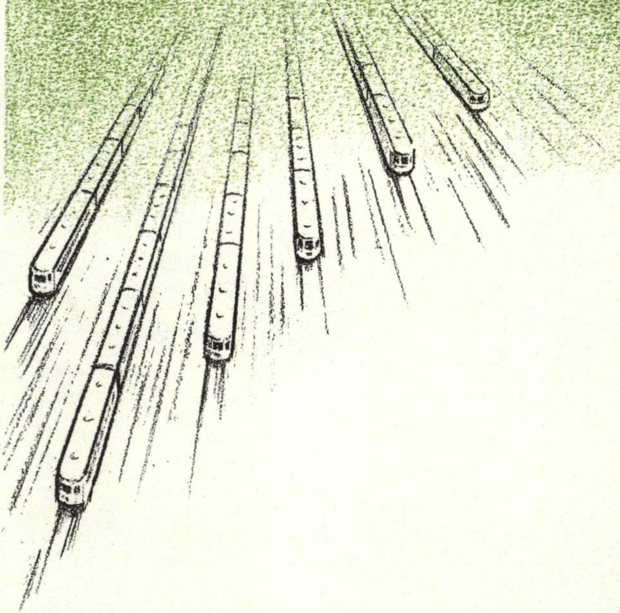
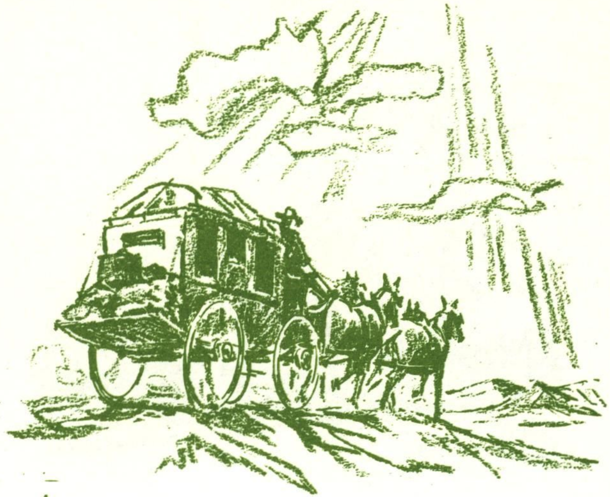
THE CASE OF THE VANISHING PASSENGER TRAIN





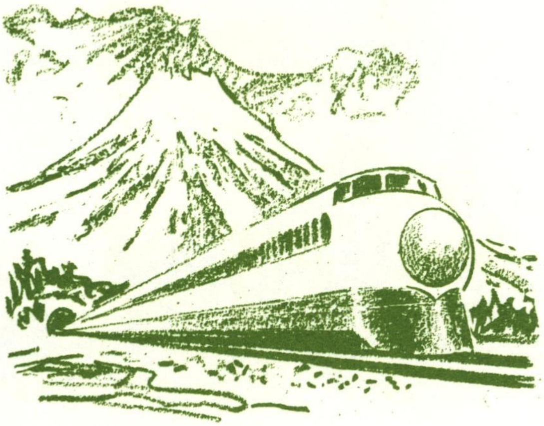
America's intercity passenger trains are rapidly vanishing from the rails. If this trend continues, they could become a relic like the stagecoach — a victim of transportation progress.**

Their passing will be mourned by many. But they can hardly be expected to survive forever the effects of changing times and changing travel habits.

FOREIGN 'SUCCESS' STORIES Tourists familiar with the famed Tokaido Line in Japan and trains of the Trans-Europe Express network find this difficult to understand. But the answer is really quite simple.

Our railroads, being privately owned, must pay their own way. Those in other countries are not encumbered by this problem. They are either government-owned and operated or are heavily subsidized. In either case they pay no taxes. Instead, the taxpayers must pay for the losses they sustain.

Japan's Tokaido Line was built at a cost of more than $1 billion. Its high-speed passenger trains, running through one of the world's most densely populated corridors, showed a slight profit in their early years of service. Today the line reportedly operates at a loss.

