

---

REPORT BY THE  
**Comptroller General**  
OF THE UNITED STATES

---

## Conrail's Attempts To Control Labor Costs And Improve Its Labor Productivity

If Conrail is to attain financial self-sufficiency, it must gain better control of its labor costs, which are considerably higher than those of other railroads. Some of the reasons for Conrail's high labor costs are linked to the nature of its labor agreements.

Conrail is taking action to improve its labor productivity. One major accomplishment has been an agreement with the United Transportation Union to reduce the size of train crews. GAO believes that Conrail's productivity, and labor productivity in the rail industry as a whole, could be improved if management and labor worked together to change outmoded or restrictive work rules.



04067-  
011067



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-198888

The Honorable Birch Bayh  
Chairman, Subcommittee on  
Transportation  
Senate Committee on Appropriations

The Honorable Russell B. Long  
Chairman, Subcommittee on Surface  
Transportation  
Senate Committee on Commerce,  
Science and Transportation

The Honorable Robert B. Duncan  
Chairman, Subcommittee on  
Transportation  
House Committee on Appropriations

The Honorable James J. Florio  
Chairman, Subcommittee on Trans-  
portation and Commerce  
House Committee on Interstate  
and Foreign Commerce

This report discusses Conrail's attempts to improve its labor productivity. The report summarizes Conrail's progress to date in improving its labor productivity and discusses related industrywide work rule issues. We made this review because labor expenses are Conrail's largest cost and because control of labor cost and improvement of labor productivity is critical to Conrail's becoming financially self-sufficient.

We are sending copies of this report to the Secretary of Transportation; the Chairman and Chief Executive Officer, Consolidated Rail Corporation; the Chairman and Chief Executive Officer, United States Railway Association; various Senate and House committees; and other interested parties.

  
Comptroller General  
of the United States

D I G E S T

In 1978 Conrail's \$2.1 billion labor expenses amounted to 63 percent of its total revenues compared to the rail industry average of 51 percent. (According to Conrail, the figure was 58 percent in 1979.) Conrail recognizes that its labor costs must be reduced if it is to become financially self-sufficient.

Conrail's labor costs have been high for a number of reasons including the poor condition of its tracks, yards, and equipment; the layout of its system and the type of traffic it carries, which requires a relatively large amount of switching; and a legacy of weak management from the bankrupt predecessor railroads. (See pp. 2 to 7.)

CONRAIL'S PROGRAM TO  
REDUCE ITS LABOR COSTS  
AND IMPROVE ITS PRODUCTIVITY

Conrail's goal is to reduce labor expenses as a percentage of total revenues to about 51 percent by 1983. It believes its goal can be achieved by improving its collective bargaining agreements, improving its management of the railroad, and continuing to improve the physical condition of its facilities. With these improvements, Conrail believes it can operate with 20,000 fewer employees by 1983. (See p. 24.)

Some improvements have already been made. Conrail has negotiated new collective bargaining agreements with most of the employee organizations to replace the multiple agreements that it inherited from its bankrupt predecessors, and it has negotiated an agreement with the United Transportation Union to reduce the size of yard and road freight crews. Programs are also underway to

suffer financial loss due to changes in work rules or operating practices that are designed to improve system productivity. (See ch. 2.)

USE OF FEDERAL FUNDS TO PAY  
SEPARATION ALLOWANCES NOT  
WITHIN INTENT OF LAW

The agreement Conrail negotiated to reduce the size of train crews provides for separation allowances for employees who give up their jobs as a result of the agreement. Conrail has been using Federal funds provided under title V of the Regional Rail Reorganization Act (3R Act), as amended (45 U.S.C. 701), to pay these separation allowances. The Congress originally provided \$250 million to protect employees who were adversely affected by the railroad reorganization and formation of Conrail. These funds were exhausted by February 1980.

However, employee separations resulting from the agreement to reduce crew size are not a direct result of the formation of Conrail. GAO believes that while the use of the employee protective funds in this context does not violate the law, it was not the use intended by the Congress. (See pp. 27 and 28.)

RECOMMENDATIONS TO THE CONGRESS

GAO recommends that the Congress evaluate whether title V is the proper vehicle for funding actions such as the "crew consist" (crew size) separations. If the Congress determines that Conrail's use of title V funding is appropriate, it should require Conrail to provide an estimate of the title V funds needed for separation payments relating to the crew size agreement as well as for any future employee dislocations that would involve payments from Federal funds. (See p. 35.)

# C o n t e n t s

		<u>Page</u>
CHAPTER		
1	INTRODUCTION	1
	To succeed, Conrail must control its labor costs	1
	Conrail continues to have higher labor costs than the rest of the industry	2
	Scope of review	8
2	WORK RULES AND PAY SYSTEMS IN THE RAIL INDUSTRY ARE A TARGET OF CRITICISM	9
	Work rules: What are the criticisms?	10
	Crew consist rules	11
	The dual basis of pay rule	13
	Arbitrariness	16
	Craft and class divisions	17
	Examples of pay computations	18
	Example 1	18
	Example 2	19
	Are work rule changes needed?	19
	Conclusions	22
3	CONRAIL'S PROGRAMS TO IMPROVE ITS LABOR COSTS AND PRODUCTIVITY	24
	Agreement improvements	25
	Negotiation of single collective bargaining agreements	25
	Negotiation of agreement to reduce size of train crews	27
	Separation payments to employees are not within the intent of the 3R Act	27
	Savings from reduced size of train crews have been less than anticipated	29
	Management improvement	29
	Terminal Improvement Project	29
	Car Repair and Inspection Productivity Project	30

## CHAPTER 1

### INTRODUCTION

On April 1, 1976, Consolidated Rail Corporation (Conrail) took over the operations of six bankrupt railroads in the Northeastern United States under a reorganization plan developed by the United States Railway Association (USRA). The reorganization was carried out under the provisions of the Regional Rail Reorganization Act of 1973, as amended (45 U.S.C. 701). Known as the 3R Act, this legislation was to restructure the bankrupt Northeast railroads into an economically workable rail system.

USRA planners expected that Conrail would become profitable by 1979 and that the Government's \$2.1 billion investment would be enough to restore the railroad to physical and financial health. However, Conrail now estimates that it will not become profitable until 1981 at the earliest. Also, the Federal investment in Conrail has grown from the \$2.1 billion originally authorized to \$3.3 billion now. A recent analysis by USRA--which monitors the Federal investment in Conrail--said that Conrail may need another \$1.4 billion in Government financing before 1983.

A previous GAO report to the Chairman, Subcommittee on Government Activities and Transportation, House Committee on Government Operations, 1/ discussed Conrail's deteriorating financial condition compared to USRA's original expectations. In that report, we stated that to turn this condition around, Conrail management would have to improve customer service, increase labor productivity, modernize yards and terminals, and eliminate nonessential and redundant activities in the physical plant.

#### TO SUCCEED, CONRAIL MUST CONTROL ITS LABOR COSTS

Conrail is attempting to deal with its labor problems by (1) reducing its labor costs as a percentage of revenues and (2) increasing its labor productivity. Currently, Conrail's labor costs (wages and salaries, fringe benefits, and payroll taxes) consume a much greater proportion of its revenues than do other railroads' labor costs. In 1978 Conrail reported labor expenses to the Interstate Commerce Commission (ICC) totaling \$2.1 billion, representing about 63 percent of its \$3.3 billion in revenues. In comparison, labor expenses for all railroads in the United States averaged only 51 percent

---

1/"Conrail Faces Continuing Problems," CED-78-174, Oct. 6, 1978.

New York Central Railroad] that got even further out of control after the merger. \* \* \*

"Part of the explanation for the unfavorable showing of both the Penn Central companies is found in the relatively large number of employees per mile of track operated."

"\* \* \* evidence of employment excesses is suggested by the sharp post bankruptcy declines and by prebankruptcy management statements about anticipated work force reductions it expected to accomplish. It appears that there was really inefficient labor utilization primarily attributable to inadequate management control."

We found that the bankrupt railroads did reduce employment by 28 percent between 1967 and 1975, but not enough to keep labor costs from increasing more than revenues. Labor costs went up 47 percent between 1967 and 1975, while revenues went up only 41 percent.

In contrast, another Eastern carrier, the Baltimore and Ohio, reduced its employment 30 percent. Although its labor costs increased 40 percent, its revenues increased 56 percent. The following chart shows that only Conrail's predecessors had labor cost increases that outstripped revenue gains. The chart also shows that Conrail's predecessors' revenues increased less than the average for the entire industry.

After Conrail began operations, its ratio of labor expenses to revenue continued to exceed the industry average by a wide margin. In fact, the ratio worsened in 1976 and 1977 (66 percent) but improved in 1978 to 63 percent. 1/

Discussions with Conrail officials and USRA representatives, as well as review and analysis of documents, statistics, and reports supplied by USRA, Conrail, and the Association of American Railroads, indicated that Conrail's labor expenses have been high compared to other railroads for a number of reasons. Some of the reasons are the policies pursued by Conrail's predecessors during the bankruptcies when short or out of cash, the railroads deteriorated physically and managerially. Other reasons are related more to the environment in which Conrail operates.

Conrail's most visible problems have probably been those caused by the deteriorated track and equipment it inherited on April 1, 1976. Poor track and equipment caused Conrail's labor costs to be higher than normal not only because of the extra labor needed to rehabilitate the system, but also because of operating inefficiencies from derailments, breakdowns, and delays. Along with the physical deterioration of the railroad, management efficiency and employee morale slipped during bankruptcy. Conrail studies identified numerous areas that needed management attention.

