# Amtrak Crisis Proves We Must Re-Regulate Transportation

EIR *submitted testimony, entitled "Not Just Amtrak, But the Financial System Is Coming Down; Forget Privatization and Other Delusions, Re-Regulate Transportation, Rebuild the Continental Rail System, Restore the Economy," to the Feb. 14 hearings of the Railroad Subcommittee of the House Transportation and Infrastructure Committee, on the Amtrak Reform Council's Restructuring Plan, on Feb. 14, 2002. It was prepared by Marcia Merry Baker (marciabaker@larouchepub.com). What follows is edited and abridged from that report.*

The best thing that can be said for the Amtrak Reform Council's proposals now before you, for privatization and de-construction of Amtrak, is that they are delusions. Their model, the U.K. rail privatization program, is, at this very moment, literally breaking down, and there are moves for emergency re-nationalization in Britain. In the face of this, for the Amtrak Council to continue to adhere to their "free markets" 1997 mandate, signifies either gross stupidity, or the crassest desire to serve the financial/political interests scheming for the chance to profiteer off what remains of U.S. passenger service. Either way, the recommendations should be rejected, as against the public good.

What we wish to provide the Committee, is urgent information in the following three areas:

1. Not just Amtrak, but the entire global financial system is bankrupt.

2. Emergency measures must be taken in that regard, to deal with both the financial crisis, and to launch "anti-depression" economy-building programs. Restoring and expanding rail is a vital part of the required infrastructure-building aspect of this.

3. There is available dramatic empirical "proof"—if it is required—of how the privatized, restructured British rail-passenger system is in shambles. Further, there are dramatic demonstrations that railroad-building, as part of "development corridors," is under way in parts of Eurasia, as a "Land-Bridge" approach to providing mutual economic benefit to nations, including Russia, China, and the Koreas. This is long overdue, and it is also necessary in the Americas, to link up with this worldwide recovery plan.

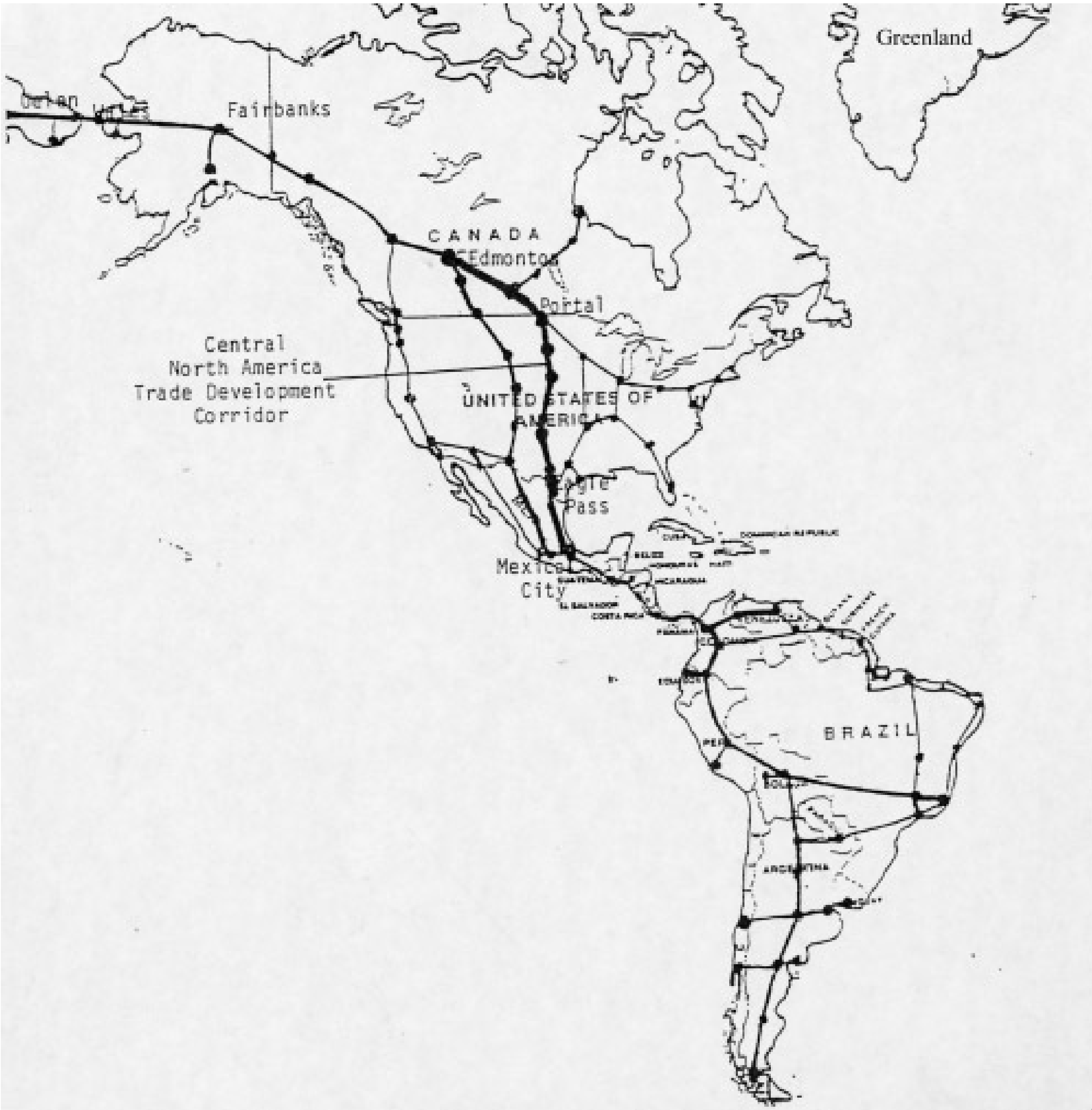
To help document these three points, we have attached a map (see **Figure 1**), and graphs (see **Figures 1a, 1b** and **Figure 4** in this week's *Special Report*). Especially relevant, in 1997, we published a special report, "The Eurasian Land-Bridge: The 'New Silk Road'—Locomotive for Worldwide Economic Development," which was commissioned by our Founding Editor Lyndon LaRouche, as the development-based policy alternative, to the otherwise doomed "free markets" system of globalization, speculation, and economic takedown.

