

U. S. Department of Transportation news:



Office of Public Affairs
Washington, D.C. 20590

TRANSCRIBED STATEMENT OF U.S. SECRETARY OF TRANSPORTATION
NEIL GOLDSCHMIDT, CONGRESSIONAL AIDES, WASHINGTON, D.C., MARCH 18, 1980.

I want to spend a minute talking about the '80s, and the basic questions of energy and the economy. That is where this Congress has been for the last several years and where it is going to be for the next few, at least. Those same issues -- energy and the economy -- comprise a test that ought to be applied to the Department over which I hold trusteeship for the moment.

During a period in which we must make the transition away from wasting half of the energy that we use, which means that we are in effect wasting an amount almost equivalent to what we import, it is at least clear to this Secretary that we are in badly need of a conservation strategy. It has become fashionable to talk about it as an energy conservation strategy but that is not in fact what I would like to suggest to you is our problem.

For the first time since World War II, we are -- as I see it -- a capital-short nation. In all of the arguments that are going on in this body and elsewhere in the government about the size of the Gross National Product or federal budget as a percentage of the GNP -- the question of tax cuts for incentive for capital formation and all the rest of it -- I think are ducking one basic issue. We are going to be a capital-short country for the first time in a long time and that capital shortage is going to require all of us to measure the money we spend, the credit we lend, whatever it is that we do in the government, against a somewhat different yardstick.

As you probably know, in the budget of the Department of Transportation, we include the budgets for the Coast Guard, Federal Railroad Administration, Urban Mass Transit Administration, Federal Highway Administration, Federal Aviation Administration, and a number of others in which capital is either provided directly by Congressional appropriation or by some instrument of credit such as a guarantee. In the case of the FAA, for example, we guarantee the purchase of some airplanes.

There is no national "capital" budget; there isn't even a national transportation capital budget, let alone a national public works capital budget in which any sound effort can be made to measure the output in the economy from building whatever is built as well as the jobs from that activity.

So, we don't measure, for example, that the railroads in this country, which are critical to the movement of coal and the export of grain, are making two-thirds of their revenue on 20 percent of their miles of track, are getting less than three percent return on their investment (maybe closer to two or even one), and aren't attracting capital. And everytime we have hazardous wastes dumped off a railroad track someplace, somebody says get your inspectors out there and do a better job of inspecting the tracks.

It isn't a problem of inspection. It's a problem of railroads and a problems of capital, which is scarce every place. The solution to attracting capital is not necessarily to bring it into the federal budget, as you know perhaps better than anyone else.

If there is going to be a strategy or strategies built to approach the problem of scarce capital, I think part of that responsibility will lie with the cabinet officers serving in this Administration to develop some way for you to see what the choices are going to be. This is not a plea not to push for special projects in Congressional districts.

It is done rather with a hope that you will encourage some kind of broader measurement structure so that at least if somebody tells you no, they can give you a decent reason or if they say wait, that there is some reason why.

We are trying to use transportation as an integrating thread in the economy. That is not a new role for transportation. It is rather that we are approaching the time when the following things confront us: we have a trillion dollar highway asset in the United States which is not depreciated for maintenance or replacement. It is literally capable within a very short period of time of going the way of the railroads in the United States. The difference is that we own the highway system but we just don't have a method of making sure it is being taken care of.

The reason is that ours is a system of greater or lesser federal interest, and as a consequence or lesser local responsibility we have financed a substantial amount of roadbed construction in the United States but we have not provided adequate funds to ensure its maintenance. I say this in light of the current situation in which there continues to be tremendous pressure to build new segments of Interstate.

We spent \$60 to \$70 billion on the first 90 or 92 percent of the system. We are going to spend 50 to 60 billion on the last eight percent to complete it. As the Trust Fund system is now organized we do not have the money to give state and local governments choices about whether they build the next mile or take care of the first 50 that were finished.

I think that is important to all of us. It's not just a matter of convenience to motorists. It is not only a question of longer life for urban buses and I might add that the life of the New York City fleet is impaired by the condition of their streets. As a transit person, therefore, you do not necessarily come out against good streets and roads.

These facts illustrate that we are in a position where we have to make choices. For the first time since the Trust Fund was created for highways this year we will spend more money out of the Trust Fund than we will take in. There are no free lunches. We need to make our choices carefully.

I want to talk for a minute now about transit and again I am trying to suggest to you that underlying all of this there is a conservation strategy which is to take care of what we own before we just assume we can bite off more and pay for it in the future.

Until recently we had a regulation in the United States which said that if a city's transit buses were 12 years old, when the federal government gave money to a local jurisdiction to provide replacement buses, the city had to sell its old buses and pay 80 percent of what they received for scrap value to the federal government.

The consequence of that has been fairly obvious. If you know about transit maintenance, you will know that at some point -- somewhere around year 10, 11 or 12 -- maintenance was no longer the concern. Getting 80 percent money to get rid of a bus was better than spending a lot of labor money to keep it up. Greyhound and Trailways by contrast, were pushing the lives of their bus equipment far beyond the 12th year.