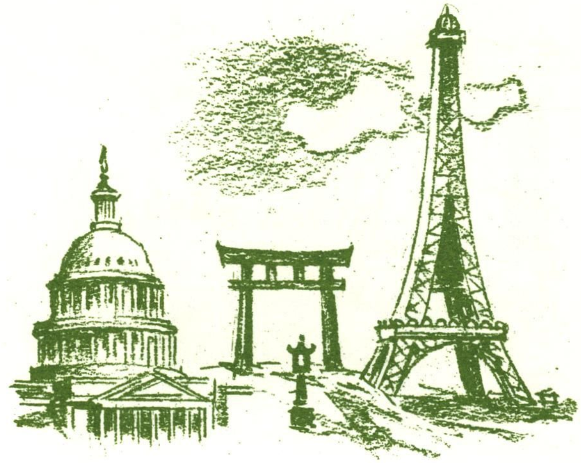


The overall Japanese National Railway System spends $1.20 for every $1.00 it takes in — in a country where rail travel benefits from the fact that only one person out of every 57 owns an automobile. In the United States, the ratio of automobile ownership is more than 22 times greater, with one car for every 2.5 people.

Europe's nationalized railroads also spend $1.20 for every $1.00 they take in. And the losses in some individual countries are truly staggering.

Last year, for example, France's deficit was $800 million. This has led French authorities to give serious thought to closing down some 6,000 miles — or nearly one-third — of their 20,000-mile railroad network and to bringing in "American-style management."

MEANWHILE . . . BACK HOME If United States railroads were nationalized and sustained a similar annual loss, it would cost the taxpayers more than $2 billion each year. And, because government-owned railroads do not pay income and property taxes, taxpayers would have to pay an additional $433 million now being paid by railroads.



In other words, the government would be paying the railroads an extra 25 cents for every dollar they took in as freight and passenger revenue and the overall "subsidy" would total nearly $2.5 billion.

Fortunately that situation does not exist. In spite of severe passenger deficits each year, our railroads manage to operate at a slight profit. However, their average rate of return on net investment is the lowest among the nation's major industries. Last year's passenger losses were more than $480 million and the overall rate of return a meager 2.46 percent.

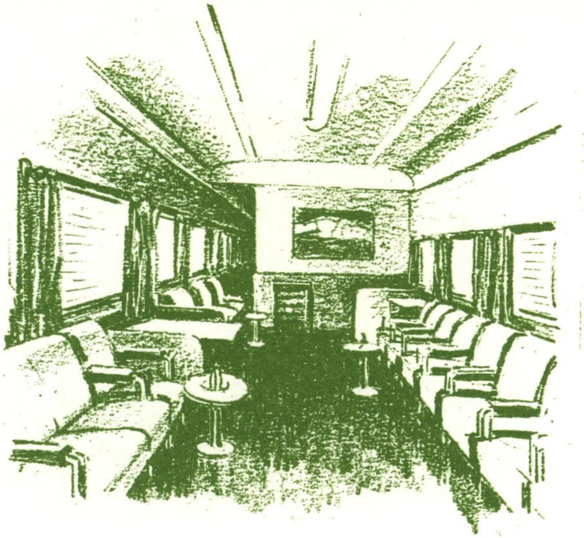
The passenger deficit, coupled with a sharp increase in operating expenses, forced the railroads to cut back heavily on expenditures for badly needed capital improvements.

Since the end of World War II the losses on passenger service have averaged more than $525 million a year.

RAILROADS TRIED HARD There are some who contend: *"If we had trains like those in Europe and Japan, people would use them."*

But this just hasn't proved to be the case.

In the five years immediately following the

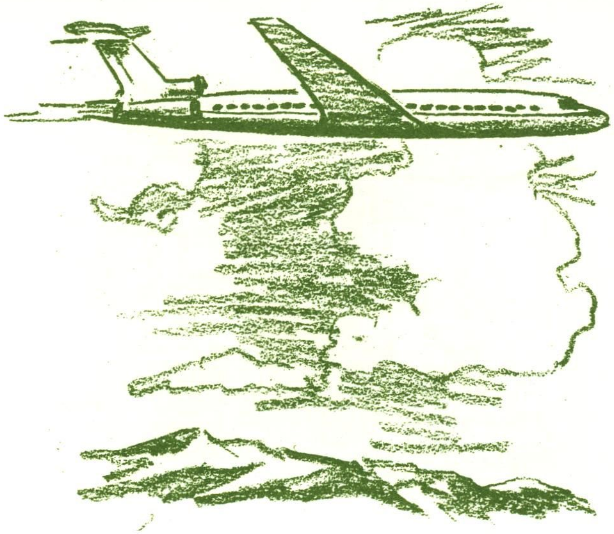


War, the railroads and the Pullman Company spent over $500 million for new, modernized equipment, providing the world's finest passenger trains and service. Additional millions have been spent in the last decade and a half.