Conrail's operating environment also was cited as a reason why its labor costs are higher than other railroads' labor costs. In particular, Conrail is characterized as being "terminal intensive"; that is, more switching is required to move traffic on the Conrail system than on other railroads. This situation is due to the kind of commodities shipped on Conrail as well as the location of many yards and terminals on the system. The lack of economic growth in the Northeast was also cited as a factor holding down revenues and efficiencies that could be achieved from volume increases. Conrail and USRA analyses have shown that passenger operations are not a factor in Conrail's high labor cost ratio.

---

1/In its "Report to Congress on Conrail Performance, 1978," USRA stated that Conrail's labor expense to revenue ratio was 67 percent in both 1977 and 1978. USRA's calculations differ from ours; we used accounting data as reported to ICC to compute the ratio, whereas USRA included retroactive pay adjustments to compare Conrail's actual results to its business plan projections. We used data as reported to ICC without adjustment so we could compare Conrail's ratio to that of other railroads.

Analysis of Labor Cost Components  
Conrail Versus Rail Industry For the Year 1978

	All Class I		Percent of total operating revenues		Difference
	Conrail	Railroads	Conrail	All Class I railroads	
	(millions)				(percent)
Total operating revenues	<u>\$3,311</u>	<u>\$21,721</u>			
<u>Labor costs:</u>					
Wages and salaries					
Track Maintenance	\$ 314	\$ 1,592	9.5	7.3	2.2
Equipment Maintenance	204	1,252	6.1	5.7	.4
<u>Transportation costs:</u>					
Road train and engine	308	1,973	9.3	9.1	.2
Yard train and engine	247	1,179	7.5	5.4	2.1
All other transportation	344	1,946	10.4	9.0	1.4
Passenger operations	169	321	5.1	1.5	3.6
General and administrative	<u>117</u>	<u>818</u>	3.5	3.8	(.3)
Total wages and salaries	<u>\$1,703</u>	<u>\$9,081</u>	51.4	41.8	9.6
Health and welfare cost	98	554	3.0	2.6	.4
Payroll tax	<u>277</u>	<u>1,496</u>	8.4	6.9	1.5
Total labor costs	<u>\$2,078</u>	<u>\$11,131</u>	62.8	51.3	11.5

## CHAPTER 2

### WORK RULES AND PAY SYSTEMS IN THE RAIL INDUSTRY ARE A TARGET OF CRITICISM

Rail industry observers, Federal agencies, and others have discussed extensively the fact that work rules--the countless provisions of labor contracts that govern how labor is used on railroad engines and trains, the assignment of employees to their daily tasks, and the intricate formulas by which they are paid--have the effect of increasing operating cost. In addition, work rules have the effect of restricting productivity. Much has been written about the need to revise some work rules, but change seems to come slowly, when it comes at all.

Why does change seem to come so slowly? In 1973 a task force on railroad productivity established by the National Commission on Productivity and the Council of Economic Advisors said that it is because labor and management have not agreed on how to share productivity gains from labor-saving innovations. Labor, faced with steadily declining employment in the railroad industry--from 1,352,000 in 1947 to 472,000 in 1978--naturally is concerned about changes that tend to reduce employment. Management, on the other hand, has tried to increase productivity by substituting capital improvements for labor through the operation of fewer, longer trains and by continually changing operations where possible to minimize the use of labor. However, despite the substantially decreased employment in the railroad industry, the percentage of labor costs to revenues has remained about the same for the past 25 years.

An official of one railroad said that in his opinion labor productivity does not improve because railroads tend to pass along increased operational costs from wage increases to consumers through general rate increases approved by ICC, rather than trying to achieve productivity increases. Another railroad official said that the slow pace of change could be caused by actual or threatened intervention by the Government in the collective bargaining process.

In its report "A Prospectus for Change in the Freight Railroad Industry," which was issued on a preliminary basis in October 1978, the Department of Transportation (DOT) indicated that the Government could become involved in the future. The DOT report stated that the Nation's railroads are facing a financial crisis and concluded that if the railroads are to be returned to financial health and remain in the private sector, the Federal policy toward railroads needs to be reexamined and changes need to be made. One of

"There are opportunities for increasing rail labor productivity significantly by modifying existing work rules \* \* \*.

"Despite recent progress in negotiations, restrictive work rules still in force inhibit the efficient deployment of some rail labor."

In 1978 the Secretary of Transportation's report on the freight railroad industry stated:

"Operating policies and procedures dating back to the era of steam locomotion and telegraph communication still remain in effect, resulting in many outmoded practices."

Specifically, we found that the following issues appear to be the most troublesome:

- "Crew consist rules," or rules specifying the size and makeup of train crews.
- The "dual basis of pay rule," which provides that the basic day's work for operating employees on freight trains is either 8 hours or less, or 100 miles or less.
- The payment of "arbitraries"--miscellaneous payments to employees for work outside the scope of their job or for hardships endured.
- Narrow craft and class divisions in shops.

#### Crew consist rules

On most American railroads the required crew complement or "consist" to operate a freight train is an engineer, a conductor, and two brakemen. Some believe that with modern railroad technology, many freight trains can be operated safely with fewer people.

In 1962 the Presidential Railroad Commission reported that there was some overmanning of crews but little undermanning and recommended that management and labor negotiate the issue with binding arbitration. In 1963 the Congress ordered arbitration of the crew consist and firemen issues. The latter was arbitrated successfully in 1972, but agreement was never reached on the crew consist issue. The Railroad Productivity Task Force established by the National Commission on Productivity also commented as follows:

size of the crew allowed cabooses 1/ to be eliminated; instead electronic devices are attached to the last car of the train.

FEC's elimination of work rules resulted in a confrontation with labor and difficulties that lasted about 12 years. However, in 1978 Milwaukee Road and Conrail completed agreements with the United Transportation Union (UTU) for a major work rule change--a reduction in crew size under certain circumstances. (See p. 27.) Both agreements provide for sharing productivity gains with employees. In addition, the Canadian National Railway Company and UTU have negotiated a crew consist agreement allowing similarly reduced crews. But some problems remain. The U.S. rail industry wants the issue negotiated nationally, while labor wants to negotiate railroad by railroad. Opinions also differ over the price of change. Many in the industry believe the Conrail and Milwaukee Road settlements are too costly in considering the savings that will result.

#### The dual basis of pay rule

Perhaps the most discussed and most misunderstood of the many railroad work rules is the dual basis of pay rule. This rule establishes a day's work for operating employees in road freight service to be 8 hours or less, or 100 miles traveled or less, with any work in excess of either standard paid at specified overtime rates, mileage rates, or combinations. This rule sometimes allows employees to earn the equivalent of several days' pay in a single day or to earn a day's pay for work conducted in less than 8 hours.

According to the Presidential Railroad Commission's report, the methods of compensating railroad operating employees evolved gradually with the growth of the railroads in the 19th century. In those days, wages were paid on a daily or monthly basis. However, problems were caused by irregular runs, extra service, and the wide variety of work required on different runs under different conditions for the same pay and trip rates on some railroads. As a result,

---

1/Work rules require a caboose at the rear of most trains, but outside of North America they receive little acceptance. Historically, the caboose was used as a place for the crew to sleep, but in 1964 a national lodging agreement was put into effect that requires the railroad to furnish bunk rooms or motel rooms for crew members to sleep. Virginia has a law requiring the use of cabooses, and Ohio recently considered having a caboose law.

Base daily pay for through freight trainman, less than 81 cars on train	\$ 60.87
30 "overmiles" @ \$0.5517 per mile	16.55
2.35 hours overtime @ \$11.415 per hour.	<u>26.83</u>
Total	<u>\$104.25</u>

(In accordance with the second rule, at the specified speed rate of 12-1/2 miles per hour, a 130-mile run should be completed in 10.4 hours [130 miles divided by 12-1/2]. The run actually took 12.75 hours, so the employee is entitled to 2.35 hours overtime [12.75-10.40=2.35])

As shown by the above examples, when a train crew member travels more than 100 miles in a day, an overmile rate is used to pay the employee for the additional mileage traveled. The second example further demonstrates that how long the employee works and how many miles he travels also affect his overtime. In the second example, it should be noted that the employee would be paid the same amount whether the run was completed in 3, 8, or 10.4 hours. Only after the average train speed dips below 12-1/2 miles per hour would he receive overtime. In the first example, the employee was available for another run, and he crewed a train back to Selkirk that day for an additional \$87.19 plus other payments.

The Presidential Railroad Commission, in its study of the dual basis of pay rule, concluded:

"\* \* \* the speed basis of overtime is an anachronism involving inconsistencies among types of runs; the dual basis of pay contains widespread anomalies and inequities; the wage differentials among classes of service and occupations within each class of service contain serious inequities; the mileage basis of pay has limitations as an incentive system of pay; it has produced differential earnings and hours on duty among groups of

2. Initial terminal delay. This allowance is paid to the crew in addition to its usual wage when the train is delayed at the starting point for more than a specified time, usually 75 minutes. Each member of the crew receives double pay computed on a minute basis until the train actually leaves the terminal.
3. Final terminal delay. When a train crew is held out of its final terminal 30 minutes or more because of congestion or other reasons, the crew receives double pay computed on a minute basis until it goes off duty.

Allowances are also paid for working through lunch periods, reporting to duty at a point where not normally assigned, for switching cars at certain locations, and for many other reasons. All of these payments are in addition to the basic day's pay.

Constructive allowances can be a substantial portion of the total pay of certain categories of railroad employees. A Federal Railroad Administration (FRA) study using 1977 data for 16 railroads showed that for road freight employees, between 6.5 percent and 29.7 percent of the total hours paid were constructive allowance hours. The low figure was posted by FEC, which has eliminated many allowances and work rules on which those allowances are based, and the high figure was for the Milwaukee Road--a bankrupt railroad. Conrail's percentage was 26.3, second only to the Milwaukee Road. Constructive allowances for yard train and engine employees ranged from 9.5 percent of total hours paid on FEC to 24.6 percent of the hours on the Boston and Maine--another bankrupt carrier. Conrail's percentage was 16.7, the fifth highest constructive allowance percentage for yard train and engine employees among the 16 roads sampled by FRA. One of Conrail's goals is to reduce the number and cost of arbitraries.