We have a transit fleet in the United States that, by the way, is also way beyond 12 years in many places. Nonetheless, we continue to provide incentives not to care for what we own but to get rid of it. One gets the sense from that sort of thing that capital is really not scarce and that assets are more easily replaced than taken care of.

We have issued new regulations, now out for comment, which will provide the opportunities for government to award grants for maintenance to bring up transit fleets, either for current use or to mothball them for use in times of emergency, snow storms, energy shortages, or even just the opportunity to take a substantial part of the fleet off the road for a time to do preventive maintenance.

While those regulations are out, the theme continues and the habits continue to run through very much of what we do.

The points I want to make are first: we must develop a policy concerning the federal government's ownership and maintenance responsibilities; second, we must put into law the incentives to do that because speeches don't take care of it; and third, we must make hard decisions in the investment of the remaining capital that occurs at the margins of opportunity because no part of the budget is ever going to be free. It is going to be tightened and chewed up tremendously by the need to take care of what we own. I think we need to apply very rigorous tests to what it is that we want to buy.

If I were guessing today, I would tell you that it is probably most critical that the freight railroads in the United States are improved in the next decade. If the freight railroads don't improve, they will be in the Treasury, even as they are now, for several billions of dollars a year. Behind ConRail and the Milwaukee and the Rock Island, we have four or five more roads that could tip without rail reform legislation. If we don't get that kind of improvement we will not move the coal or export the grain as efficiently as we should.

The infra-structure efficiency of the country is essentially an inflationary item. It's just adding costs. Anytime anybody has to wait in a barge at Alton Lock and Dam 26 on the Mississippi for a day to go through, you pay the cost of that in the product; it isn't free. Anytime you move coal at 35 miles an hour instead of 65 miles an hour, the consumer pays for the cost of moving the trains more slowly. It's a productivity issue. So I think it is critical.

The last point I want to make is this: the emergence of some kind of a cohesive philosophy about investment in capital and conservation of what we own has to be measured against some national objective. I would like to close by suggesting that it is essentially a fairly simple one in my view. The objective in the '80s is going to be a move from energy dependence to independence while trying to develop jobs in this country.

This country, while it does not have the fear of inflation that Germany does (and that may be unfortunate) because of what happened during the Weimar republic, and doesn't have the commitment to a low unemployment that Japan or some of the Western European countries have, still is driven by both to some extent. While we are focusing today on inflation, even to the extent of conceivably creating unemployment to solve it, it should be understood that there is the possibility of coming through this transition on energy without our industrial base intact.

And let me give you the depressing scenario for the moment that I happen to believe is very possible. Last month the Japanese sold more cars in the United States than Ford, Chrysler and American Motors put together. Imports took about 27 percent of the American market and the Japanese had most of that. This month, we believe, the imports may hit 31 percent.

Thirty percent of the American market over an extended period of time represents an inability of some parts of the American industrial infrastructure to convert themselves to the production of energy efficient commodities. Clearly, it may have that impact in sectors of the automobile industry. But 50 to 60 percent of the high profit items that steel sells is to the automobile industry. That's an industry that's already sick. Some of you may be from districts where you feel it. That same industry that is already in trouble is looking to take 800 to 1,000 pounds of iron and steel out of every new automobile.

Now, is the request going to come for more plastic? We are not sure. For more aluminum? For those of us from the Northwest, who know the ratios of energy demand to the number of jobs, we'll be curious about the outcome on that.

But the real question is, will we have work? We have 200,000 people out of work now in the auto and related industries and it is possible we could add another 50,000 to 100,000 people from that industry over time not because of any economic policies of the United States government but because of an energy broadside against a particular segment of our industrial base.

Approximately a seventh of the work force of this country is tied up in automobiles and all the infrastructure of the United States' economy that supports it or is related to it. It is not a mile mannered sort of Congressman, I suspect, who would be able to withstand the kind of pounding that results from unemployment in his district as auto plants or steel plants or rubber plants shut down. I think we also need to recognize that this transition to efficiency has brought some to call for the 50-cent gasoline tax which, in turn, would have the effect in the marketplace that those who propose it wanted to have, which is massive unemployment.

An America that is not at work is a country whose political system will not function very well. It will not function well whether its people are put out of work by its government on purpose, or are put out of work because the government does not care enough to take care of them.

Now, I don't have any easy answer to this. I happen to subscribe to the balanced budget. I think it is critical in order for us to have the ability to do what we need to do to stimulate more planned investment. But the tougher question is where does the government spend its capital? I am talking about its credit guarantees, its direct outlays or, as far as that goes, its political capital, its energy and its time. And I think the place we will have to spend it is in the redevelopment of a national vision about what kind of an economy we are going to have and whether we are prepared to be an exporting country again, and what it will take for us to get there.

Still it is an exciting time because we are at the end of a period in the country's life in which we could take for granted a lot of good things that we developed. But it is not a period of time that is going to be easy for people here who are forced to make very tough choices.

With that, I would be happy to talk about anything that's on your mind, even politics.

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