In *EIR* Nov. 2, 2001 issue, we ran an updated feature on the Eurasian Land-Bridge—who is building what, where—for just such deliberations as today's hearing.

## LaRouche's Warnings and Action Mobilization

Today, we see that LaRouche's forewarnings of global financial and economic breakdown have been borne out. He currently is a pre-candidate for the Democratic 2004 Presidential nomination, and from January 2001 to Jan. 24, 2002, has held four international webcasts, to engage in dialogue with concerned leaders from around the globe, about what policies must be changed. In the most recent webcast, on Jan. 24, he said, "As I forecast . . . in particular for this year—this past year—the world's present monetary-financial system is in the process of disintegration. Despite all efforts at denial, there is *no* way that any present mode of IMF [International

FIGURE 1
**Proposed Inter-American Railroad Line**




Source: Hal B.H. Cooper, Jr., Cooper Consulting Co., Kirkland, Washington.

Monetary Fund] policy can prevent a disintegration of Argentina. Only a repudiation of the policies of the IMF—of Freddie Krueger's sister Annie Krueger—could save Argentina.

"We're now in the middle of a crisis in Japan, in which a virtual default is in progress, at the same time the government is *denying* the existence of a default—that is, the present

Prime Minister's government. But it is a default. Poland is on the edge. The zloty is about to go. The enactment and implementation of the euro in Europe, a united currency, and the spread of that into countries in Eastern Europe, ensures a major crisis. Inflation and tax rises are already on the way in Europe, as a result of the euro. It *can not* work, and *will not* work. I can safely forecast that the euro, in its present form, will be a great disaster for all of Europe. Because under the present Stability Pact, and under the Maastricht agreements, it is *impossible* for the governments of Europe—or unlawful under the present conditions—to attempt to generate the state-backed credit necessary, in any case, to revive a collapsed economy from a collapse.

"The remedy for a collapse is not to cut, cut, cut. The remedy is not to cut credit. It is rather to *increase* credit, especially state credit, but to channel it, under strict regulation, and strict conditionalities, to ensure that the credit goes into no place but increase of production, and other useful things—such as more employment in infrastructure, reactivating idle capacity of industry, meeting obligations in health care, meeting pension obligations, meeting other obligations which are essential for the political and social stability of society, as well as the basis of the recovery."

