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REMARKS PREPARED FOR DELIVERY BY
DEPUTY SECRETARY OF TRANSPORTATION DARRELL M. TRENT
BEFORE THE
AIRPORT OPERATORS COUNCIL INTERNATIONAL
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Last month, President Reagan appeared on national television to announce yet another assault on Federal spending. In announcing these further budget reductions, the President reaffirmed his commitment to tackle the most serious problem facing this Nation--the economy and those steps that are necessary to revitalize its growth.

After eight months of spending cuts and program limitations, we are still facing a larger than acceptable deficit for Fiscal Year 1982. The simple truth is that Federal spending has been running out of control. If we are to bring spending under control and hold down the FY 82 deficit, every program must be scrutinized for reductions.

As you know, spending cuts and changes in Federal expenditures have always been tough to accomplish. In principle, everyone supports a balanced budget. However, when a balanced budget means accepting sacrifice in someone's favorite program or changing its Federal support system--that's another story. This Administration, however, is committed to a balanced Federal budget by 1984 and, regardless of how difficult it may become, we intend to accomplish this essential objective.

For far too many years we have placed our trust in government dictates, regulations, and programs. When a problem has come up, we have looked to Washington to fashion a program and provide Federal funds to tackle the problem. And, of course, when we found that even massive Federal spending did not solve our problem, we always had some anonymous bureaucrat in Washington upon whom we could dump the blame.

Well, it's about time we placed more trust in ourselves and less in government. We in this Administration have accepted the challenge and the mandate the voters gave us last November and we intend to balance the budget and to turn this Nation's economy around. It won't be easy, and we are going to need your help, but I am confident it can and will be done.

The four cornerstones of the President's economic recovery program are the control of spending, reduced taxes, regulatory relief, and a stable monetary policy. After directing policy coordination for all areas of government during the transition, I accepted my current position of Deputy Secretary. One of the early challenges I faced in implementing the economic program was to familiarize myself with the Department's budget. Since, at the time, we did not have an FAA Administrator, I quickly became aware of the FAA's programs and the related budget issues. What I heard, when we were discussing program cuts and restructuring, were many of the same tired, old arguments other Cabinet officials were hearing all across town; that is, "our program should be the exception, at a minimum, we must maintain the status quo." Well, the policies which led to the status quo—that's Latin for "the mess we're in,"—have not succeeded in the past and we don't believe they will work for us now.

One change from the status quo which I know is of concern to many of you is the Administration's support of airport defederalization. Opponents have argued that a significant percentage of the revenues flowing into the Airport and Airway Trust Fund are collected at the 41 airports we propose to defederalize. So, the argument goes, if these airports are defederalized, they will not get back any of the funds they put into the trust fund. Let me remind you, however, that the revenues that flow into the trust fund are collected from air passengers and not from your airports. Believe me, the services these passengers receive are not just the runways, taxiways, and other facilities at your airports. They are paying for the finest and safest air traffic control system in the world; a system that includes thousands of facilities and personnel throughout the country. The 41 airports we propose to defederalize will most assuredly realize a return from the taxes collected at their airport since, by our estimates, the six and one-half percent ticket tax will just about cover the FAA costs of providing the services needed to move passengers from these 41 airports through the system.

The vigor of our Nation's economy depends, in part, on the vigor of our air transportation system and each of its component parts. However, we believe that the Nation's 41 largest airports, which are multi-million dollar enterprises, can be economically self-sufficient and have no need for Federal airport development grants. No one doubts that these airports have and will continue to bring major social and economic benefits to the Nation and their local communities. However, we find it difficult to see that these benefits are so special as to set them apart from any of a large number of activities, such as the telephone system and banking, which are not subsidized by the Federal Government.

Since the passage of the Airline Deregulation Act in 1978, a majority of the airports we propose to defederalize have experienced pressures for adding new facilities of some sort due to increasing demand. It seems that, with deregulation, many of the air carriers have entered new markets and shifted more toward hub-and-spoke type operations. In addition, we have witnessed many new airlines such as Midway, New York Air, People Express, and others starting up new service. This changing aviation environment has resulted in many of your member airports bursting at the seams due to increasing demand.