In some respects these trains have not yet been equaled anywhere in the world. Many of their features were copied overseas and are now raved about by returning tourists — and even the American press.

They offered beautifully decorated, ultra-modern chair cars with reclining seats, fog-free picture windows, air conditioning and even pressurization on mountain runs. They provided plush sleeping cars with showers, valet service and radio-telephones permitting calls anywhere in the world. There were dining cars with full course meals, lounge cars with coffee shops and bar service, vista-dome observation cars and a public address system to keep passengers informed about points of interest.

EFFORTS FUTILE Millions of additional dollars were spent each year to promote "modern delights" of rail travel. But the American public deserted the rails in ever increasing numbers — in favor of jet airliners



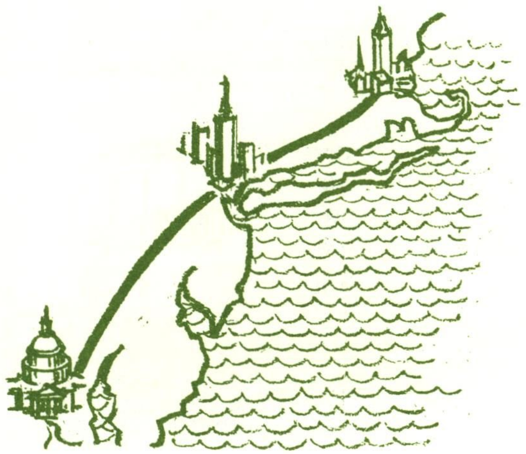
on the long hauls and the family automobile for shorter trips.

In their heyday, passenger trains on most lines were supported primarily by businessmen who made frequent trips at company expense. They did not object to paying the prices required to support luxury services, and this type of customer was an important source of rail passenger business.

Jet aircraft changed that picture completely. Since time is money in the business world, few companies today will permit their men to travel by train on official business. Even the railroads — with free transportation available — find it profitable to buy time by having their employes fly.

When businessmen left the trains, most of the remaining intercity passengers were infrequent or occasional travelers. They were not on expense accounts and were largely budget-conscious people who could not afford the price of luxury services.

CONDITION: HOPELESS The railroads tried to adjust to these changing conditions. First they reduced train frequency in line with the diminishing traffic flow. Then they tailored their services to match the means of



their predominantly economy-minded passengers.

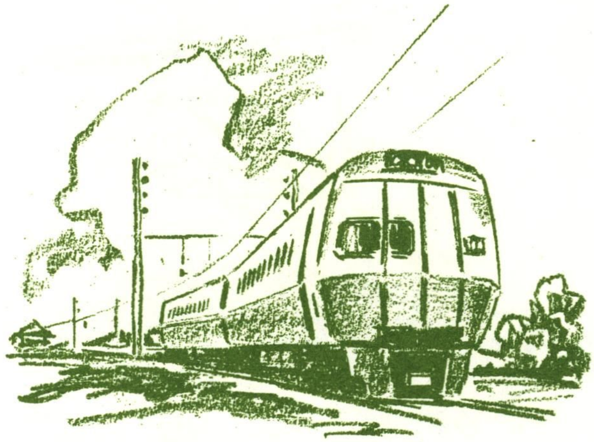
Still the deficits and the decline in traffic continued. The handwriting was clearly on the wall.

If railroads today were still running as many trains as they ran in 1957, the passenger deficit last year would have been about $1.5 billion — substantially more than the industry's net operating income of $1,161 million from freight service.

On the basis of cold, hard facts such as these, American railroad officials find it understandably difficult to buy the idea that there would be sufficient public support to warrant the expenditure of hundreds of millions of dollars for new equipment on the long-shot gamble that it would bring people flocking back to the rails.

That is totally unrealistic on the basis of past experience.

The trains the public deserted in the 1950's were the world's finest. And they were vigorously promoted. Thus there can be no question as to which came first — the chicken or the egg. The public deserted the railroads — and for perfectly logical reasons. It didn't happen



the other way around. And the desertion was not because of a lack of sincere and expensive wooing on the part of the railroads.

