical condition. In 1970, Penn Central went bankrupt -- the largest corporate bankruptcy in American history to that time -- and several other bankruptcies followed. Washington policymakers came to realize that the heavily regulated American railroad industry needed fundamental change. A bipartisan majority in Congress approved the Staggers Act, hoping to end the bankruptcies by lifting service mandates and allowing price competition, which would let railroads attract desperately needed investment and would result in lower shipping rates.

Consumers saw the payoff almost immediately. By 1982, rail rates had started a steady decline that, in real dollars, continued through 2004. Today, real rail rates average about two-thirds what they were in 1980. The railroads' financial condition stabilized. And the railroad industry's productivity has increased at triple the rate of the airline and trucking industries, as well as of the broader private sector.

Despite all of the benefits from railroad deregulation, there is some concern that more regulation is needed.

Deregulation set off an enormous wave of industry consolidation. Today, the U.S. freight railroad industry is essentially two duopolies: the BNSF and Union Pacific dominate the West, while CSX and Norfolk Southern dominate the East. These four companies account for more than 90 percent of railroad volume. Many shippers are served by only one railroad. The once-blistering rate of productivity growth has slowed in the past 10 years. And railroads are retaining a larger share of productivity gains.

Shippers are troubled by all this and question whether the Staggers Act has become outmoded. The calls for rail reform are now more intense than at any time since the law was signed.

Undoubtedly, the railroads and their customers face challenges. The gains from deregulation have been largely realized, and future productivity growth will likely be more moderate. The battles between the railroads and their customers to claim those smaller gains already seem to be intensifying.

But these challenges aren't reason to abandon the law, which has allowed essential market flexibilities while providing a regulatory backstop for captive rail shippers to seek rate relief.

The Staggers Act has allowed railroads wide latitude in responding to market conditions. The outcome has been tremendous productivity gains in the industry, which has lowered customer costs while bolstering railroads' financial health. The Staggers Rail Act has delivered what it promised, and, at 30, it can still be trusted.

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