Rail facts: How a competitive rail industry can promote job growth

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The nation's freight railroads are in national bargaining with three coalitions comprised of 13 1abor unions representing 145,000 employees; the industry is currently in federal mediation with all three labor coalitions. This article is part of a series related to aspects of the current bargaining round, including wages and health care benefits, as well as the economic factors impacting the railroads during this round.

Employment rates and job growth are central in any discussion about the U.S. economy. Here's a point to consider: As with any industry, when it comes to the nation's freight railroads, the best way to preserve jobs and encourage job growth is to ensure a strong industry.

As you probably know, this bargaining round began in earnest in 2015, with the railroads and unions primarily focused on wages and health care costs. The outcome of these discussions will have a significant impact on the railroads' ability to compete in a challenging marketplace.

The parties are discussing a number of crucial questions, like what wage increase levels should be over the next several years that rightly compensate our employees, while ensuring the industry remains competitive in a rapidly changing environment? And what is the appropriate level of employee responsibility for their health care costs that also maintains industry competitiveness relative to other modes that are not facing commensurate cost increases?

Review of wages

During the past two rounds, which concluded in 2007 and 2012, rail industry performance was such that we were able to appropriately share in the value of that performance with our employees resulting in a 42 percent increase in pay over the past decade, at twice the rate of inflation. That was the right thing to do, but railroads are facing a much different economic environment today. While we believe there should be wage increases in the current negotiation, we cannot sustainably remain at the level of the last two rounds. We are pleased that our employees are well-compensated, but the realities of the rail industry today and the outlook require us to be realistic toward what is achievable.

Review of health care costs

The increasing cost of health care across our country is a significant problem. When the levels of annual cost increases are added to the existing medical plan for scheduled employees, it is not sustainable and is a threat to our future competitiveness and growth. Since 2014, health care costs per employee covered under the bargaining round have increased more than 30 percent. As a result, railroads will pay $2.3 billion for health care benefits in 2017. In this bargaining round, we must achieve real progress in lowering the actual cost. This is not an effort to scale back the quality of health care employees receive. We cannot support these increasing levels of cost indefinitely and continue to be competitive as an industry.

The competitive landscape

While these and other issues continue to be discussed, labor unions and railroads know that they must come up with a practical resolution that strikes a careful balance -- one that fairly compensates employees for their service in an essential and demanding industry, and at the same time helps railroads remain competitive in the long-haul transportation market in a tough and evolving economic environment.

These two objectives go hand-in-hand. Keeping rail wages and health care benefits competitive helps employees, of course, while it also enables railroads to attract and retain talented, dedicated employees for demanding jobs. At the same time, controlling costs helps rail companies remain agile in a changing marketplace.

This cost control is especially important in today's economic environment. A prolonged industrial recession has had a significant impact on the U.S. rail industry. At BNSF, in 2016 we moved half a million fewer units than in 2015, representing 5 percent of our business. We experienced declines especially in three important commodities - coal, crude oil and international intermodal –which together represent about 40 percent of our total volumes.

And, while we worked hard to capture new business where it existed and control expenses- and achieved success on both fronts- these efforts did not keep up with the dramatic drop in volumes and revenues. We've talked before about the tough decisions we've had to make in this environment. Non-seasonal furloughs of scheduled employees peaked at about 5,000 early in 2016 and dropped to about 2,700 by the end of the year. In 2016, we also reduced salaried headcount by about 9 percent, primarily through attrition and some restructuring. In this tough environment, job impacts at several other railroads were more dramatic.

At the same time, trucking companies continue to lower their transportation costs- and costs will continue to fall as technologies like truck platooning and autonomous/driverless operations increasingly take hold. Railroads must preserve a competitive cost structure to maintain and grow the business, while also having the capital needed to invest in the rail network and sustain and grow the workforce.

Staying competitive helps preserve jobs and promote job growth

So what factors help preserve jobs and drive job growth? While there are many perspectives, most economists and policymakers agree on the following:

- **infrastructure investment**- Building roads, bridges and other infrastructure creates jobs. In the U.S. freight rail industry, this has special resonance since railroads invest billions of dollars every year to maintain and expand their own infrastructures. The important caveat is that spending on expansion needs to be the right investment at the right time, where it will lead to potential growth in business.

- **Efficiency** - Companies that operate efficiently are more nimble and effective. in meeting customers' needs and in capturing and handling growth. Business volumes typically go to low-cost providers. High productivity drives a virtuous cycle that helps preserve jobs in challenging economies and fosters job growth in favorable economies.

- **Appropriate wages** - Wages must position companies to be able to price their services competitively and continue growing, and wage increases must be reflective of market forces. There are numerous examples of companies in other mature industries -- including airlines, auto manufacturers and steel producers --where continued outsized wage growth undercut their ability to compete, ultimately leading to severe job cuts, bankruptcies and/or closures.

The bottom line is that a financially healthy rail industry will be better able to remain agile and capture opportunities in the transportation marketplace. Rail customers are seeking safe, reliable service on an efficient network at a fair price, and railroads must be able to provide that to compete in a tough environment. **The best way to preserve rail jobs and encourage job growth is to ensure a strong rail industry.**

In the end, during the current bargaining round, the parties must come together to be more responsive, efficient and nimble than ever. That means we must reach an agreement that addresses the new and still changing economic landscape in the rail industry.

For more information on the current rail bargaining round and related industry topics, go to **www.raillaborlacts.org.**

BNSF Headquarters
2650 Lou Menk Dr
Fort Worth, TX 76161-0057