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# IMPACT OF THE STAGGERS RAIL ACT OF 1980

With the passage of the Staggers rail Act of 1980 and its implementation by the Interstate Commerce Commission (ICC, now the Surface Transportation Board (STB)), many regulatory restraints on the railroad industry were removed, providing the industry increased flexibility to adjust their rates and tailor services to meet shipper needs and their own revenue requirements. As a result, 30 years after deregulation, the railroad industry's financial health has improved significantly, service to rail customers has improved while overall rates have decreased, and rail safety, regardless of the measure, has improved.

**Background:** Prior to 1980, economic regulation prevented railroads from any flexibility in pricing needed to meet both intra as well as intermodal competition. Regulation also prohibited carriers from restructuring their systems, including abandoning redundant and light density lines, a necessity for controlling cost. Added to these problems was the industry's inability to cover inflation due to the regulatory time lag in rate adjustments. As a consequence, nine carriers were bankrupt, the industry had a low return on investment and was unable to raise capital, and faced a steady decline in market share.

The effects that Staggers had on the industry have been substantial. In the 30-year period before 1980, railroad market share measured in revenue ton-miles declined by 33 percent, from 56.1 to 37.5 percent. Market share in the post-Staggers era became stable and has increased to over 40 percent. Other measures show similar improvement. Return on investment has averaged nearly 8 percent between 1990 and 2009, up from a 2 percent average in the 1970s. And with the industry's improved financial condition, railroads have invested over $6 billion a year in roadway, structures, and equipment since the mid-1990s. Between 1981 and 2009, the railroads have expended $511 billion in capital improvements and maintenance of track and equipment. Prior to 1980, the rail plant was in poor repair. The industry also showed remarkable safety improvements since Staggers with train accident rates declining by 65 percent (1981—2009).

The Staggers Rail Act of 1980 limited the authority of the ICC, now the STB, to regulate rates only for traffic where competition is not effective to protect shippers. The STB estimates that roughly 20 percent of traffic is still regulated. Approximately half of all traffic on a revenue basis is exempt from regulation. Traffic is considered exempt from regulation, where rates are not regulated when competition keeps them at levels below the statutory threshold (where the ratio of the revenue to regulatory variable cost of the move is less than 1.8), when a class of traffic has been specifically exempted (for example, all traffic moving in boxcars or trailers or containers on flatcars was exempted in the early 1980s), or when traffic moves under contract.

The Staggers Act legalized railroad-shipper contracts. These contracts represent privately negotiated agreements between railroads and shippers over rates, service levels, equipment, and minimum annual volume of traffic, just to name a few. According to the STB, approximately one-third of all traffic on a revenue basis moves under contract. Contracts enable railroads to improve asset utilization through better planning of their freight cars.

Since Staggers, shippers have seen a significant decline in rates. Freight rates adjusted for inflation have declined 0.5 percent a year since the passage of the Staggers Act, compared to an increase of nearly 3 percent per year in the 5 years prior to 1980.

In 1996, oversight of rail transportation contracts was limited to agricultural products by the ICC Termination Act of 1995 (P.L. No. 104-88, 109 Stat. 803 (1995) (ICCTA) which abolished the ICC and transferred the responsibility for regulating rail transportation to the STB. The Act, intended to streamline the remaining economic regulation of the railroads, also shortened time limits for proceedings in a number of areas, such as mergers and rate cases, and has eliminated the tariff filing requirement for railroads.