#### Craft and class divisions

The Railway Labor Act of 1926 governs labor relations in the rail industry. The law institutionalized the union structure that existed at that time, with the result that the craft and class divisions in repair shops are extremely narrow and no longer represent the work which now needs to be done. The National Commission on Productivity commented on this subject as follows:

"Actually the second most costly work rules after the crew consist \* \* \* agreements are probably

## Example 2

On August 4, 1979, the employee, a through freight trainman, crewed a train from Selkirk Yard, near Albany, New York, to Dewitt Yard, near Syracuse, New York, a distance of 146 miles. The trip took 4 hours, 40 minutes. The employee received pay of \$88.29 for this trip which included base pay plus 46 overmiles. Later in the day, he was a brakeman on a train returning to Selkirk. The trip took 6 hours, 50 minutes, including a 15-minute final terminal delay. For the return trip, the employee was paid \$90.73, which included base pay of \$62.60, 46 overmiles totaling \$26.17 and a final terminal delay payment of \$1.90. His total pay for the day was \$179.02.

## ARE WORK RULE CHANGES NEEDED?

Since the Presidential Railroad Commission issued its report in February 1962, the railroad industry's financial health has continued to decline. The intervening years have seen the bankruptcy of many of the major Northeastern railroads and their reorganization into the Conrail system, which continues to lose money. Other railroads, including the Boston and Maine, the Milwaukee Road, and the Rock Island, are bankrupt and threatened by collapse. USRA has provided financial assistance to two other railroads-- the Delaware and Hudson and the Missouri-Kansas-Texas (Katy) Railroad--in addition to Conrail.

Even the healthier railroads are experiencing difficulties. The Secretary of Transportation's report on the freight railroad industry said that in 1976 Class I railroads obtained only a 1.65-percent rate of return on their net investment in rail plant. Although a few railroads are doing reasonably well, 36 of the 50 Class I railroads had a return on investment of less than 6 percent and 11 lost money. DOT forecasted that between 1976 and 1985, the industry (exclusive of Conrail and the Long Island Railroad) would have a capital funds shortfall of between \$13 and \$16 billion and, if current trends persist, the resultant shortfall in capital funding will continue to propel the industry along a downward spiral.

There are many reasons why the railroad industry is having financial problems. Based on the studies we reviewed, work rule restrictions would seem to be among them. For example, in 1973 the task force on railroad productivity established by the National Commission on Productivity and the Council of Economic Advisors estimated the cost equivalent of restrictive work rules in terms of lost efficiency

Comparative Operating Statistics  
Florida East Coast Railway Versus All  
Class I Railroads

<u>Year</u>	<u>Total operating</u> <u>revenues</u> (millions)	<u>Percent</u> <u>change</u> <u>since 1962</u>	<u>Total revenue</u> <u>ton - miles</u> (millions)	<u>Percent</u> <u>change</u> <u>since 1962</u>	<u>Percentage of</u> <u>Transportation</u> <u>expenses to revenue</u>	<u>Percent</u> <u>change</u> <u>since 1962</u>	<u>Average</u> <u>number of</u> <u>employees</u>	<u>Percent</u> <u>change</u> <u>since 1962</u>	<u>Average annual</u> <u>compensation</u> <u>of employees</u>	<u>Percent</u> <u>change</u> <u>since 1962</u>
1962	FEC All Class I	\$ 30	1,066	-	42	-	2,128	-	\$ 6,370	-
		9,440	592,862	-	40	-	700,146	-	6,659	-
1967	FEC All Class I	24	1,209	(20)	33	(22)	931	(56)	7,130	12
		10,386	719,498	10	40	-	610,191	(13)	8,085	21
1972	FEC All Class I	40	1,716	33	24	(43)	1,052	(51)	8,791	38
		10,556	776,746	12	39	( 3)	526,061	(25)	12,213	83
1977	FEC All Class I	61	2,264	103	27	(36)	1,118	(48)	13,881	118
		16,373	826,292	73	39	( 3)	482,731	(31)	18,518	178

productivity, there is not much reason to believe they will be changed rapidly. To negotiate work rule changes, railroads will probably have to agree to share productivity gains with labor, as Conrail did to achieve a change in the crew consist rule. As a result, cost savings through work rule changes will come slowly even after they are negotiated. The primary initiative for work rule changes will have to come from the railroads and their employees, but the Government could encourage work rule changes through legislative initiatives. Although restrictive work rules pose a problem, other factors, including the physical condition of the railroads, route and traffic structure, and ability to manage operations efficiently are important determinants of productivity.

the size of its system faster than at present and could probably divert some of its most labor-intensive traffic to other transportation modes.

So far, the programs started by Conrail have made a slight improvement in productivity. Further improvement will depend on the continuation and success of these programs.

#### AGREEMENT IMPROVEMENTS

About 80,000 of Conrail's 89,000 employees are covered by labor agreements. The majority of these employees are represented by 17 different labor organizations. Generally, the unions fall into three major categories: those representing operating craft employees including engineers, firemen, conductors, and brakemen; nonoperating craft unions which represent clerks, trackmen, and signalmen; and shopcraft unions which represent employees in the repair shops such as machinists, electricians, and sheetmetal workers.

#### Negotiation of single collective bargaining agreements

Conrail inherited all the collective bargaining agreements that were in force on each of its six bankrupt predecessors--a total of 272 separate contracts. Under the provisions of section 504(d) of the 3R Act, as amended, Conrail and the unions were directed to negotiate all of the old agreements into new agreements--one for each of the 34 different crafts and classes of employees covered by collective bargaining agreements. The 3R Act said that negotiations had to begin 60 days after Conrail's startup date, April 1, 1976, but the act did not impose a deadline for completing the negotiations. As a result, not all the old agreements have been replaced by new ones, although much progress has been made.

In its 1978 business plan, Conrail estimated that the old agreements would be renegotiated by the end of 1978. Agreements have been reached with 19 employee organizations, but single collective bargaining agreements to cover four major crafts have not been completed. These crafts include maintenance-of-way workers, signalmen, firemen, and trainmen. In each case there is an agreement to arbitrate the new collective bargaining agreement if negotiations fail.

Conrail told us that the negotiations with the signalmen are protracted because a jurisdictional problem between two different unions has to be resolved. A different problem exists for the firemen and trainmen. Both of these crafts

were being paid arbitraries while BLE members were not. Conrail then suspended implementation of a portion of the new BLE rules until single collective bargaining agreements with Conrail's trainmen and firemen are completed.

Negotiation of agreement to  
reduce size of train crews

On September 8, 1978, Conrail and UTU signed an agreement that permits, under certain circumstances, a reduction in the "consist," or size, of the yard or road crew required to operate freight trains on Conrail.

Under the terms of the crew consist agreement, Conrail has the right to operate the following trains with a conductor and one brakeman: trains of 70 cars or less, new train operations which are established to compete with other modes of transportation, and work trains and other special trains. Trains which have between 71 and 120 cars can be operated with a reduced crew but only by agreement between the UTU representative and the Conrail official having jurisdiction over the territory in which the train will operate. Trains of more than 120 cars are to be operated in all cases with a crew of one conductor and two brakemen.

In order for UTU to agree to reducing the size of crews, Conrail had to provide several major benefits to the UTU membership. One is a payment of \$48.25 into a trust fund every time Conrail operates with a reduced crew. At the end of the year, the trust fund is divided among the trainmen on the basis of the number of yard tours of duty and road freight trips each performed during the year. In addition, when a train is operated with a reduced crew, the two trainmen receive an allowance in addition to their basic wage. This allowance, which started at \$4 and is now \$4.89 per tour of duty, is subject to wage and cost of living adjustments, but the trust fund contribution is not. The crew consist agreement also provided for additional days off for certain trainmen.

Separation payments to  
employees are not within the  
intent of the 3R Act

Generally, Conrail can only operate trains of 70 cars and less with a reduced crew when preagreement trainmen are not available to work the second brakeman position. Therefore, one of the things Conrail must do to make the most of the crew consist agreement is to maximize attrition so that a lesser number of trainmen are available to work second brakeman positions. Conrail has been doing this

Savings from reduced size  
of train crews have been  
less than anticipated

Conrail estimated that between 1979 and 1982 the benefits from the crew consist agreement would total almost \$451 million on an inflated basis. In its March 1979, 5-year business plan, it cut this projection to \$256 million because the agreement took effect 9 months later than anticipated and because of a reduced traffic growth projection. Also, a higher estimate of transportation efficiencies from its Terminal Improvement Project (TIP) resulted in a lower estimate of the crews that would be needed.

We found that even Conrail's reduced estimate of benefits from the crew consist agreement was not being achieved in the early months of 1979. In fact, it now appears that only \$11 million of the \$27 million in benefits budgeted for 1979 will be realized. Conrail officials told us this was because the decline in the work force due to crew consist has been less than expected and there has been less opportunity to use short crews than expected. Also, Conrail had not succeeded in negotiating the use of short crews on 71- to 120-car trains. Since most road freights fall into this range, few road freights operate with a short crew, and the crew size reductions to date have mostly been among yard crews.

In October 1979 Conrail and one of the UTU representatives negotiated an agreement to use reduced crews on 71- to 120-car trains on one portion of Conrail's system. This agreement allows Conrail to operate with a reduced crew only if no one is available on the extra list to fill the second brakeman's position.