One airport, before 1978, had only 14 air carriers, but now has 26 carriers vying for space and facilities. This same airport is now experiencing pressure to add new facilities at a time when the Federal Government is planning to defederalize it. When demand for an airport's service is strong, a rational supplier could and should charge higher prices to finance the added capacity to meet the demand. There is something terribly wrong with our airport system if a multi-million dollar enterprise such as this airport cannot be responsive to such demand pressures.

I realize that, as a practical matter, many of your member airports cannot be responsive to the demand pressures they are experiencing. It is unfortunate that you are in much the same boat as we at the Department when it comes to financing to meet your expenses. It seems that many in the airline industry cannot see beyond the runways and control towers to the nuts-and-bolts aspects of our operations. Aircraft will not move if there are no personnel manning the control towers and centers, nor will they operate if you do not have the capital to provide the services and facilities the airlines require. Over the coming months, I hope you can support the Administration in our efforts to recover more of the FAA's operations and maintenance costs from the system's users while we support lifting the so-called head tax or passenger facility charge prohibition. We look forward to working with you to move the airport and airway bill forward and to working out a system so that your member airports which are defederalized can be responsive to changing demand on their facilities.

When we began our budget-cutting exercise at the Department of Transportation last January, we applied several basic principles in our evaluation of Departmental programs. First, we felt the Federal role should be limited to areas where there is a clear national interest. Second, we felt that free-market forces should be relied upon to the maximum extent possible. Third, we agreed that we must reduce Federal regulations to the greatest extent possible, and finally, we strongly endorsed the notion that the general taxpayer should not have to pick up the tab for services provided to an identifiable class of users.

As I noted before, constructing, operating, and maintaining the safest air traffic control system in the world does not come cheap. For too many years, the general taxpayer has been carrying the load for supporting this system. If we are to get control of Federal spending, we must identify those special interest groups which have benefited from the Federal Government's services, but have not paid the price for those services. Thus, we are committed to assuring that the identifiable users of the air traffic control system pay for those services rather than placing this burden unnecessarily on the general taxpayer.

For the first time in many years, we have an opportunity to change the direction of the country--to curtail runaway Federal Government spending, eliminate government subsidies, and balance the Federal budget. Appropriate user fees are crucial to this change of direction.

Our cost recovery policy is simple and straightforward. We believe that Federal transportation outlays should be financed, wherever possible, through charges levied directly on the user or immediate beneficiary of the particular Federal transportation service or facility, rather than through general taxes levied on the population as a whole. Insofar as it is practicable, charges on specific users should reflect the full Federal cost of the service or facility. Each individual user should pay according to the extent and character of his use. Exceptions to this policy should be made only on the basis of overriding national considerations and should be of as short a duration as possible.

The quality and quantity of transportation services that the economy provides should be determined, insofar as is possible, by the interplay of normal market forces. If the major modes of transportation are to compete in the marketplace on the basis of whatever cost and service advantages they possess, the marketplace distortions caused by existing Federal transportation subsidies must be eliminated. In its essence, the Administration's transportation user charge policy is based on the twin considerations of equity and efficiency.

- Equity: Those who obtain valuable services from the government or use government-funded facilities should pay for them; those who do not should not be asked to share the cost with those who do.

- Efficiency: For the market to operate as an efficient allocator of resources, the prices of goods and services must reflect full costs. When government relieves one mode of transportation of the costs of required services or facilities, the price of that mode's services can be artificially lowered, diverting traffic from a more efficient mode and encouraging pressure for the creation of uneconomic investment in the subsidized mode.

I am well aware that many critics of the Administration's position will agree with these principles but feel that they are not being applied consistently and evenhandedly to all transportation modes. Indeed, some have argued that their particular mode is being singled out for especially harsh treatment while other modes continue to be subsidized. This is not the case.

