

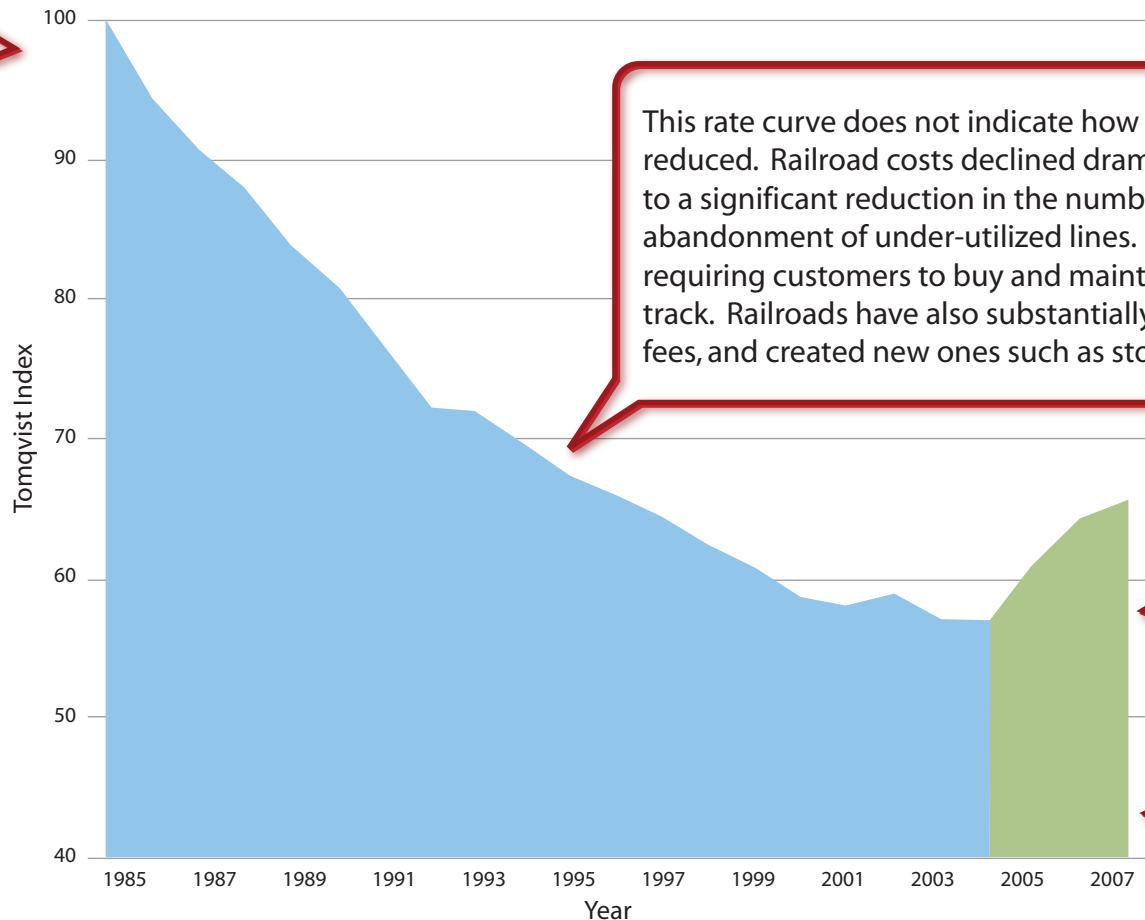
The Real Story of the Rate Index

Why It Is Meaningless to the Current Legislative Debate

This graph from the Surface Transportation Board tries to make the case that rail rates have been steadily dropping. Here's the real story that these particular numbers don't tell:

Figure 1. STB Rail Rate Index 1985 to 2007

Real Revenue Per Ton-Mile (1985 = 100)



This rate curve masks captive rail rates because it combines BOTH captive rates and competitive rates. Since the public policy debate is about captive rates, the only relevant graph would be a graph of captive rail rates.

This rate curve does not indicate how much railroad costs were reduced. Railroad costs declined dramatically after 1980, due to a significant reduction in the number of employees and abandonment of under-utilized lines. Railroads also began requiring customers to buy and maintain the cars and build track. Railroads have also substantially increased demurrage fees, and created new ones such as storage fees.

For railroad rates to increase so much from 2004 through 2007 suggests that rates that are captive likely increased to an even greater degree. Although many captive rates are confidential, the public evidence demonstrates that there were many large rate increases on captive traffic during 2004-07.

When any industry is even partially deregulated, rates are expected to drop. For example, trucking rates, airline ticket prices and long-distance telephone rates all came down following deregulation. The rail industry was partially deregulated in **1980**.