MANAGEMENT IMPROVEMENT

Conrail has begun a number of programs to improve the management of its operations. Conrail expects that its productivity can be improved significantly as these programs are implemented, which will result in a lower percentage of labor expenses to revenues. The following sections discuss Conrail's major efforts in the management area.

Terminal Improvement Project

Almost half of Conrail's labor force is involved in terminal operations--switching cars in yards, placing cars with customers, and pulling loaded cars from customer sidings.

yards where it has been implemented. Conrail data indicates that at one yard, car repair and inspection productivity increased 40 percent between the spring of 1979 and September 1979. At another yard, the corresponding productivity increase was 20 percent. But at the third yard, productivity only increased 6 percent. A Conrail official told us that the varying rates of productivity improvement are the result of local management's emphasis or lack of emphasis on the program.

So far, productivity improvement has meant the same number of employees have produced more work, but the number of employees has not been reduced. Conrail has not pushed to reduce the number of employees because labor is sensitive to productivity improvement efforts. Conrail believes that the CRIPP effort is not a proven success, but if the productivity improvement rate achieved at the first three locations can be realized at the other 14 locations, about \$4 million per year in increased work can be achieved.

#### Productivity improvement programs at repair shops and facilities

In 1978 Conrail started industrial engineering programs to improve productivity in its car and locomotive shops and other heavy and medium repair facilities. Conrail's data shows it achieved savings of \$4.2 million from these programs in 1978 and another \$4.2 million through August 31, 1979. In addition, Conrail claims it has reduced the number of employees working in its car and locomotive shops.

#### Improvements in clerical productivity

In late 1978 USRA analysts completed a study using 1977 data that indicated Conrail's clerical costs were high compared to other railroads. USRA concluded that Conrail was probably overstaffed but could not determine where without making a detailed, onsite study.

Most of Conrail's thousands of clerical employees are concentrated in two departments, Finance and Stations. Since 1976 Conrail has reduced the employment in its Finance Department by over 1,000--from 5,370 on April 1, 1976, to about 4,340 on May 1, 1979. Most of the reduction (715 employees) resulted from consolidating the operations of the bankrupt properties. Other reductions were attributed to productivity improvement projects, consolidation of billing operations, and other improvements.

should reduce Conrail's payments for arbitraries, such as initial and final terminal delay payments, recreding costs, and overtime. Similarly, additional transportation costs in the form of increased arbitrary payments caused by locomotive failures are expected to decline as the condition of the locomotive fleet improves.

#### WHAT ARE THE RESULTS?

In 1978 Conrail's ratio of labor expenses to revenue went down by about 3 percent, from 66 percent in 1977 to 63 percent in 1978.

Since Conrail started operations on April 1, 1976, it has reduced its employment by about 10 percent, as shown by the following table:

	<u>Average annual employment</u>
1976	97,053
1977	94,605
1978	91,318
1979	87,509

As Conrail's employment has declined, its productivity seems to have improved somewhat. For example, one of the statistics used to measure labor productivity is net ton-miles 1/ of freight per employee. It relates the traffic handled by the railroad to numbers of employees. The greater the net ton-miles per employee, the more efficient the railroad is in using its labor. Net ton-miles per employee for Conrail increased 3.9 percent between 1977 and 1978--from 1,142 net ton-miles of traffic per employee to 1,187 net ton-miles per employee.

Another way to measure labor productivity is to calculate net ton-miles of traffic per total employee-hours worked. This measure shows that Conrail's productivity improved only slightly from 1977 to 1978--from 529 net ton-miles per hour in 1977 to 541 in 1978. This is an increase of only 2 percent. Also, Conrail's productivity is still significantly lower than the rest of the industry's. For example, in 1978 the net ton-miles per hours worked for all Class I railroads was 941 compared to 541, or 57 percent of the industry

---

1/Movement of 1 ton of freight for 1 mile.

it negotiated with UTU to reduce the size of train crews. We do not believe that Conrail's use of funds authorized by title V of the 3R Act to pay separation allowances to employees affected by this agreement was intended by the Congress. Since Conrail plans to continue using title V funds to pay separation allowances, the Congress should determine whether it wants to authorize such use.

#### RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress evaluate whether title V should be the appropriate funding mechanism for actions that are not the direct result of the formation of Conrail, such as the separation allowances resulting from the crew consist agreement. If the Congress determines that title V funds may be used for such purposes, it should make this intent clear.

If the Congress determines that title V funding is appropriate, it should require Conrail to provide an estimate of the amount needed to make separation payments for employees who will be separated under the terms of the crew consist agreement as well as for any other future actions that might result in employee dislocations. The additional uses of title V funds should then be considered when the Congress decides how much additional funding should be provided.

#### AGENCY COMMENTS AND OUR EVALUATION

DOT generally agreed with our conclusions that Conrail's labor costs are considerably higher than those of other railroads and that if Conrail is to become financially self-sustaining, it must reduce labor costs. DOT suggested that our use of the productivity measures of net ton-miles per employee and net ton-miles of traffic per total employee-hours worked be qualified since they represent the consequences of many different changes in railroad operations.

We agree that these measures are affected by many changes in railroad operations, but they do serve as a gross indicator of how much Conrail would need to improve its productivity to reach an "average" for the industry. (DOT's comments are included in their entirety as app. I.)

We discussed a draft of this report with USRA's Vice President for Operations and Marketing and Director of Productivity Analysis. They agreed with our observations that while Conrail has made some progress in improving productivity, more needs to be done. But they did not agree with our conclusions and recommendations concerning Conrail's

**CONRAIL**

EDWARD G. JORDAN  
CHAIRMAN  
CHIEF EXECUTIVE  
OFFICER

March 24, 1980

Mr. Henry Eschwege,  
Director United States General Accounting Office  
Washington, DC 20548

Dear Mr. Eschwege:

This is in response to your letter of January 31, 1980 and accompanying draft report entitled "Conrail Needs to Improve Its Use of Labor".

Conrail sincerely appreciates the opportunity to review the report which provides a fair assessment of the importance of labor productivity improvement - both to Conrail, which inherited some unique problems, and to the entire railroad industry.

Although generally pleased with the draft report's treatment of Conrail's ongoing programs to improve labor productivity, Conrail believes that the draft report does not: adequately reflect the Corporation's major achievements in labor productivity since 1977; recognize the differential and adverse effects of labor work rules on Conrail relative to other railroads; reflect the intent of Congress and the 3R Act regarding Conrail's use of Title V funds in connection with the new Crew Consist Agreement; or provide a sufficiently long-term perspective within which to view Conrail's current and continuing efforts to improve labor productivity. These points are discussed in more detail below.

Conrail has achieved major improvements in labor productivity since 1977.

In 1955, labor expense consumed 55% of the revenues of Conrail's predecessor railroads. Despite massive maintenance deferral, the proportions of revenues going to labor steadily increased to 63% in 1975. In 1977, the first full year of Conrail operation, equipment and track rehabilitation programs drove the labor expense/revenue ratio to 66%. As Conrail operations began to benefit from the combined effects of improved physical assets, consolidation of predecessor railroads terminal operations and tighter management controls, the labor expense/revenue ratio declined to 63% in 1978 and 58% in 1979. This represents an improvement of 8 percentage points from 1977 to 1979 - despite the continued high level rehabilitation programs.

Mr. Henry Eschwege  
- Page 3 -

The latter subsection was clearly included in the Act to promote the Corporation's ultimate goal of self-sufficiency by simplifying administration through the consolidation of many agreements into single agreements; and permitting the Corporation to address the issue of employee productivity at the bargaining table.

The GAO Draft Report states that the use of Section 509 funds for severing employees pursuant to the Crew Consist Agreement does not violate the terms of the law (i.e. Section 505(e)). Conrail agrees. Moreover, Conrail secured a legal opinion to that effect from outside counsel prior to using Section 509 funds for that purpose. Conrail does not agree, however, with the GAO's assertion that such use is not consistent with Congressional intent. Rather, the provisions of Section 505(e) afford the Corporation absolute discretion in the selection of protected employees to be offered severance. The unambiguous language contained in that subsection demonstrates that Congress intended such discretion be conferred.

In exercising its discretion, Conrail has consistently selected employees for severance on the basis of one of two criteria: (1) the extent to which Monthly Displacement Allowance (MDA) payments will be eliminated, or (2) the extent to which employee productivity will be enhanced.

The crew consist severance program was particularly cost-effective in that it simultaneously satisfied both criteria. Moreover, it is important to understand that the expenditure of Title V funds for separation payments will probably decrease Title V liability over the long term, since every protected employee who receives a lump sum severance payment is precluded from submitting future MDA's, to which he might otherwise be entitled.

The Draft Report recommended that Congress either explicitly prohibit the use of Section 509 funds for crew consist severance; or, if its intention is to permit such use, that it require Conrail to provide an estimate of the amount of funding required. The Administration submitted a bill to the Congress on February 19, 1980, which would authorize an additional \$235 million for Title V reimbursement. Chief Counsel R. James of the FRA testified before the House Subcommittee on Transportation and Commerce on February 21, 1980 in connection with the proposed legislation. He stated that, of the \$235 million, Conrail's projected costs include \$40 million for crew consist severance. If the bill is enacted in its present form, authorization of the \$40 million will make clear the intent of Congress.



ASSISTANT SECRETARY  
FOR ADMINISTRATION

OFFICE OF THE SECRETARY OF TRANSPORTATION  
WASHINGTON, D.C. 20590

March 3, 1980

Mr. Henry Eschwege  
Director, Community and Economic  
Development Division  
U.S. General Accounting Office  
Washington, D.C. 20548

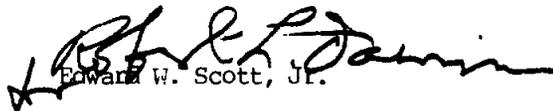
Dear Mr. Eschwege:

We have enclosed two copies of the Department of Transportation's (DOT) reply to the General Accounting Office (GAO) report, "Conrail Needs To Improve Its Use Of Labor," dated January 31, 1980.

