

SECRETARY'S ADDRESS TO THE WICHITA CHAMBER OF COMMERCE LUNCHEON

March 30, 1973

It's a pleasure to be here in Wichita. On the many times I've visited here before I have looked at your city from the eyes of the oil industry. Today I'm looking at your important role in transportation--especially in aviation and rail. Also, I have to admit it's a pleasure to escape for a day from Washington.

I'd like to take a few minutes to discuss some of the key issues that are before the Nation today.

Of immediate interest are the recommendations that we submitted to Congress this week to deal with the Northeast rail crisis. Although the Northeast may seem like it's a couple thousand miles away, our recommendations are of far reaching importance to all the Nation's rail systems--including those that pass through Wichita.

Our key conclusion is one of optimism. We are confident that railroads can survive in private hands--that they can be operated efficiently--and that they can show a profit. Most importantly, we have concluded that the Nation's private enterprise rail system, while suffering under many long-term

burdens, is neither dead nor dying. Despite the serious problems in the Northeast, many healthy rail companies are doing well and, with the surge in agricultural shipments, showing signs of good growth ahead. We believe that with prompt corrective action the overall system can be restored to its role as an efficient carrier of large quantities of freight, as well as providing rail systems for AMTRAK's passenger service.

Without question we face a short-term rail crisis in the Northeast. Six of the rail carriers in that area are in bankruptcy, and the major one--the Penn Central--is on the verge of Court ordered liquidation. Yet we believe rail nationalization is unnecessary and would solve little, except perhaps hide some of the short-term Northeast area problems under the bed of the Federal budget. Experiences elsewhere have made it abundantly clear that nationalization only means increasing subsidies and declining resource efficiency-- something our Nation can ill afford. NE nationalization would both strain the Nation's budget and be the first step toward eventual Federal control of all rail road

The true solution to the Northeast rail problem must begin with two actions--streamlining railroad service and revising out-of-date regulatory policy.

We have recommended a streamlining process along the following lines. Using freight and passenger traffic forecasts, the Department of Transportation would select a Core Rail Service for the Northeast region. The service would be based on the concept of long-term economic efficiency in the use of transportation resources.

Enabling legislation would authorize the establishment of a new for-profit private corporation, whose Board of Incorporators would select the assets from the Northeast's bankrupt carriers that are needed to provide the Core Rail Service and other services deemed desirable.

The six bankrupt railroads would be permitted to terminate (but not abandon) rail service not included in the Core System. The new corporation would also afford viable railroads the opportunity to provide for the continuation of service not included in the Core by compensating either the bankrupt roads or the new corporation.

The corporation would then proceed to design in specific details one or more rail system in the Northeast based on the Secretary's Core selections. The Board would

subsequently acquire the facilities and equipment of the bankrupt roads through negotiation with the estates and others. We believe the value of the Core assets as a going-concern would exceed their uncertain value under protracted and piecemeal liquidation. The opportunity to realize this additional value should work to encourage cooperation among the interested parties--especially displaced labor and the creditors. And we believe that the private sector stands ready to finance the streamlined operations.

While we think that this approach would lead to an eventual solution to the problem of the bankrupt roads in the Northeast, we are also concerned with the out-moded regulatory procedures which burden all railroads. In our report to Congress, we made several proposals for modernization of regulatory procedures, especially those administered by the ICC.

These proposals include:

- liberalized procedures for rail abandonment;
- increased flexibility in rate-making;
- the elimination of special freight rates for Federal, state and local governments;
- modifying the antitrust immunity of rail rate bureaus;

- simplifying mergers and encouraging the acquisition of common facilities;
- easier entry of motor and water carriers to fill gaps created by rail abandonments;
- strengthening the Bankruptcy Act to give courts authority to solve the problems caused by railroad bankruptcies.

Turning to an immediate rail problem in your area, the present shortage of freight cars is making it most difficult to move grain to export markets as rapidly as we want to. In an effort to help, we have set up, within the Department of Transportation and in coordination with the Department of Agriculture, a full time task force to work on this problem in any way possible.

Of course, we all know that our transportation system--especially the part that involves the railroads and the ports--is being called upon to move an unprecedented amount of grain. While we can't promise any miracles, we do want you to know that we are working on it and, of course, looking for ideas to see what extra can be done.

For example, we have sent specialists to work with local port people in expediting the movement of railroad cars and the loading of ships. Right now, nearly 10,000 freight cars of grain are backed-up at various ports throughout the United States. These cars face an average waiting period of four and a half days. Moreover, ships are also backed up waiting for pier space. At Port of Houston, for example, as of last Friday, 54 ships were waiting to be loaded. Obviously this is a major bottleneck. We hope to find out how to unplug it.

We are also encouraging the railroads to innovate. Over 10,000 surplus open top coal cars are now in grain service, supplementing the covered hoppers and boxcars normally used. One of the Eastern railroads has started converting coal loading piers to grain piers. The potential for such conversions could reach as high as 1,500 carloadings a day--a major addition to our port through-put capabilities.

