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REMARKS PREPARED FOR DELIVERY BY
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Thank you Mr. Edgar for your very kind introduction.

Later this week, on national television, the President will be addressing the Nation about our most serious problem -- the economy and the 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 1982. The simple fact is that Federal spending has been out of control and this affects every element of every program of the Federal Government. We are beginning a new emphasis on reduced Federal expenditures in 1982 and every program is subject to reductions.

Spending cuts and changes in Federal expenditures are not easy to accomplish in Washington. Everyone supports a balanced budget in principle -- but does not want to sacrifice their own program or change their own Federal support system to make it happen.

This Administration is committed to a balanced budget by 1984 and we are all being exposed to the pains that are necessary to accomplish this essential objective.

Only a few weeks ago I testified about implementing Coast Guard user charges, and the program was not well received. A short time before that I testified about user fees for general aviation and commercial aviation, and the Administration's position was also greeted with scepticism and resistance. But, this has not changed our commitment to user fees. The Departments of Interior and Agriculture are working on user fees and we are looking to other programs in the Department of Transportation because this approach goes right to the heart of the Reagan philosophy of limited government.

For the first time in many years, we have an opportunity to change the direction of the country -- to move away from Federal domination; to curtail runaway Federal government spending and eliminate government subsidies and to balance the Federal budget.

Our cost recovery policy is simple and straightforward. We believe Federal programs that confer benefits to limited sectors of society should be financed, wherever possible, through charges levied directly on the user or immediate beneficiary of the particular Federal service or facility, rather than through general taxes levied on the population as a whole. Insofar as it is feasible 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.

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 areas of transportation. 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. The Administration has only one policy and one ultimate goal: 100 percent cost recovery.

foreign controller actions sympathetic to the PATCO strikers threatened to impede our efforts to rebuild the air traffic control system, foreign government assistance was critical to head off those efforts. It was essential that we demonstrate a responsiveness to foreign government concerns, and a willingness to participate in the International Aviation System on the basis of mutual respect and cooperation. We do not intend to slacken in our efforts to persuade our foreign partners of the merits of deregulation and increasing competition. However, we judged this the wrong time to finalize the CAB order. I can only applaud the recognition of this need by former CAB chairman Cohen and the board members in agreeing to defer their action.

However, I would be less than straightforward if I didn't go on to add that DOT continues to be concerned about the potential effect of this order. The Department has expressed its concerns since the inception of the proceeding. These views are shared by some agencies within the Administration and vehemently opposed by others. To date, the Administration has not taken a unified position on the merits of the case and, quite frankly, despite intensive involvement in the issue, I am not yet prepared to make a recommendation to the Interagency Aviation Committee, which I chair.

The basis for my concern is consistent with my desire for deregulation. Given foreign government objections to the proceeding, and, given the competitive nature of our own carriers, I believe there is a genuine question as to whether or not the withdrawal of antitrust immunity will in its effect increase or decrease the regulatory involvement of governments in international aviation issues. I do not want to have to recruit an expanded staff of government pricing experts, to increase our travel budget, or gear up in any other way for the likelihood of increased government intervention in intergovernmental disputes over aviation services.

More importantly, I do not want to find the U.S. Government compelled to intervene on behalf of U.S. carriers on a broad range of fares and rates and service options -- whether innovative or normal -- in the face of foreign carrier cohesiveness and foreign government opposition. Not only would this scenario lead to greater U.S. involvement -- it could mean that truly innovative pricing and service proposals have to compete with all other proposals for our time and attention. This is an outcome which is clearly not envisioned by the CAB -- but I think it must be seriously considered as a possibility.

Another activity which the Department of Transportation has spearheaded is the multilateral discussions with European and Latin American governments on airline fares. We are not engaging in these discussions with a view toward restricting the pricing and service flexibility available to U.S. airlines. On the contrary, we hope to gain agreement on a more flexible arrangement. We are exploring the possibility of establishing an agreed-upon framework with those countries that will give U.S. airline management the certainty of approval when they propose new fares. In these discussions we have indicated that promoting price and service competition remains our goal.

User fees are one area of administration policy, another is deregulation. When we came to town, we came with a commitment to deregulate and to define the proper role of government because we recognized the need to get government off the back of private industry so you can do the job. We came intending to have less government but more leadership. President Reagan has started, helped by bipartisan support in Congress, to do just that. In the Department of Transportation, we made a commitment to get rid of unnecessary regulatory constraints and reduce the government burden on all aspects of the aviation industry. More than ever, we remain committed to that goal.