DOT agrees with the GAO findings that Conrail labor costs are considerably higher than those of other railroads, and that if Conrail is to become financially self-sustaining it must reduce labor costs.

If we can be of further assistance, please let us know.

Sincerely,

  
Edward W. Scott, Jr.

Enclosures



- The progress to date in integrating personnel and operations of Conrail's predecessor roads.
- The history of Florida East Coast's elimination of the dual basis-of-pay rule in order to show the difficulties encountered and thus possibly provide a better indication of its applicability to Conrail.

Also, it would be useful to the reader if the estimates of total net savings to Conrail for all labor productivity changes enumerated in the report were presented in tabular form. Further, we suggest the use of the labor productivity measures such as net ton-miles per employee and net ton-miles of traffic per total employee hours worked be qualified. These measures represent the consequences of many different changes in railroad operations, such as capital improvements possibly involving new technology.

Single copies of GAO reports are available free of charge. Requests (except by Members of Congress) for additional quantities should be accompanied by payment of \$1.00 per copy.

Requests for single copies (without charge) should be sent to:

U.S. General Accounting Office  
Distribution Section, Room 1518  
441 G Street, NW.  
Washington, DC 20548

Requests for multiple copies should be sent with checks or money orders to:

U.S. General Accounting Office  
Distribution Section  
P.O. Box 1020  
Washington, DC 20013

Checks or money orders should be made payable to the U.S. General Accounting Office. NOTE: Stamps or Superintendent of Documents coupons will not be accepted.

**PLEASE DO NOT SEND CASH**

To expedite filling your order, use the report number and date in the lower right corner of the front cover.

GAO reports are now available on microfiche. If such copies will meet your needs, be sure to specify that you want microfiche copies.





DEPARTMENT OF TRANSPORTATION REPLY  
TO  
GAO DRAFT OF A PROPOSED REPORT  
ON  
CONRAIL'S NEED TO IMPROVE ITS  
USE OF LABOR

SUMMARY OF GAO FINDINGS AND RECOMMENDATIONS

If Conrail is to attain financial self-sufficiency, it has to improve control of its labor costs, which are considerably higher than those of other railroads. Conrail recognizes the underlying problems that result in the high labor costs, and has embarked on a number of programs designed to reduce these costs.

A major accomplishment of Conrail has been the negotiation of an agreement with the United Transportation Union to reduce the size of train crews. Employees affected by this agreement have received separation payments from the Title V employee protection fund. GAO believes that this is not a use of the fund that was originally intended by Congress, and recommends that Congress clarify the Title V legislation on this matter.

GAO does not have recommendations for further Conrail action at this time since Conrail is taking action to improve its labor productivity. Labor productivity in the rail industry as a whole could be improved if rail industry and labor could work together to change outmoded or restrictive work rules. The impetus for change, however, must come from the railroads.

POSITION STATEMENT

The Department of Transportation agrees with the GAO findings that Conrail labor costs are considerably higher than those of other railroads, and that if Conrail is to become financially self-sustaining it must reduce labor costs. As the GAO report correctly indicates, separation payments made in connection with the crew consist agreement to protected Conrail employees do not constitute a violation of section 505(e) of the 3R Act. The Department believes that the crew consist agreement is consistent with Conrail's goals of achieving a more effective utilization of its labor force. Prohibiting Conrail from making the Title V separation payments would only hinder Conrail's efforts to reduce labor costs--the focus of the GAO report.

With respect to other matters included, we believe the report would be more complete if the following areas were discussed in greater detail:

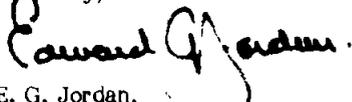
- The implications of Conrail's many unique characteristics, such as its size, the complexity of its network, and the large number of predecessor roads.

Mr. Henry Eschwege  
- Page 4 -

Conrail is committed to achieving a labor expense ratio enabling the Corporation to operate on a self-sufficient basis.

Conrail recognizes that its achievement of financial self-sustainability depends, in part, on increased productivity of both capital and human resources. Accordingly, the Corporation's current programs are designed to further reduce the labor expense-to-revenue ratio to about the industry average. To achieve this goal, despite the recognized and oft-cited disadvantages of railroading in the Northeast, will require successful conclusion of all of Conrail's current legislative, management improvement, and labor relations initiatives.

Sincerely,



E. G. Jordan,  
Chairman

Mr. Henry Eschwege  
- Page 2 -

During that period, railroad freight rates and labor wage rates both increased significantly. An examination of the trend in revenue ton miles per employee demonstrates that Conrail's improvement in the labor expense/revenue ratio primarily reflects a fundamental improvement in operations, rather than higher inflation for freight rates versus labor expenses. Comparing the years 1977 and 1979, revenue ton miles increased 6.7% and gross employee count (including passenger and rehabilitation) declined 7.5% (by 7,091 people) — producing an increase in revenue ton miles per employee of 8.9%. Moreover, excluding passenger, rehabilitation, and other reimbursable employees, the rate of improvement was 12.1%.

Labor work rules do contribute to the difference in labor productivity between Conrail and other railroads.

Because nearly all railroads operate under the same work rules, it is logical to conclude — as the draft report does — that work rules could not account for productivity differences between Conrail and other railroads. However, that conclusion overlooks the fact that the cost to a particular railroad of identical work rules will vary greatly — depending on the nature of that railroad's market structure, territory, and physical plant. A good example is the rule governing extra pay that train crews receive when delayed in leaving or entering their initial or final terminal. Clearly a terminal-intensive railroad, operating in congested urban areas and subject to trackage right operation in passenger corridors — such as Conrail — will incur far more expense as a result of this rule than a carrier with longer hauls and fewer terminals. In 1979, this single rule resulted in payment of over \$12 million to Conrail freight crews.

Conrail's use of Title V funds to pay separation allowances pursuant to the Crew Consist Agreement is consistent with both the intent of Congress and the RR Act.

Conrail strongly disagrees with the portion of the draft report which questions the use of Title V funds to sever train service employees pursuant to the Crew Consist Agreement. Section 504(a) of the Regional Rail Reorganization Act required the Corporation to assume and apply the provisions of all existing collective bargaining agreements, including those agreements which contain provisions preventing the most productive use of employees. However, Section 504(d) of the Act required that negotiation of new collective bargaining agreements commence within 60 days of conveyance.

use of title V funds to pay separation allowances to employees. They held to their belief that Conrail may use title V funds for this purpose.

We agree that Conrail is not breaking the law, but after reviewing additional legal opinions Conrail supplied and the legislative history of the 3R Act, we still believe that the Congress did not intend the funds to be used for that purpose. Moreover, we testified to that effect at a hearing of the Subcommittee on Surface Transportation, Senate Committee on Commerce, Science and Transportation, on April 16, 1980.

Conrail generally agreed with our assessment of its progress to improve labor productivity, but like USRA, disagreed with our conclusions and recommendations concerning the use of title V funds. Conrail also felt the report needed to amplify the point that labor work rules at Conrail, though the same as most other railroads, can have a bad effect on Conrail compared to other railroads because of Conrail's operating environment.

We agree that the effect of the same rules on different railroads can vary, and we have modified our report to recognize Conrail's comments.

After our work was completed, Conrail produced information showing that its ratio of labor costs to revenues decreased to 58 percent in 1979 from the 63 percent experienced in 1978. Also, Conrail data indicates that comparing the full years 1977 and 1979, revenue ton-miles per employee increased 8.9 percent.

We did not verify Conrail's figures but, if accurate, they would indicate that the actions begun by Conrail may be taking hold.

average, on Conrail. Similarly, net ton-miles per employee for all Class I railroads was 1,863 in 1978, while on Conrail it was only 1,187, or 63.7 percent of the industry average.

USRA is monitoring Conrail's employee productivity by comparing its performance with other railroads' as well as with its own performance in prior periods. In its report to the Congress on Conrail's 1978 performance, USRA stated that Conrail continues to have problems using its employees efficiently and pointed out that productivity of clerical employees, track maintenance employees, and train and engine employees were particular areas needing Conrail's attention. USRA also concluded from its analysis that, despite some cumbersome provisions, work rules do not seem to explain Conrail's productivity problems.

In January 1980 USRA completed another analysis of Conrail's productivity. In its report, USRA observed that some of the disparity between Conrail and other carriers might be attributed to the nature of the territory served, as the district Conrail operates in has suffered a decline in rail traffic over the years, and it is more difficult to maintain and improve productivity levels in a declining environment than in a growing one. However, USRA said the variance between Conrail and other railroads is so pronounced that other factors should be considered as contributing to Conrail's high cost of operations. USRA stated that consolidation of yards and elimination of operating constraints should be high among Conrail's priorities and continued emphasis on improving operations within terminals is also needed. USRA concluded that some improvement is apparent in some Conrail productivity measures but that Conrail still has a long way to go.

#### CONCLUSIONS

Control of labor costs will be a key factor in determining how much additional Federal funding Conrail will need. The programs begun by Conrail are a good start but will have to be pursued aggressively. Because of its large number of terminals, and other operating constraints, Conrail is subject to factors that hamper its productivity. Conrail can improve its productivity, but progress will depend on its success in negotiating changes to collective bargaining agreements, introducing better systems for managing its human resources, and continuing to make physical improvements to its facilities.

A key part of Conrail's program to control its labor expenses is the successful implementation of the agreement

In 1978 Conrail started to look for ways to improve productivity in its Stations Department. It estimates that through a combination of improvements to systems and changed work methods, it can eliminate almost 300 positions by the end of 1979 and another 250 in 1980.