Proper long-term solutions to problems such as these will require more than just a few expediting teams. The carriers--trucks, barges, and railroads alike--must be given the ability to market services better suited to shipper needs

and to adjust to changing carrier conditions. For the railroads, this requires greater rate making freedom-- freedom to encourage the necessary innovation--plus the ability to abandon little used lines in order to concentrate resources where they are needed. These changes are key parts of our long-term recommendations.

Looking beyond rail, let me comment briefly on some other transportation issues. While there is never any disagreement on the importance of transportation to our society, there is always a great variety of views on how our future transportation needs should be met. It's certainly no great discovery to observe that transportation changes the land around it and, in turn, is then changed by the changes. There is no more dramatic illustration of this effect on transportation than the development of much of our own Nation. How many of our cities began as "Tank Towns" and "Whistle Stops"? Or "Portlands" or "River City Junctions"? And our way of living is still being shaped by transportation. Huge shopping centers appear because of beltways and bypasses, not vice versa. Thus, we see that transportation planning and policy making is a complicated, interrelated affair.

The President has made it clear that we all must do a better job of community development. To me that translates, to a significant degree, to better transportation development. Transportation actions affect land use policies, the economy of the community, its link with other communities, and its desirability as a place to live and work. These actions also affect the comparative cost advantages of our products and, in turn, our relative positions on world trade. Then, too, we must remember the needs of the one-quarter or so of the people of our land who do not or cannot drive.

These are a few of the things we are considering as we formulate our programs to achieve a better balance in transportation. More specifically, these principles are in the 1973 Highway Bill that we are now encouraging Congress to enact. For our rural communities this Bill will mean more and better roads, safer roads, the accessibility of more people to those roads, and more availabilities to bus service. For our urban and suburban communities, it will mean a choice most cities do not now have--the flexibility to choose among highways, busways, and, if the usage is great enough, even better rail systems so that their "mix"

of transportation works more efficiently and effectively. We think these choices can best be made at the local level, where the knowledge of local priorities and abilities truly exists. This is what the 1973 Highway Bill is trying to accomplish.

I wish to stress that there is nothing in our highway proposals to take a dollar away from Interstate or rural highway development. It's worth stressing that there will be more money for rural highway projects than in previous years. The Nation has clearly done a good job in its Interstate Highway System, which is 90 percent complete, and we are pushing on to completion. But we must also bring our urban mobility up to the standards we have come to expect in Interstate travel. These moves are logical extensions of developments of recent years. The key words are "flexibility"--not inflexibility--and "intelligent resource usage"--not just using the dollars because some funding procedure says "use it or lose it." We are not trying to "Bust the Trust," but rather only see that a portion of it--about 20%--is used to its best advantage. (Handwritten notes: Not a substitute for UMTA--this will handle the big needs. Only a supplement where flexibility is appropriate.)

The highway and public transportation legislation put before the Congress is completely consistent with President Nixon's formula for dealing with many of our domestic problems. "Not higher taxes or more spending," he said in his February 2nd prelude to a series of messages on the state of the union: "not higher taxes and more spending, but less waste, larger results, and greater individual freedom and initiative."

I want to stress that these transportation programs are contained in the President's budget. They do not exceed his requests. And I would like to ask for your support for President Nixon's efforts to hold the line on government spending. He was elected by those who wanted to control inflation and did not want higher taxes. Congress' irresponsible approach to spending is making it increasingly difficult to live up to those pledges.

President Nixon has identified over 100 ailing Federal programs that need termination, reduction or reform. These program changes can save over \$10 billion in this fiscal year, and nearly \$20 billion in the next fiscal year.

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The financing of these spending increases could not be done without facing up to the need for a personal income tax increase--something none of us wants.

The budget cuts were selected only after four years of frustrating and expensive experience in trying to make these Federal programs work--and after an additional intensive study by the Office of Management and Budget.

All Federal programs were measured against this criterion: Would they justify a tax increase in order to pay for their continued operation?

The answer was "no" to over 100 activities of the Federal government.

The President's proposals, as could be expected, have generated loud protests and wild charges from the special interests who had been favored with the narrow benefits from these programs. But the President has received strong support from all those whose interest lies in national economic stability rather than in the fate of one or more narrow interest programs for which insufficient public benefits can be shown. He needs more support--yours--to give Congress the backbone to fight off the special interests.

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An interesting point in the "Budget Battle" is missed by many. The 1974 Budget is not being cut--it's actually going up from \$250 billion to \$269 billion. Spending for social programs is not being cut, it's actually going up. In 1970, 33% of the Federal Budget went for social programs and 45% went for military and veterans. In 1974 the percentages are proposed to be 42% for social programs and 35% for military--almost a reversal in 4 years. Contrary to howls of the few whose special interests are threatened it's ^{a sound} actually-a-generous budget that and treats the various needs of the Nation as fairly as possible. Inflation must be controlled and a tax increase must be avoided. These are the big issues. These are the issues we must keep before us/ and before Congress.

Thank you very much for this chance to meet with you and to reacquaint myself with Wichita.