## 1. The Financial System Is Bankrupt

The details are relatively well known, to members of the Committee, of the financial crisis of Amtrak; and in fact, of the financial crisis of the other parts of our passenger and freight system—commercial airlines, bus, and water-borne transport; well before Sept. 11, the airlines industry was already in financial trouble.

However, *all sectors of the economy* are in the throes of a worsening financial and physical breakdown process, as the end-phase of some 30 years of a globalized "casino economy."

**Figures 1a** and **1b** in this issue's *Special Report,* summarize what led up to the present situation. The first is the schematic, initially released in 1995 by LaRouche, called the "Typical Collapse Function," or simply "Triple Curve." This is an econometric diagram warning that, as of the 1990s, the valuations of financial aggregates (debts, derivatives, real estate, and stock valuations) were growing at an increasingly rapid rate, while money values were also growing rapidly (such as M3, on the middle curve); but the bottom curve, showing physical inputs and outputs (infrastructure, steel output, health care), was falling. Were this allowed to continue, LaRouche warned, there would be collapse.

That has now happened. **Figure 1b,** as it appears in the *Special Report*, shows the onset of instability, in terms of U.S. data, indexed to January 2000, and extending through the third quarter of 2001. We are now in a shock-front phase of collapse.

The policy response of Federal Reserve Chairman Alan Greenspan, was to hyperinflate. At some point, no later than 2000, the rate of liquidity was growing faster than the rate of any increase in "financials." As **Figure 1b** shows, the monetary curve has crossed over and above the financial curve. All the money-pumping didn't help. The financial claims cannot be paid. In our *Special Report,* **Figure 4** shows the drop in the index of value of stocks, corporate profits, and manufacturing employment. U.S. manufacturing and general employment are plunging. Official U.S. unemployment increased during 2001 by 46%, from 5.3 million to 8.3 million.

Whole sectors, whole states are in crisis: for example, steel, where 29 companies have gone bankrupt since 1997, and over 23,000 skilled jobs have been lost. Whole nations—Argentina, Turkey, Poland—are in crisis. In Japan, the world's second-largest economy, the yen and the banking system are at the point of collapse, which automatically will mean a *dollar crisis.*

Even more explosive, the fuse is lit on *derivatives.* Some $100 trillion of notional value of these futures contracts exist globally, with a big part of that held in the United States, and off the books, as shown in the Enron case. In the news are Allied Irish, Tyco, Global Crossing, with huge losses on futures bets. J.P. Morgan Chase, which already posted a $100 billion drop in assets in the fourth quarter of 2001, is the largest U.S. derivatives bank, with holdings two to three times bigger than the next-sized entity. With extensive counterparty relations, the cross-fire of non-payments on derivatives can blow apart the global financial structure.

This is the larger context, in which to make decisions about the specifics of the Amtrak insolvency.

## 2. 'Anti-Depression' Measures: Build Infrastructure

For the kind of "anti-depression" measures now needed, in which rail and other infrastructure figure centrally, there are the lessons in the two highly successful U.S. economy-building periods: President Franklin Roosevelt's reconstruction measures in the 1930s Great Depression; and the 1939-45 wartime industrial transformation.

First, consider the overall measures required, and then some specifics for Amtrak and rail. In this week's *Special Report*, LaRouche lists typical actions to halt the depression and launch a self-sustaining recovery (see p. 11). These include a "government-dictated reorganization" of the international monetary-financial system; restoring the fixed-exchange-rate system; domestic and international protectionist regulatory measures; dumping "free trade"; introducing "the economic equivalent of a high-technology-oriented 'arsenal of democracy' recovery program . . . to reverse the monstrous loss of technologically progressive, physical-productive capacity and potential."

In rail that means a *Federal initiative* for upgrading infrastructure and provision of transportation in the needed modes and densities per square mile and per household. Services should be *expanded*, including long-distance service. New, priority lines, such as the north-south route from Alaska through Canada's Yukon Territories, and down into the Lower 48 states, should be built. Like the FDR projects, the Federal contracts can go to private firms, such as engineering and construction. In turn, this would create positive multiplier effects throughout the economy.