In 1959, when the passenger train crisis already was becoming acute, the Interstate Commerce Commission conducted a long and thorough investigation of this situation.

Its report, entitled "The Railroad Passenger Train Deficit," stated unequivocally that railroads have "conscientiously endeavored to improve their standards of service" and "generally have not discontinued trains without serious efforts — sometimes prolonged — to make them pay and only after sympathetic consideration of public convenience."

Some railroads still are running intercity passenger trains and will continue to do so as long as enough people ride them.

THE CROWDED CORRIDOR

The Washington-New York-Boston corridor is an area where there appears to be a growing need for train service.

New-type high-speed trains, developed in cooperation with the U. S. Department of Transportation, will be introduced on these runs this year in an expensive experiment to determine the extent to which the public

will support Tokaido-like passenger service.

There's a growing belief in some quarters that passenger trains on 200 to 300-mile runs through heavily populated corridors will be an essential part of the overall transportation picture in future years, just as commuter trains already are.

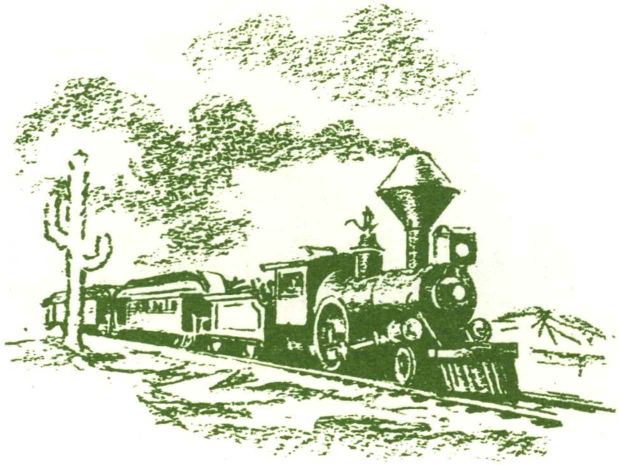
If this proves true, the rail lines will still be there. Brand new equipment — designed and developed to meet the needs of those future years — can run on those rails. Meanwhile, there is nothing to gain — and much to lose — by continuing these runs with present equipment.

Department of Transportation Secretary Alan Boyd sums it up this way:

"We would prefer to see the traveler profit from innovation and development in railroad transportation rather than simply from the preservation of present concepts."

THE LOCAL PROBLEM Railroad commuter service is unquestionably here to stay.

In some cities the railroads are doing an outstanding job of providing this service on their own. In other areas, due to entirely different circumstances and conditions,



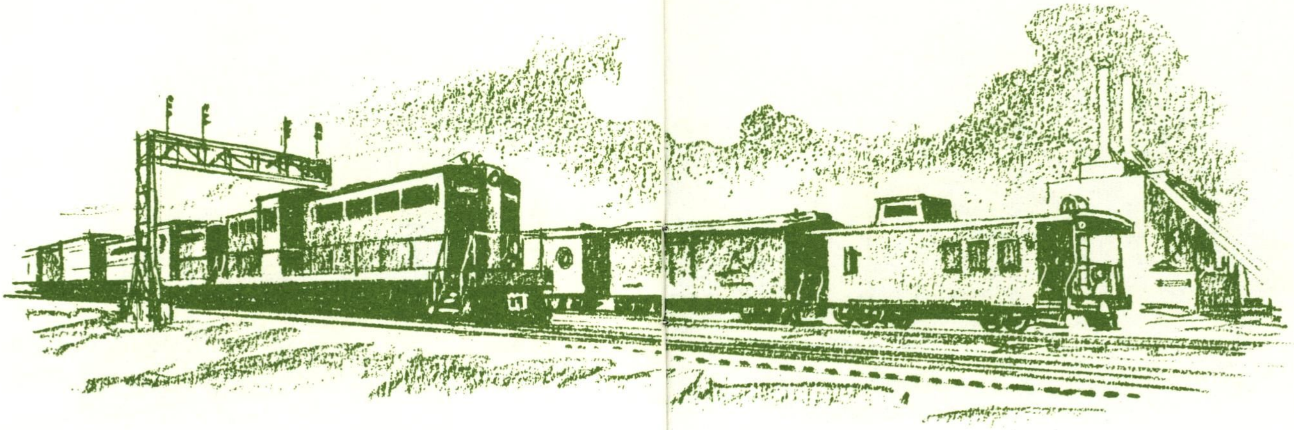
the railroads have not been able to handle the commutation problem alone and have become partners with local, state and federal governments in providing this essential public service.