#### Maintenance-of-Way Productivity Improvement Program

USRA has expressed concern about the low productivity among the employees engaged in track rehabilitation and maintenance work. In the fall of 1978, Conrail formed an interdepartmental task force to recommend actions which would improve its overall maintenance-of-way effort.

The task force confirmed that improvement was needed and found that Conrail could make changes to increase productivity, such as improving hiring practices and work rules, lengthening work stretches, and having top management review personal performance measures.

In 1978 Conrail started to take specific actions to improve the productivity of its rail gangs, including increasing the number of supervisors, providing additional training for supervisors, and planning the work better.

Conrail records show that productivity has improved. In 1979 Conrail gangs installed about 0.41 track-miles of rail per 8-hour day, compared to 0.32 miles a day in 1978. The number of ties installed per day has also increased, from 313 per day in 1978 to 418 in 1979, and the miles of track surfaced per 8-hour day increased from 0.51 in 1978 to 0.60 in 1979.

#### OTHER PROGRAMS

In addition to the benefits Conrail expects from simplifying its labor agreements, implementing the crew consist agreement, and more effectively managing its operations, it is also mandating employment reductions in both transportation (train operations) and equipment maintenance. In transportation, Conrail's goal is to reduce employment by 4 percent in 1979, 4 percent in 1980, 2 percent in each of 1981 and 1982, and another 1 percent in 1983. In the area of equipment maintenance, Conrail has mandated a 3-percent per year employment reduction.

Conrail also expects continuing track and roadbed rehabilitation to reduce transportation labor costs because speeds will be higher and there will be fewer delays. This

TIP began with a study of terminal operations. In early 1978 Conrail completed the study and found some significant problems in its terminal operations. In particular, the study revealed a need to improve various aspects of supervision, improve employee morale, provide better data to terminal managers, and maintain better discipline of the work force.

Conrail then launched its program to correct these problems, central to which was the formation of TIP teams composed of field and headquarters management. The TIP teams went to 28 terminal areas and observed how yard crews were being used. Then they planned how the crews could work more effectively. The teams also considered whether changes to labor agreements or particular physical improvements were needed. After the TIP teams finished their study, the results were presented to local management for its review, concurrence, and implementation.

So far, TIP has covered 1,800 yard and local freight crews in 270 yards in 28 terminal areas. Another 230 crews at 14 other locations will be covered by May 1980. Conrail estimates that crew reductions of 200 to 300 a day have been achieved as a result of TIP, saving between \$25 and \$35 million per year in crew costs. Some of the decline in the number of crews is caused by less traffic--between August 1977 and August 1979, the number of cars dispatched in Conrail yards decreased 11.8 percent--but some crew reductions are the result of increased productivity. Between August 1977 and August 1979, the number of cars dispatched in the yard per crew hour increased 2.8 percent. Conrail thinks it can continue to make further productivity gains as additional measurement and control systems are implemented in its terminals.

#### Car Repair and Inspection Productivity Project

Functions performed at major yards include inspecting cars for defects as they are processed through the yard and making light repairs to cars when needed. Conrail studied these operations and found that productivity was low. As a result, in early 1979 Conrail started the Car Repair and Inspection Productivity Project (CRIPP). The objective of CRIPP is improved inspection and light repair productivity through employee training, work planning, improved methods, more effective supervision, and improved facilities.

CRIPP is being implemented in phases and by late 1980 will be operational in 17 of Conrail's most important yards. To date, the program has produced mixed results at the three

by offering certain trainmen the right to sever their employment with Conrail and by paying these employees a separation allowance from funds authorized under title V of the 3R Act.

In our opinion, these payments do not violate the provisions of title V as long as they are made only to employees who are protected under the terms of the 3R Act. However, these are not the kinds of payments the Congress contemplated when it enacted this legislation because they do not arise from events directly related to the formation of Conrail, but from subsequent actions.

The legislative history of title V viewed as a whole and in relation to the rest of the 3R Act seems to indicate clearly that the Congress was concerned with the immediate impact of the rail reorganization and the formation of Conrail, and not with funding employee dislocations that might result from future actions such as the crew consist agreement. For example, Senator Hartke, the main supporter of title V, said:

"[title V] is simply a detailed remedy for what will happen to the individuals who lose their jobs and suffer displacement as a result of the massive restructuring of the Northeast and Midwest railway sections." 119 Congressional Record 40707 (1973).  
(Emphasis added.)

Nowhere in the legislative history did we find any indication that title V was intended as the permanent funding mechanism for all future employee dislocations.

The Congress originally authorized \$250 million for the protective account established by title V. While it was generally recognized that more money might eventually be needed, many members felt that the \$250 million would be sufficient, or nearly so, to fund the entire title V program. As of February 1980, the \$250 million had been spent. Conrail has estimated that it will charge the protective account approximately \$60 million for separation allowances resulting from the crew consist agreement--nearly 25 percent of the entire original authorization.

are represented by the United Transportation Union, which signed agreements with Conrail on August 30, and November 2, 1978, to provide a mechanism for negotiating a single collective bargaining agreement. This agreement provided for negotiations to continue between Conrail and UTU through December 15, 1978. If an agreement had not been made by December 15, Conrail and UTU were to select a third party to help them bargain on the issues. If agreement still had not been reached by March 15, 1979, the third party was to settle the issues by July 1, 1979, and the contract was to take effect September 1, 1979. The agreement further provided that in the event Conrail and UTU could not agree on the appropriate third party, the selection would be made by the National Mediation Board. In return for this agreement, a wage and benefit package was given to the UTU membership.

After this agreement was signed, UTU took the position that the various deadlines did not start until Conrail furnished UTU with information on the cost of certain work rules. This was done in April 1979. Conrail initiated a legal challenge of UTU's interpretation board but dropped this effort after it appeared further delays would occur. Completion of the single collective bargaining agreement for firemen and trainmen is now scheduled for May 1980. It would replace 43 separate agreements that exist now.

Conrail believes negotiation of a single collective bargaining agreement for each craft is important because it enables uniform work rules to be established throughout the system, which greatly simplifies the administration of the contracts. Local management, for example, has one set of rules to administer at any given location instead of the multifarious rules that previously existed.

While Conrail's agreement with UTU to reduce the size of crews on certain trains was the most publicized work rule change incorporated into the new agreements, some other changes were made as well. These included 2-year entering rates for almost all nonoperating employees, as compared to 1-year rates in national agreements, and reduction in sick pay costs by eliminating pay for the first day of illness and/or paying 90 percent or less of daily wages.

Although these kinds of changes are not as sweeping as changing the crew consist rule or the dual basis of pay rule, they still can provoke controversy. For example, Conrail negotiated a new single collective bargaining agreement with the Brotherhood of Locomotive Engineers (BLE) which included provisions to reduce certain arbitrary payments. However, this agreement caused problems because some train members

## CHAPTER 3

### CONRAIL'S PROGRAMS TO IMPROVE

#### ITS LABOR COSTS AND PRODUCTIVITY

As discussed in chapter 1, there are a number of reasons why Conrail has relatively high labor expenses. Most of these reasons, such as the large number of yards and terminals, the poor physical condition of the railroad, the need to improve management controls, and the need to improve working agreements with employees, are problems Conrail can correct over a period of time.

Conrail can improve its productivity by completing its current negotiations to extend the crew reduction agreement and by completing negotiations for single collective bargaining agreements with all employee organizations as soon as possible. It must also continue to emphasize productivity improvement and maintain stringent controls over employment levels.

Conrail also recognizes its need to reduce its labor cost percentage. In its 5-year business plan dated March 15, 1979, Conrail said,

"\* \* \* it is critically important to the railroad's drive for economic self-sufficiency--and the ability to compete for profitable business--that labor costs be reduced, relative to total revenues."

Conrail's goal is to reduce its labor expenses, as a percentage of revenues, to 51.4 percent in 1983 mainly through

- negotiated improvements to collective bargaining agreements,
- programs to improve management control of operations,
- continued improvement of the physical condition of the railroad, and
- mandated force reduction.

Conrail expects that these actions will significantly improve its productivity and enable it to reduce its employees from 89,500 in June 1979 to a little over 74,000 in 1983. In addition, Conrail thinks that if the industry is deregulated, its employment could be reduced to about 69,000 employees in 1983. Under deregulation, Conrail could reduce

On the other hand, the results also show that FEC employees make much less than employees of other railroads. Also, FEC, unlike many railroads, is located in a growing area and has a relatively simple single line operation. More importantly, FEC's work rule changes involved years of labor strife.

Even though FEC's experience indicates that eliminating restrictive work rules can ease railroad productivity problems, other evidence indicates that, given the right circumstances, efficient operation within the present work rule structure is possible. A prominent example is the Southern Railway. The Southern's work rules are substantially the same as all other railroads, but its labor productivity is higher. Information supplied by Southern Railway officials and USRA's Director of Productivity Analysis indicated that the Southern's higher productivity is due to several factors. Its location in the fastest growing regional economy in the Nation is a big factor. One of the axioms of railroading is that it is easier to improve productivity when volume is increasing than it is when it is decreasing. The Southern is in this situation, while Conrail is not. Another reason for the Southern's efficiency is the condition of its facilities. It has no deferred track maintenance; relatively new yards; and a minimum of underutilized, nonessential, or obsolete facilities. In contrast, Conrail, despite spending millions rehabilitating its plant, still has many inefficient and run-down facilities. Finally, the Southern's management was able to function in an atmosphere free of the bankruptcy-related crises that characterized Conrail's predecessors. Consequently, it could devote more attention to managing on a long-term basis rather than having to solve crises.