Several modes which use Federally-financed facilities already use the cost-recovery principle and, in fact, it's a time-honored tradition. In other modes, the Administration has proposed instituting user fees or expanding their coverage, as is the case with aviation user fees. Finally, we have made a number of proposals which would reduce or eliminate existing Federal transportation subsidies. Overall, our proposal is calculated to bring equity to Federal involvement in the transportation area.

Now, I know that those of you who, like me, are private pilots may not agree that significantly higher fees should be levied on general aviation. However, it is an established fact that general aviation places significant demands on the air traffic control system. Furthermore, these demands will increase as the growth rate of general aviation continues to substantially exceed the growth rates of all other system users. In Fiscal Year 1981, the total amount of revenues collected

from general aviation, including the commuters, was less than \$45 million. But, the cost of equipping and maintaining the FAA's flight service stations, which is but one element of the services provided by the FAA to general aviation, was over \$250 million in Fiscal Year 1981. General aviation also accounts for over 50 percent of instrument operations at FAA control towers. The cost of operating and maintaining these towers in FY 81 was over \$685 million. Clearly, general aviation is not carrying its load and must begin to pay more of its fair share of FAA system costs.

I should also point out that nearly three-fourths of all general aviation flying is business-related and that this percentage is increasing. This fact is in stark contrast to the historic image of general aviation as pleasure flying. Although the costs of operating even a small aircraft are high, our tax proposal would add only about an additional \$100 a year to these costs. This additional amount is but a fraction of the total cost of purchasing, maintaining, and operating a small aircraft. As for the business flyer, the tax increases we have proposed are deductible as business expenses, and thus will be less of a burden than one might think.

I would also like to put our user charge proposal into historical perspective. In 1970, when the airport and airway programs were originally introduced, general aviation was having its worst period in a quarter century. Nevertheless, the Congress enacted a seven cents a gallon tax that was, at that time, nearly 20 percent of the then 36 cents per gallon price of fuel. The tax increases the Administration has proposed do not in any way approach the dramatic increase the Congress enacted in 1970.

We are committed to the principle that each class of system users should pay its fair share of the costs incurred by the FAA in equipping, operating, and maintaining the airport and airway system. Currently, aviation taxes collected from users amount to 42 percent, in the aggregate, of the costs allocable to civil aviation incurred by the FAA. The users of commercial air service are paying amounts equivalent to about 60 percent of the costs incurred by the FAA on their behalf, while the comparable figure for general aviation is in the range of 5 percent. Under our proposed tax levels, by 1986, revenues from general aviation users will cover about 60 percent of the FAA costs allocable to them.

The Administration is also proposing to increase the funding of the FAA's operating and maintenance expenses from the Airport and Airway Trust Fund. The original Airport and Airway Development Act of 1970 authorized significant funding of O&M from the trust fund, thus placing much of the responsibility for financing the FAA's costs on the users of the system. In fact, it is clear that the intent at that time was to seek funding by the general taxpayer as a supplemental measure if the revenues from the users were not sufficient to meet all the needs of the system. Congress amended the Act in 1971 to eliminate the provision allowing for substantial O&M funding from the trust fund after controversy arose over the failure to spend the amounts authorized by Congress for capital programs. Five years later in 1976, Congress determined that the increasing burden on the general taxpayer and the sufficiency of funds in the trust fund called for the partial reinstatement of O&M funding. We believe that the expenses incurred in maintaining a safe and effective aviation system for non-government users should be covered by the trust fund. Our proposed user charges will ensure that there will be sufficient revenues in the trust fund to meet both capital needs and operating and maintenance expenses attributable to users.

We at the Department of Transportation have a key role in implementing the President's economic program. We have already undergone and will continue to undergo substantial belt-tightening in order to cut overhead, streamline operations, and otherwise reduce costs. We are convinced that if we are to achieve the necessary reductions in general tax rates, we must eliminate government subsidy of small segments of the population that are not in clear need of such subsidies. We ask that all of you—airport operators and general aviation enthusiasts alike—join us in tightening your belts and taking those steps necessary to revitalize the Nation's economy.