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DEPARTMENT OF TRANSPORTATION

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Good afternoon, Ladies and Gentlemen. It is a pleasure to be with you. And let me join with the others in welcoming you to Washington.

There are many high-priority transportation issues before the Nation. Today I will talk briefly about two of the most important--the Highway Trust Fund problem and the Northeast rail crisis. In the discussion period I will be happy to do what I can to answer your questions on other transportation issues.

Last year, America's total transportation bill was some $200 billion, of which 80 percent involved highways or automobiles, either directly or indirectly.

Did our 1972 transportation system meet the Nation's needs?

Was this $200 billion properly allocated?

Though clear-cut answers are hard to come by, there is growing evidence that it did not and that the resource allocation is out of balance. And there is ample evidence that our regulatory framework--especially that administered by the ICC--is out-of-date and, at least in part, is working against rather than for an efficient, comprehensive National transportation system.

For a number of reasons, I believe that our long-term concentration on highways and automobiles--to the point where we now have 3.4 million miles of the former and 100+ million of the latter--is no longer appropriate. Highway growth properly served to tie the country together over the past 30-40 years. But inertia and vested interests now make the needed shift of direction most difficult. However, I believe that the priority demands of the 1970's and 1980's--led by problems of urban congestion, an energy shortage, and air pollution--give us little option but to find the way to make this shift.

We have been trying to help by endeavoring to provide a small measure of flexibility in the way that Federal highway trust fund dollars can be used. This has proven to be a difficult task, largely, I think, because of misunderstandings about our proposal and because of inertia in the existing system. The highway trust fund was established in 1956 by setting aside Federal fuel and certain other excise and use taxes--about half of which had previously gone into the general fund--and specifying that they were to be used for construction of the interstate highway system and to assist various local rural and urban highways. Our 1973 Highway Bill proposed that only a modest 20% of the trust fund--that part that is regularly allocated to non-interstate highways in urban areas--be available, depending upon local choices, for a variety of uses that would benefit urban transportation broadly. These uses could include the traditional highways, as well as exclusive bus lanes, traffic control systems, buses, and, in a few instances in the largest cities, even investments in rapid transit systems, including rail systems. These flexible trust fund monies would supplement but not replace the Urban Mass Transportation's capital grants. By providing this flexibility, we hope to find a way to stop the "use it or lose it" thinking that has forced cities to build highways simply because of the easy availability of the Federal dollars. We also hope to encourage much-needed intermodal transportation planning.

Our proposal has caused many cries of protest, especially from those closely related to highways. Charges that we're out to "break the trust," that we're endangering the interstate highway system, and that we're neglecting the Nation's critical highway needs have been regularly heard in Washington this winter and spring.

The controversy is most unfortunate, because when the smoke clears and the trust fund issue is looked at in a longer-term perspective, I'm quite certain that it will be widely understood to be a timely idea and entirely consistent with the purposes to which trust fund monies can be properly used.

Our proposal passed the Senate by 5 votes but failed in the House by 25. A Conference Committee is now working on a compromise bill. They've had some 30 meetings and have yet to find the way out. The worsening energy situation has made our position more understandable day by day, so perhaps we may win this one yet. The Senate has stood tough, for which I give them my thanks.

Movement of the Nation's freight by the various modes--rail, truck, water, pipeline, and air--is obviously of paramount importance to the working of our national economy. Our total intercity freight movement now exceeds two trillion ton-miles per year, and is growing steadily. Rail still has the biggest share, with about 35% of the total, water is second at 28%, pipelines are third with 20%, and trucks are fourth with some 16%. Air is less than 1%. For the last 25 years rail's share has been slipping--it was over 50% in 1950--and the share held by pipelines and trucks has been rising.

The Nation's big freight issue is the conflict between the need for the Nation to have a system that meets its requirements at the lowest possible overall cost, and a system that meets the regulators' and the courts' historic ideas of "public convenience and necessity." This conflict is increasingly producing unfortunate results, especially for the Nation's railroads. Because railroads have been delayed or even prevented from adjusting their operations to meet changing economic conditions, over half the rail systems of the Northeast are in bankruptcy and several Mid-West rail systems are perilously close. Though outdated regulatory policy can't take all the blame for this mess, I do think it deserves the lion's share.

A good (or perhaps bad) example of the regulatory problem can be seen in the data on the extent to which federal regulations affect the various competitive modes: 100% of the rail and air ton-miles are regulated, but only 40% of trucking, and less than 10% of domestic water carriers. The different degrees of regulation are bad enough, but when it's realized that the economic theory behind most of these regulations has its roots in the era of the 1890's, when rail had little or no competition, it's little wonder that we've got problems.

It's not too difficult to diagnose the causes of the regulatory problems or even to identify the major problems caused by the patchwork of regulations. The cure, however, is a different matter, for the passage of time has produced many vested interests that now prefer the status quo to the uncertainties of the world of competition.

Without question, we face a short-term rail crisis in the Northeast. Six of the rail carriers in this area are in bankruptcy, and the major one--the Penn Central--is on the verge of Court ordered liquidation in order to prevent further erosion of the creditors' estates.

A wrong approach at this point could easily start us down the road to railway Nationalization--something our Nation cannot afford and should not tolerate. Anyone who thinks Nationalization is the answer should first see what's happening in Europe and Japan.

While the Northeast has lost some of its rail freight business in recent years, the overall freight total remains quite large. Certainly it is large enough to support at least two new private sector rail systems that could be developed from the various systems owned by the six bankrupt carriers. It should also be possible, and it certainly is desirable, to continue rail competition in high-density markets. Our studies suggest that, if permitted to emerge unencumbered from the mess that now embraces the Northeast carriers, a new entity (or entities) would, in time, generate sufficient profits and be able to raise sufficient cash to finance operations and expansion. Our Bill proposes a procedure--using a quasi-public new corporation financed by some government "seed-money" and subject to public service guidelines--to get the process underway.

We are not saying that the private sector can do it all--but rather that the private sector must take the lead and do as much as it can. Once this work has been done we will then be in a position to determine the extent to which federal help is needed. To try to do this in advance is to say, as a practical matter, that the taxpayers must do more and more. After all, that's the easy way. But it's not the equitable way, nor is it the way to strengthen our private enterprise transportation system--most of which is reasonably healthy and self-supporting. It's awfully hard to be "a little bit" Nationalized.

Looking beyond the immediate problems of the Northeast, it is clear that significant changes are needed in the ICC regulatory framework if rail systems throughout the Nation are to avoid the problems of the Northeast and to become the really effective private sector competitors they are capable of being. We will shortly submit a Bill with recommendations for these needed regulatory changes.

I suggest that if these changes are made and our other recommendations on the Northeast rail problem are adopted, there will be no need for the whole or partial government ownership some people are urging. Nationalization of the Northeast railroads will not solve the long-range problems. What is needed is streamlining and flexibility, not the heavy hand of the Feds. And we do not need this kind of excessive government spending--especially now. Our railroad problems are serious, but inflation and our position in world markets are also serious.

Railroads and highways are two of our big problem areas. We are also working to help resolve the intertwining problems of urban congestion and urban growth. Likewise, there are large issues in the future of our airports, in air space management, and the health of the carriers. And safety in all modes--but especially automobile--is always before us. But I'll talk about these in answers to your questions.

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