In the past, the Government has not actively encouraged the rail industry to seek work rule changes that would increase labor productivity. However, in May 1979 DOT proposed legislation designed to improve the environment for effective use of labor in the rail industry. This bill would authorize DOT to loan funds to a railroad to pay up to 100 percent of payments to employees who suffer financial loss due to a change in work rules or operating practices designed to improve system productivity.

## CONCLUSIONS

Although outmoded and restrictive work rules are probably hindering the overall productivity of the rail industry and are certainly a factor in Conrail's low

at \$500 million to \$1 billion a year. The task force conceded that it is extremely difficult to attach an accurate dollar figure to the impact of restrictive work rules. Even so, there is evidence that change is needed.

As the following table shows, since the Florida East Coast Railway eliminated its restrictive work rules, it has been able to improve its financial and operating results dramatically compared to the rest of the industry. Its business and service have increased and transportation expenses (the cost to operate trains) as a percentage of revenue declined, producing earnings that were invested in rebuilding the railroad.

those found in the non-operating sector: specifically those preserving the distinctions among shop trades. The nature of rail shop work has changed to the point that the work can be more efficiently performed by 'composite mechanics,' but the continued existence of six independent non-operating craft unions is a strong force for the preservation of traditional trade classifications and task differentiation \* \* \*."

We spoke with officials in the rail industry who agreed. However, negotiated solutions are difficult since they would tend to shift membership among competing unions as well as cut total shop craft employment.

#### EXAMPLES OF PAY COMPUTATIONS

Earlier in this chapter we noted that a chief criticism of the compensation system for railroad employees is its complexity. The following examples illustrate the effect of the dual basis of pay and constructive allowances or earnings.

##### Example 1

On August 4, 1979, the employee, a through freight trainman, was on the crew of a train which went from Collinwood, Ohio, near Cleveland, to Erie, Pennsylvania, a distance of less than 100 miles. The trip took 6 hours and 15 minutes including a 30-minute excess delay in entering the Erie terminal area. The employee received a basic day's pay of \$63.47 plus a final terminal delay payment of \$3.97 for a total of \$67.44.

The following day, the employee deadheaded (returned not as a crew member) back to Collinwood. He received a day's pay of \$63.12 for the deadhead, which is considered a constructive allowance. After returning to Collinwood, the employee was a brakeman on a train which went from Collinwood to Frontier Yard, New York (near Buffalo), a distance of 200 miles. The trip took 7 hours, 45 minutes, including a 1-1/2 hour delay in leaving Collinwood. The employee received another day's pay of \$61.52 plus \$55.82 for 100 overmiles and a payment of \$11.54 for the initial terminal delay in Collinwood. His pay for the day totaled \$192.

On August 6, the employee deadheaded back to Collinwood. He received \$60.52 for his base pay, plus \$54.82 for 100 overmiles, totaling \$115.34 for the day.

employees which in turn have created further wage and hour disputes; the pay rules are complex, and with many components to compensation, they contribute to disputes. In short, the word which best describes the compensation structure is a mess."

The Commission recommended a number of changes to the pay system and said that the system had such serious problems it was imperative that the carriers and employee organizations start without delay to correct its deficiencies. However, the system is virtually the same now as it was then.

In the past, the carriers have suggested that the dual basis of pay rule be modified so that the overmile rate would not apply until a threshold of 160 miles is reached. However, it seems reasonable to expect that the affected employees would not accept the reduction in earnings that could occur if the rule were modified or eliminated.

One railroad that has eliminated the dual basis of pay rule is, again, the FEC Railway. When the rule was eliminated, FEC changed its operations to eliminate crew change points, which were located at 100-mile intervals, and instead of three five-men crews operating a train between Jacksonville and Miami, one two-man crew handles the 350-mile, 11-hour trip. Crews are paid straight time for the first 8 hours and overtime after that, up to the maximum 12-hour duty limit imposed by the Federal Hours of Service Act. The advantages of the change to FEC are that fewer employees are needed to do the same amount of work.

### Arbitraries

Also called constructive allowances, arbitraries are additional miscellaneous payments to labor for extra work or hardships endured on the job. They are commonly used by the railroad industry to encourage labor to accept technological innovations or changes in working practices.

Some of the constructive allowances are common to many railroads; others differ from one railroad to the next. Some of the more common constructive allowances are:

1. Air hose coupling. This allowance is paid to conductors and switchmen when they are required to couple or uncouple air hoses connecting cars. The amounts paid per tour of duty vary by agreement, but can be as much as one hour's pay.

collective bargaining developed the "dual basis of pay" which computed pay based on both hours worked and distance traveled.

While the dual basis of pay had been adopted for train and engine service personnel on many railroads in the early 20th century, during World War I the Director General of Railroads standardized many of the existing compensation rules and made them effective nationwide.

The dual basis of pay rule states, for freight service, that:

1. In all classes of road service, 100 miles or less, 8 hours or less (straightaway or turn-around) shall constitute a day's work; miles in excess of 100 will be paid for at the mileage rates provided according to class of engine or other power used.
2. On runs of 100 miles or less, overtime will begin at the expiration of 8 hours; on runs of over 100 miles, overtime will begin when the time on duty exceeds the miles run divided by 12-1/2. Overtime shall be paid for on the minute basis, at time and one-half, according to class of engine or other power used.

The following two examples illustrate the main features of the dual basis of pay.

Example 1: Trainman completed run from Selkirk Yard, New York, to Dewitt Yard, New York, a distance of 146 miles, in 4.75 hours. His pay is computed as follows:

Base daily pay for through freight trainman, less than 81 cars on train	\$60.87
46 "overmiles" @ \$0.5517 per mile	<u>25.38</u>
Total	<u>\$86.25</u>

Example 2: Trainman completed run from Greenwich Yard in Philadelphia to Enola Yard near Harrisburg, a distance of 130 miles, in 12.75 hours. His pay is computed as follows:

"The most counter-productive of the remaining work-rule restrictions is apparently that which requires a conductor and two brakemen on most trains \* \* \*. Flexible crewing would enable the railroads to operate 75% to 95% of all runs safely and efficiently with one brakeman rather than two. Additionally, it is not unreasonable to suggest that something like 20% to 40% of all runs could be operated safely and efficiently with no brakemen, and 15% to 30% of all runs could be safely operated without a conductor (that is, with only an engineer)."

Arguments for changing the crew consist rules include:

- Conductors are no longer needed in many instances because computers have eliminated the need for ontrain paperwork which the conductor traditionally handled.
- Technological improvements in the form of more reliable wheel bearings, hot-box detectors, signal and interlocking systems, radios, and location-passing detection systems have reduced or eliminated the need for a lookout at the end of the train.
- Smaller size crews would provide an incentive for railroads to operate shorter, more frequent trains, leading to better service and more revenue as railroads attract additional business and handle it more efficiently.

Some railroads have shown that crew sizes can be reduced without affecting safety. For example, the Florida East Coast Railway (FEC) operates its road freight trains with only two persons in the crew and its yard trains with either two or three persons in the crew, and it has maintained one of the best safety records in the industry.

FEC has also demonstrated that other benefits are possible through reducing crew sizes. For example, FEC found it profitable to operate shorter, more frequent trains with the reduced crews and now operates about three times as many trains as it did in 1960. It believes the improved service has enabled it to capture new business and at the same time increase efficiency and productivity, including greatly improved use of equipment. Also, reducing the

the changes DOT proposed is to have the Government encourage work rule revisions by authorizing Federal loans to a railroad to make payments to employees who suffer financial loss due to a change in work rules or operating practices which are designed to improve system productivity. Such action by the Government could provide the catalyst for change.

WORK RULES: WHAT  
ARE THE CRITICISMS?

Work rules developed over the last 100 years from long-established practices and habits, collective bargaining agreements, decisions of courts and tribunals, and Federal and State legislation. The Federal Government also played an important role. Work rules were codified and standardized by the Director General of Railroads when the railroads were under Government control during and after World War I (1917-20); the first national labor agreements were also established during this period. After that, work rules were not changed substantially for 50 years. In 1971 and 1972, rules distinguishing between road and yard work were changed and a dispute involving the use of firemen on diesel locomotives was settled.

Over the past 20 years several studies have concluded that a real need exists to change some of the outmoded work rules and complicated pay systems under which the rail industry operates. For example, the Presidential Railroad Commission said in its 1962 report:

"\* \* \* the system \* \* \* under which the industry has operated for the past 40 years has not been sufficiently flexible to permit many changes in manning and assignments which are appropriate in the light of the technological and economic revolutions that have taken place \* \* \*.

"The study and deliberations of the Commission have led us to the conclusion that some rules should be eliminated; others require substantial revision; and several situations have been exposed in which modernization requires an entirely new set of rules or practices."

Eleven years later, in 1973, the National Commission on Productivity and the Council of Economic Advisers came to virtually the same conclusion in their report "Improving Railroad Productivity." They said:

This analysis shows that Conrail spends more on track maintenance than other railroads and its yard train and engine costs are higher. In addition, high payroll taxes indicate a relatively larger number of employees. In chapter 3, we discuss what Conrail is doing to correct these problems.

#### SCOPE OF REVIEW

We reviewed Conrail's activities and programs for improving its labor productivity, including its progress in negotiating new collective bargaining agreements and its implementation of programs to better manage its labor force. We did not attempt to evaluate the quality of the collective bargaining agreements between Conrail and the employee organizations.

During the course of our work, we discussed Conrail's labor improvement activities with Conrail officials at the Philadelphia headquarters and at other Conrail locations in Harrisburg, Altoona, and Hollidaysburg, Pennsylvania. We also reviewed various Conrail management plans and other available transportation studies. We made this review in 1979.