Steel makes the point. For a new double-track rail line, some 720 tons per mile are needed for rails; adding in bridges, culverts, etc., that brings the total up to 1,500 tons per mile. A mile of magnetically levitated line needs 5,000 tons of steel, in contrast to the paltry 500,000 tons a year used by rail construction and repair, as during the 1990s.

Many local rail projects, once considered as only regional "pet" priorities, should now be incorporated into coherent anti-depression, economic-development projects for the continent.

The northern "missing link," through the Yukon Territories, to connect Alaska with the Canadian Provinces and southward, is one of the most important examples. The unpopulated condition of the northern territories (there are only 30,000 residents in the Yukon) illustrates the point. A new rail-based corridor (including utility lines) through the vast region, provides the infrastructure for new centers of economic activity and population, and, at the same time, preserves and upgrades the ecology with modern technology.

Another example that should be debated, is the newly announced "Trans-Texas Corridor" plan. On Jan. 28, Texas Gov. Rick Perry (R) proposed a Texas-wide grid of transportation/utility corridors, for new railroads, highways, and pipelines, of some 4,000 route-miles, to be built over 50 years for $175 billion. Delimited to one state, and based on prospects of state/private funding, the scheme is a pipe dream. But, seen as part of an integrated, new intercontinental rail development program, with Federal funding, the "Trans-Texas" plan should be put on the table.

In one Amtrak scenario, instead of the government selling off looting rights to passenger services, while the government foots the bill for maintaining track and equipment, private companies could indeed take over certain main grids in a *re-regulated* environment. This would mean a return to the type of regulated rail system in place for decades, in which routes, fares, infrastructure maintenance and renewal, and safety standards must be met, and a decent rate of profit, rather than piratical looting, factored in for the private railroad companies. This was the traditional U.S. system of the Penn Central, the Chesapeake & Ohio, and Acheson, Topeka & Santa Fe, among all the other legendary names.

Or, Amtrak could be the designated national corporation.

**Figure 1** here shows the main routes for a proposed Inter-American railroad system, a new "North America Trade Development Corridor," based on the idea of providing modern transportation, energy and related resources, and infrastructure for new centers of high-tech industry, agriculture, and economic activity.

## 3. The U.K. Model Failed, While Eurasia Is Building

The reality is, that the British privatization "model" has failed spectacularly; and, that the Eurasian Land-Bridge program for development corridors is proceeding in many locations.

New figures issued by the British government reveal that the number of train cancellations is soaring, data which are considered to be a good marker of the reliability and standard of service. Train cancellations went from 62,000 in 1999 up to 165,000 from January to October 2001.

Railtrack's Great Western zone manager John Curley was quoted in the London *Observer* (Dec. 30, 2001), that "rail staff had been duped over privatization into believing 'a dodo would be made to fly.' " He estimates that up to 10% of the national network's track, ties, stone ballast beds, and signals were "at or beyond the end of their physical life" and should have been replaced years ago; a further 30% would need replacing in the next five years, with no guarantee that the money or planning was there to do so.

Last year, the government put Railtrack into bankruptcy, which has meant limbo in the absence of economic recovery intervention plans. As far as the Great Western zone, Curley warned, "We are not many track engineers away from shutting the railway. If six or seven of our senior guys walk away it will have to close."

British rail users have targetted March 1 for a one-day national protest strike.

Contrast the rail development projects at key locations of what *EIR*'s 1997 report identified as the Eurasian Land-Bridge, along the three intercontinental mainlines. Last May, the Rail Transport Union was formed in Moscow, for multinational cooperation on rail expansion. President Vladimir Putin has repeatedly stated his commitment to new rail and "energy bridges" to China, the Koreas, Japan, and elsewhere on the vast continent. In China, a maglev train is under construction from Shanghai to its Pudong airport, and another line—maglev or high-speed—is going from Shanghai to Beijing.

For us in the United States, the time has come when there is no longer any margin for delusions, lies and hoaxes about privatization, deregulation, globalization. The nation and its future are at stake. The House, in facing the Amtrak issue properly, can in fact, provide leadership initiative to return to economy-building measures across the board.