The Air Traffic Control system we have been forced to implement in the aftermath of the illegal air traffic controllers' job action is inconsistent with that objective and will only be temporary.

I want to take this opportunity to thank all of you in industry for your steadfast support of our efforts during this difficult period. I also want to acknowledge the patience and understanding of the traveling public who endured the unavoidable inconvenience.

Our Washington National Airport policy has also been questioned. Its goal is not to hamstring the carriers at National or inconvenience passengers. It is designed to take two facilities, Washington National and Dulles International, and use them together in a sensible fashion. We seek to reduce noise and congestion at National Airport and to encourage greater use of Dulles. In these areas our policies are still evolving. They make sense. They have the support of the community and soon will win the support of much of the industry. We may have lost an early round in the House but the goals of our policy remain sound. We will continue to work to achieve these goals.

Our activities in the area of international aviation with the IATA Show Cause Order evolved from the controller problem and we will continue to work for less restricted competition in the North Atlantic.

In international aviation, it is a simple fact that a unilateral U.S. Government commitment to deregulation isn't enough. We need the agreement and cooperation of foreign countries. The Department of Transportation has led two initiatives intended to advance U.S. international aviation policy and also to improve generally our relations with other governments.

The first initiative was in connection with the Show Cause proceeding. This U.S. international policy has been wrongly interpreted by many foreign governments as an attempt to overwhelm their flag carriers by increasing competition from U.S. airlines. The foreign governments have complained particularly about the Show Cause proceeding. They have argued it represents a unilateral effort by the United States to dismantle the IATA mechanism generally used throughout the world to coordinate airline prices. Let me emphasize that price fixing by airlines is not this Administration's idea of how a free market should work. However, at a time when

Our actions in each of these several areas have been taken out of context and viewed by some as a general movement toward more government intervention, not less. This is a serious misjudgment of our intent. The Department's commitment to a reduction of the regulatory burden is firm.

That commitment is amply demonstrated in our legislative and Administrative proposals. As an example, the Administration's proposal to defederalize the Nation's 21 largest airports is not meant simply to reduce the Federal budget. It is a logical application of President Reagan's strongly held view that the Federal government should not be involved in areas where there is no clear Federal role.

Another example of progress in reducing the regulatory burden is the program of priority regulatory review that Administrator Helms has begun at the FAA. Over the coming months, the FAA will comprehensively review more than 1500 pages of existing Federal regulations. These regulations contain operating rules for general aviation and commercial aviation, airplanes and helicopters. The goal of this review is to modernize and streamline those regulations. Several proposed rules that the FAA has determined will not be cost-effective have already been withdrawn. Others may be in the future.

The centerpiece of the Department's deregulatory effort is, of course, the Administration's bill to accelerate the sunset of the CAB.

We seek to accelerate the sunset of the CAB because deregulation has been a success. I understand that many of you may not feel particularly successful right now. The impact of the President's program on our Nation's economy has yet to be really felt. And the airline industry typically follows the general trends in the economy. When it is doing well, airlines do very well. When the economy is flat, the airlines often slump, but the relevant question is whether the airline industry would be in better or worse shape if it were still fully regulated. I think that most, if not all of you will agree with me that the ability to utilize your fleets in the most efficient manner has presented opportunities for economies that would not otherwise have been realized.

The Airline Deregulation Act of 1978 was a legislative milestone. It has and will set the pattern for deregulating other U.S. transportation industries. In fact, the Reagan Administration concluded that the transition period provided for in the Deregulation Act did not need to be seven years long. Accordingly, we want to accelerate the CAB sunset date to October 1, 1982.

We are very pleased with the general agreement that the sunset date should be accelerated and most parties support the administration's proposed date. Unfortunately, there is some risk that, in the very process of advancing the sunset of the CAB, we may actually be retreating from the deregulation that was accomplished in 1978. We plan to use this opportunity to get the government out of your business as soon as we can.

The Administration bill has the virtue of simplicity. It is direct and it is consistent with a deregulatory philosophy. Our problem at the moment, however, is that some members of the aviation community -- while not liking the government's involvement in some aspects of their business, still want the security blanket of the protection in other aspects and, of course, would like to see us make life easier by letting them know what the other guy is doing -- preferably in advance.