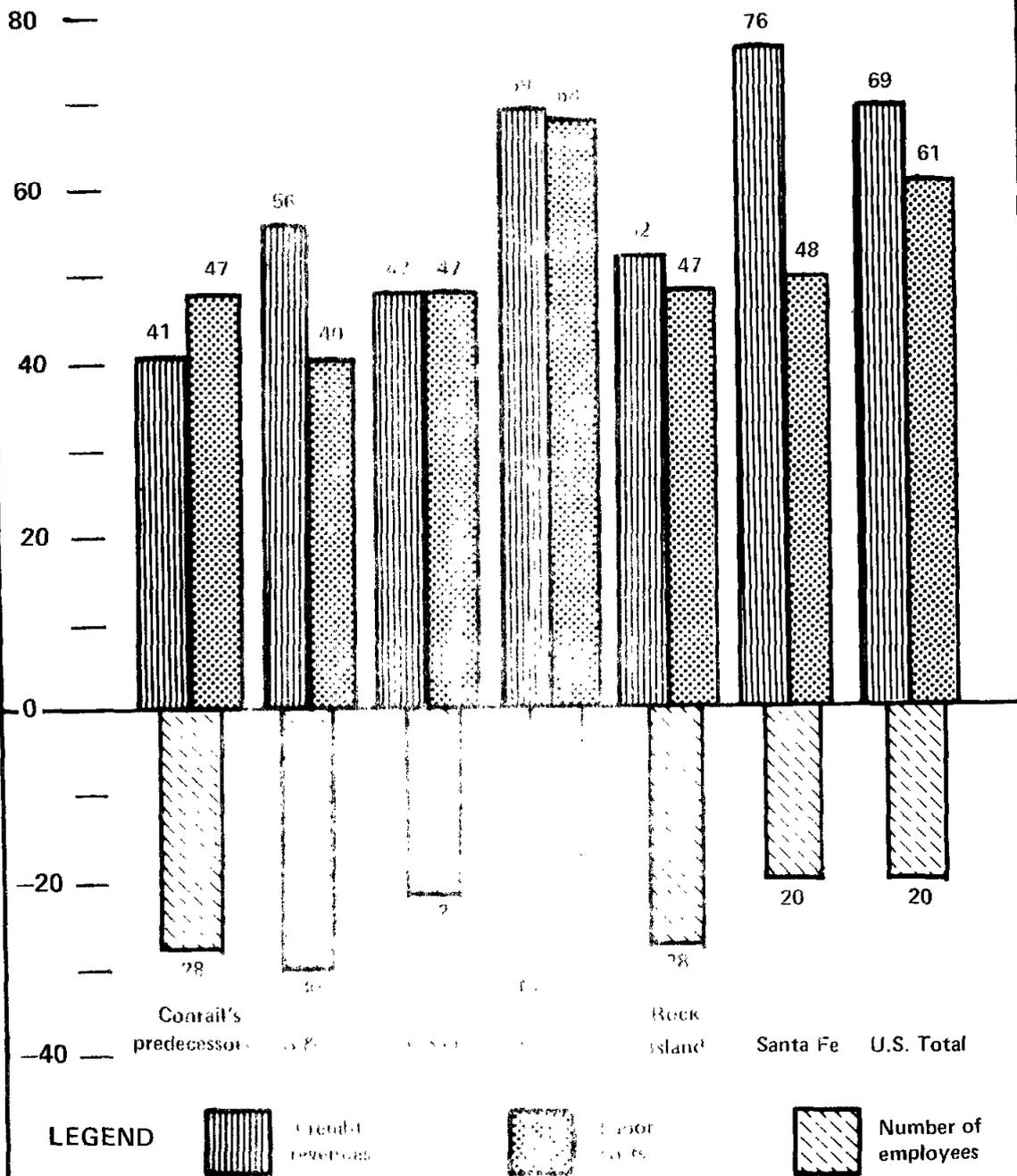
We also obtained information on how collective bargaining takes place in the rail industry and some specific problems that have been a matter of controversy industrywide for a number of years. In doing this, we interviewed representatives of the Sante Fe and Rock Island Railroads in Chicago, Illinois; the Southern Railway in Washington, D.C.; and the Florida East Coast Railway in St. Augustine, Florida. We also conferred with the Association of American Railroads and the National Railway Labor Conference, both in Washington, D.C., and the United Transportation Union in Cleveland, Ohio.

USRA has indicated that Conrail has relatively more train service employees (train crews including engineers, conductors, etc.) than other carriers, which increases its operating costs. Also, USRA's Director of Productivity Analysis pointed out that the multiple work rule agreements Conrail inherited in some areas have contributed to its high labor costs. Chapter 2 discusses problems with work rules and the prospects for changing some of them.

Following is an analysis which compares Conrail's labor costs to the entire industry for 1978.

**COMPARATIVE CHANGES  
IN REVENUES, LABOR COST, AND NUMBER OF EMPLOYEES  
FROM 1967 TO 1975 FOR CONRAIL'S PREDECESSORS,  
U.S. TOTAL, AND SELECTED RAILROADS**

**PERCENTAGE  
CHANGE**



of revenues. If Conrail's labor expenses had been only 51 percent of revenues in 1978, Conrail would have lost \$289 million rather than the \$678 million it reported to ICC.

If Conrail is to become profitable within the current limits of the Federal investment, it has to reduce its ratio of labor expenses to revenues to a level more in line with other railroads. Conrail recognizes this and has formulated programs which it believes will enable it to reduce its labor expenses to 51.4 percent of revenues in 1983.

CONRAIL CONTINUES TO HAVE  
HIGHER LABOR COSTS THAN THE  
REST OF THE INDUSTRY

For many years, Conrail's predecessors had much higher labor costs than the rest of the industry. For example, in 1950 and 1955 Conrail's principal predecessors had combined labor costs of about 55 percent of revenues while the entire industry's labor costs were only about 49 or 50 percent of revenues. In subsequent years the gap widened, and by 1975 Conrail's predecessors' labor expenses amounted to 63 percent of revenues, compared to an industry average of 52 percent. The following table compares Conrail's predecessors to some other railroads for the years 1967-75.

Average Annual Percentage, Total Labor Costs  
to Total Revenues, 1967-75

<u>Railroad</u>	<u>Percentage</u>
Conrail's predecessors	60
Baltimore and Ohio	46
Chesapeake and Ohio	54
Norfolk and Western	46
Rock Island	51
Santa Fe	52
U.S. Average	52

A 1972 report by the Senate Committee on Commerce on its investigation of the bankruptcy of the Penn Central (Conrail's principal predecessor) placed much of the blame for the railroad's high labor costs on management's failure to control employment levels:

"Available indicators point to relatively inefficient labor utilization by the two companies [the Pennsylvania Railroad and the

CHAPTER	<u>Page</u>
Productivity improvement programs at repair shops and facilities	31
Improvements in clerical productivity	31
Maintenance-of-Way Productivity Improvement Program	32
Other programs	32
What are the results?	33
Conclusions	34
Recommendations to the Congress	35
Agency comments and our evaluation	35

APPENDIX

I	Letter dated March 24, 1980, from the Chairman and Chief Executive Officer, Conrail	37
II	Letter dated March 3, 1980, from the Assistant Secretary for Administration, Department of Transportation	41

ABBREVIATIONS

BLE	Brotherhood of Locomotive Engineers
Conrail	Consolidated Rail Corporation
CRIPP	Car Repair and Inspection Productivity Project
DOT	Department of Transportation
FEC	Florida East Coast Railway
FRA	Federal Railroad Administration
GAO	General Accounting Office
ICC	Interstate Commerce Commission
TIP	Terminal Improvement Project
USRA	United States Railway Association
UTU	United Transportation Union

## AGENCY COMMENTS

The Department of Transportation, the United States Railway Association, and Conrail all generally agreed with GAO's assessment of the importance of improved labor productivity both to Conrail and to the entire railroad industry. However, Conrail and the United States Railway Association disagreed with GAO that Conrail's use of title V funds to pay separation allowances to employees who sever their employment with Conrail as a result of the agreement to reduce train crew sizes is not consistent with the intent of the Congress.

GAO has reviewed the history of this legislation and still believes that the Congress intended title V funds to be used only for actions tied directly to the formation of Conrail. Crew size agreements are not in that category.

Conrail stated that in 1979 its ratio of labor costs to revenues improved to 58 percent, down from 63 percent in 1978. GAO did not verify Conrail's latest figures but, if accurate, they indicate that Conrail's productivity improvement programs seem to be taking hold. (See pp. 35 and 36.)

improve the management of terminal operations, car inspection, repair activities, and major shops to improve the productivity of track maintenance and clerical employees. In addition, Conrail has placed ceilings on employment levels.

These actions have resulted in labor cost improvements. In 1978 Conrail's percentage of labor expenses to revenues declined to 63 percent from 66 percent in 1977.

Conrail's labor productivity--the outputs produced per unit of labor--also improved. For example, traffic handled per employee increased by 3.9 percent between 1977 and 1978. However, based on industry criteria, Conrail's productivity is still considerably below the industry average. For example, in 1978 the net ton-miles of traffic moved on Conrail per labor-hour was only about 57 percent of the industry average, and the amount of traffic moved per employee on Conrail in 1978 was only 64 percent of the industry average. (See p. 34.)

#### THE RAILROAD INDUSTRY'S WORK RULES NEED TO BE IMPROVED

Work rules--the labor contract provisions that govern how railroads use and pay employees--are an industrywide problem. Some work rules, such as those specifying the minimum train crew size and establishing the minimum work day as either 8 hours or less, or 100 miles traveled or less, have been studied and debated for years. Despite evidence that changing the rules would increase industry productivity, labor and management have not been able to agree on how to make the changes.

The primary initiative for work rule changes will have to come from the railroads, but the Government could encourage changes through legislative initiatives. The Department of Transportation made a start in this direction in May 1979. The Department proposed legislation that would authorize loans to railroads to pay up to 100 percent of payments to employees who



