

Transportation by Steven Parsons

Rail deregulation: a defense need?

The Department of Defense and the Federal Emergency Management Agency have their fingers in both rail legislation and railroad bankruptcies.

The country's major railroads are agitating for full deregulation of their industry—going far beyond the relaxation of the regulatory codes contained in the Railroad Transportation Policy Act of 1980 passed by the Senate April —on the grounds that deregulation will promote healthy competition among carriers and result in better service for shippers. In actuality, railroad deregulation—allowing the railroads free hand at rate-making, mergers, abandonments, and so forth—is one prong of an ongoing restructuring of the nation's rail system, which, far from being determined by “free market forces,” is planned, controlled from the top, and highly anticompetitive.

As a case in point, investigations by *EIR* into the bankruptcy reorganization of the Milwaukee Road and the Rock Island railroads, which have traditionally provided essential service to the nation's grain belts, reveal that the restructuring of those railroads is being closely monitored by the Department of Defense in its Railroads for National Defense program. The determination of which lines formerly serviced by the Milwaukee Road and Rock Island Line will be preserved is being made on the basis of hypothetical national defense needs, in disregard for the requirements of the

nation's grain farmers.

According to a DOD official involved in the program, both the Milwaukee Road and Rock Island are regarded by the DOD as critical connector lines, providing access to Malmstrom Airforce base in Montana in one case, and Rock Island Arsenal in Davenport, Iowa on the other. The purported goal of the Railroads and the National Defense program is to bolster the civilian rail system's capacity to satisfy military lift requirements in the event of nuclear war. Both the DOD and the transportation department of the new Federal Emergency Management Agency (FEMA) are actively engaged in this endeavor.

The importance that the DOD is attaching to the Milwaukee Road and Rock Island Line raises a new set of questions about the failure of both of those railroads and the flight to gain control of the lines they service.

New evidence brought to light in the Milwaukee Road bankruptcy case strongly suggests that beginning in 1970 the Burlington Northern Railroad carried out a preconceived campaign to drive the Milwaukee Road out of business in the northern tier market—Montana, North Dakota, Minnesota, Idaho, and Washington—where the Milwaukee Road was the Burlington Northern's sole

competitor. This charge is leveled in a memo written by former Milwaukee Road attorney Tom Ploss, who left his job over a dispute with company officials on the release of the memo to the Interstate Commerce Commission. Milwaukee Road general counsel Henri Rush told the *Journal of Commerce* that “a box of documents” which allege that there was a concerted plan by the BN against the Milwaukee Road has now been delivered to ICC offices in Washington, according to an April 11 report in that newspaper. The memo reportedly states that upon the merger of the Great Northern Pacific and Burlington lines into BN in 1970, the BN management established “an intricate and comprehensive program to defeat and eliminate all benefits to the Milwaukee Road from the merger conditions by predatory and anticompetitive tactics....”

The memo continues: “BN illegally intended and attempted to, and did, restrain commerce ... in the Northern Tier market ... did monopolize railroad traffic in that market, and eliminated its only competitor in that market, all in violation of antitrust law.”

The Milwaukee Road was eventually forced to file for bankruptcy reorganization in December 1977. This past March 19, the ICC rejected both restructuring plans put forward for the railroad, including one submitted by the New Milwaukee group, which would involve partial acquisition of the railroad by its former employees and the communities for whom it is a vital life line. In the meantime, the Milwaukee Road has been selling off its western lines—to the BN and other major railroads at distress prices.