We are concerned that in some instances, simply having authority will lead inevitably to regulation. We do not want tariffs to be filed with the government that will neither be reviewed by DOT nor read by passengers. This function can be handled by a trade association or a commercial entity if it is deemed to be necessary. We do not want to mandate joint fares which we believe can be negotiated. We do not want the authority to grant monopoly routes in domestic air transportation. We do not want the authority to prevent airlines from aggressively competing by offering a variety of discount fares to different groups. We do not want the authority to regulate international air mail rates. We do not want to subsidize airlines except where necessary to provide essential air service. We do not want to implement, in this industry, consumer rules which we have seen no basis for pursuing in other modes of transportation.

In the days ahead we intend to work actively before the Sunset Bill goes to mark-up in committee, to protect the deregulatory intent of the Administration's bill and the original deregulation act. That is not to say that we have a closed mind to new proposals. Some of the drafting suggestions that we have seen are improvements on our own proposals. In some cases new ideas have been proposed which we did not consider in our draft bill. We think we have established a productive dialogue with many segments of the industry and we are continuing to exchange views on the various proposals.

In this regard, I want to say a word about the labor protection provisions in the 1978 Act. This has, predictably, become a controversial topic. As you know, in the administration's bill we propose repeal of these provisions. We believe that this is the proper decision because there is no good reason to treat airline employees differently from employees in other industries. Overall, employment in the airline industry has been increasing. It seems that every day we have an announcement of a new airline. Every new airline means a new employment opportunity.

Many members of Congress have expressed genuine reservations that in a deregulated environment there will be less service to the smaller communities. As the major airlines with fleets of wide bodied jets are given complete freedom to open new routes, we should expect them to select the markets with the most passengers. However, smaller, regional and commuter airlines know that you can make money serving the smaller communities and they are expanding as they identify the opportunities. We want to assure them and new airlines that the freedom to start service is not restricted by legislation. In our view, the recent proposal to allow DOT to grant

monopoly routes will have a serious adverse effect on service to cities that are not major hubs. It will freeze competition -- not promote it. Developing an integrated network between small and mid-sized cities and a major hub is an attractive way to start a new airline. Let's keep that option open, rather than discourage it.

I also want to reaffirm the intention of DOT to conscientiously administer the small community essential air service program. The section 419 program is the foundation on which the deregulation act was built. In particular, DOT will be sensitive to the needs of the commuter industry that is largely providing the essential air service. We oppose continuing subsidy to their large competitors. We recognize that commuter carriers must have joint fares with the major airlines. We do not believe, however, that DOT should regulate the divisions of the joint fares. Joint fares should be negotiated between the commuter carriers and the airlines. Every airline that has spoken to us on this issue has stated not only its desire, but its need -- given their restructuring -- to sit down and negotiate a sensible joint fare agreement with the commuters who will be providing them with feeder services which the trunks are increasingly not providing for themselves.

There has also been a suggestion that the date of October 1, 1982 is too soon to accomplish an orderly transition of residual functions to DOT. I disagree completely, and while I would hope that Congress would act on Sunset during this session, I am convinced that we could accomplish the transfer by October 1, 1982 even if a bill is not passed until next session. Keeping both DOT and CAB in limbo is counterproductive for the industry and for the affected federal employees. While we agree that some programs and administrative issues need to be reviewed, we are aware that the CAB is making every effort to streamline its activities in preparation for Sunset. In addition, we see no reason why these reviews cannot be initiated or continued by DOT even after the transfer. We have made a commitment to undertake any such reviews as an open process and we are anxious to get on with the task.

Before closing I want to comment on the concern, expressed by some, that in uncertain times perhaps we should delay moving ahead on early Sunset. I disagree. Certainly these are stormy times for the airline industry. If I can borrow a metaphor from another form of transportation, in stormy seas you can either reef your sail and make no progress or ride before the wind. A smart captain who knows the sea and wind will go where the elements take him.

We want to grant you the freedom to adjust your operations to any kind of environment. Almost anyone can make money in the airline business in good times. But no one can guarantee good times always. It is in the stormy period that your freedom from government intervention will be most valuable.

Secretary Lewis and I will personally be calling on members of Congress to urge prompt action on the early Sunset Bill this session. However, we don't want just any early Sunset Bill. We want a Sunset Bill that truly deregulates. Give us legislation that builds and expands on the 1978 Deregulation Act. Then we will be able to give you freedom from unnecessary and unwanted government regulation.

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