The idea that railroads are a "quasi-public" industry and are "obligated" to provide passenger or commuter services, regardless of losses, is entirely outmoded. It may have been valid when railroads had a monopoly on public transportation. But those days are gone.

THE PRESENT Today 88 percent of all intercity travel is by automobile. The railroads get less than 2 percent, competing against bus lines and airlines which use costly highways and airways paid for by the public.

This year's federal transportation budget provides $1,068 million for airways, airports and airline cash subsidies; $4,894 million for highways, $419 million for waterways — and a mere $22 million for "High-Speed Ground Transportation (including rails)." So far the total federal expenditure on intercity rail travel is about $3 million, and virtually all of this has gone into the Northeast Corridor project.

This should dispel any notion that the railroads are "subsidized" and therefore owe a



public service debt. But it doesn't. This mistaken idea harks back more than a hundred years — to the 1850's — when "land grants" were made to some railroads by the government to facilitate development of the nation west of the Mississippi.

THE PAST Actually the grants were a factor in less than 10 percent of the railroad mileage in the United States. They were not made to "help the railroads" but to help the nation. And they did not "build the railroads."

They did make it possible, however, for private enterprise to do what had never been done before — build a costly public transportation system through a vast wilderness area prior to its settlement.

Furthermore, the grants were "paid off" immediately — and in full — for the coming of the railroads doubled the value of the public lands along their rights of way. Prior to 1850 the government had offered the land for sale at $1.25 an acre. When the first land grant act was passed the government immediately advanced the price on the land it had retained to $2.50 an acre.

Even the commonly held belief that the land was "given" to the railroads is erroneous.

In exchange for the land, the railroads were required to give the government a reduced rate, averaging 50 percent on passengers and freight and 20 percent on mail. And even railroads not receiving land grants were required to meet these conditions in order to obtain government business. This continued for nearly 100 years.

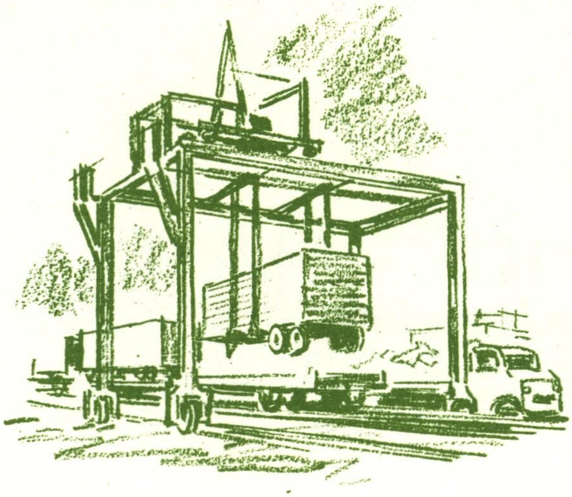
When the reduced rate requirement of the land grants finally was repealed by Congress in 1945, a Congressional committee reported:

"It is probable that the railroads have contributed over $900 million payment of the lands which were transferred to them under the Land Grant Acts . . ."

Reduced rates on most government traffic continued in effect until October 1, 1946, raising total estimated payments by the railroads to $1.25 billion, or about 10 times the value of the lands received.

Few investors ever realized a greater "return" than Uncle Sam did on his "land grants" to the railroads. And no industry, perhaps, ever has contributed more in the public interest than the railroads did.

THE FUTURE The railroads will continue to perform a vital service to the public in



the future, with or without passenger trains.

As the prime mover of the nation's freight, they provide a low-cost, high-volume transport service that touches your everyday life — and that of every American — in more ways than most people imagine.

They transport the food you eat, the clothes you wear, the cars you drive and just about everything else you use. Without the economy of rail transportation the costs of all these products and commodities would be considerably higher than they are.

In the years ahead the railroads are expected to play an increasingly important role in the nation's overall transport complex as the need for production and distribution services steadily grows to meet the demands created by the population explosion.

In order to be ready for the job ahead, the railroads are pouring every available dollar into a thorough modernization program, which is reshaping the industry from the ground up. In the last 10 years they have spent $11.5 billion of their own money on this huge undertaking — and they could well use the additional millions of dollars which go down the drain on passenger services each year to further this investment in your future.

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