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Office of the Assistant Secretary for Public Affairs
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Contact: Mari Maseng
Tel.: (202) 426-4570

REMARKS PREPARED FOR DELIVERY BY
SECRETARY OF TRANSPORTATION ELIZABETH HANFORD DOLE
CONSERVATIVE POLITICAL ACTION CONFERENCE
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We are in the vanguard of a great new age of invention and human development. Ours is a time of renewal generated by American free enterprise, challenged by risk and spurred by competition.

"The American dream of human progress through freedom and equality of opportunity in competitive enterprise," President Reagan has said, "is still the most revolutionary idea in the world today." And he correctly adds, "and it's also the most successful."

Economic freedom not only serves human needs; economic freedom is a human need. You and I understand that freedom in human action is a seamless fabric. A person's freedom to choose and act in the marketplace is as integral to his well being as his social freedom, his intellectual freedom, his freedom of conscience. It is this coherent understanding of human nature that has equipped American conservatives to accept a powerful mandate for leadership.

I am privileged to help direct one part of America's economic and political rebirth -- through deregulation and privatization of the transportation sector of our economy. After all, transportation is not just concrete and steel ribbons reaching to the horizons or the clattering of subways beneath the city streets. Transportation is our economy in motion. From horse-drawn carriages to the space shuttle of today, it has served and it serves the needs of people everywhere. It assures the flow of food from farm to market, raw materials from mine to factory, products from assembly line to market shelves.

The history of American transportation has been one of bold creativity that time and again brought revolutionary improvement to the lives of people the world over. Dreamers, inventors and entrepreneurial geniuses such as Robert Fulton, Henry Ford and the Wright Brothers have changed world civilization unalterably.

Transportation in America is an \$800 billion industry. It accounts for about one quarter of our Gross National Product. It is part of the cost of everything companies produce and every item consumers buy. In short, transportation is essential to our economy, but no one wants to pay more for it than is necessary -- nor should they. We expect carriers to operate as efficiently as possible, and shippers to bargain for the best rates. These goals, we have found, are best accomplished in an economic climate of private ownership and deregulation.

Our free market transportation industry now is venturing into the limitless reaches of space. At President Reagan's request I have established an office of space transportation to promote private sector investment in commercial, unmanned expendable launch vehicles. The Department has been working vigorously to deregulate -- cut through the thicket of clearances, licenses and regulations emanating from 17 government agencies that keep commercial space vehicles tethered to their pads. The President himself described our initiative best right here at CPAC last year. "American private enterprise," he said, "will be blasting off toward new horizons of hope, adventure and progress -- a future that will dazzle our imagination and lift our spirits."

President Reagan promised to restore our economic freedoms, and I am here to tell you that in transportation we have had impressive success. We have already taken most of the steps needed to untangle a fifty-year accumulation of red tape that had been choking our transportation industries and sapping their initiative. We would not have realized this success had it not been for the efforts of conservative intellectuals, opinion leaders and grassroots activists. But our work is unfinished, and unless conservative activists do their very utmost at the grassroots level, our progress toward fully liberating the transportation economy could be halted. It could even be reversed.

The most stunning success story for transportation consumers, I am sure you will agree, has been with airline deregulation. American air travel has been so revolutionized that I find it hard to believe that less than a decade ago, it made no real difference which airline one chose to fly to a given destination. The cost was going to be the same, with only the most marginal variations in service. Today United States air travelers have a wonderful new freedom to choose between low-fare, no frills service or high-priced, luxury service, or any offering from the broadening spectrum in between.

The evidence is clearly in. The Depression-era regime of regulation imposed on our air carriers was holding them back from heights of imaginative consumer service to which they had been destined to soar.

Deregulation has transformed an industry long shielded by the government from real price competition and new competitors. It suggests the continuing validity of at least one economic theory -- that a little competition is a good thing -- and a lot is better still.

Henry Ford, no stranger to innovation, used to compare American business to the chicken, which is never healthier than when it has to scratch around a little for what it gets.

Today, the flock is more diverse than ever. There are more carriers in operation throughout America, and more airlines flying what we usually think of as "big aircraft" to more places. It's no coincidence -- nor is it any surprise to me -- that the airlines are now sharing in the economic growth we are enjoying nationally.

In air travel, it is the risk-takers, not the regulators, who have launched an exciting new era of socio-economic change. Price competition has brought about a dramatic increase in the ability of moderate and lower income Americans to afford the speed and convenience of air travel. Our society has accomplished this tremendous improvement in the quality of life for the majority precisely by overthrowing a regime of regulation and subsidy and giving freedom a chance.

One detail of unfinished business in air deregulation is the subsidy for so-called Essential Air Service. We want to end this subsidy three years sooner than the existing deadline. If we cut this subsidy now, we can save the taxpayers \$50 million a year and basically, the transition has been completed.

The transition to today's deregulated air transport market did not take place effortlessly. The results, however, already are so favorable to consumers -- and they are becoming more and more favorable to the industry as it establishes rational new cost and marketing structures -- that there can simply be no turning back. Since 1978, air carriers have cut costs and passed on savings to consumers amounting to \$10 billion in reduced fares. The end result of air deregulation is truly a quantum increase in opportunity for consumers and entrepreneurs alike. And with the demise of regulation we have presided over the sunset -- the closing -- of the first federal agency in 50 years -- the Civil Aeronautics Board.

The same free market principles that have worked such wonders in the air transport market apply just as validly to other forms of transportation. Urgent and important matters on the Administration's transportation agenda include not only breaking the habits of regulation, but also bringing an end to costly subsidies and to government ownership of businesses that belong in the private sector. We are not overlooking a single area where we can introduce the discipline of the market and produce savings for the taxpayers.

We are engaged in a fundamental reassessment of the Federal government's role in transportation. Seventy percent of our current budget is paid for by user fees and that will go to 85 percent in the next fiscal year. I believe that those who use particular services should pay for them rather than the general taxpayers. The President declared that the Administration would continue to remove restraints on the bus and railroad industries and that we will seek further deregulation of the trucking industry. Each of you and your organizations back home can be very helpful as we pursue these goals this year. We must not take it for granted that deregulation's political momentum is sufficiently strong. There is still significant opposition to further deregulation of trucking; likewise there is an organized effort to re-regulate the railroads. If we do not remain vigilant and energetic on these issues, our cause could suffer some stunning reversals -- and the cause is not ours alone. What is at stake is the economic well-being of all Americans.

Another of my goals is defederalization -- transferring federal government functions and property to state and local authorities. We have asked Congress this year to transfer the two federally-owned airports here in Washington -- National Airport and Dulles International -- to a local authority. Why should the federal government be running airports? I strongly believe that the federal government should not be calling the shots or looking over the shoulders of local officials on airport issues. I appointed an advisory committee to tell me how not whether to transfer the airports. We will soon send transferring legislation.

Conservative voices also must ring loud and clear in support of our effort to end costly subsidies to Amtrak, which carries only two percent of intercity travel. The President emphasized this issue, too, in the State of the Union Address. He pointed out that taxpayers pay about \$35 per passenger every time an Amtrak train leaves the station. And on some routes the taxpayers' portion of the fare is much, much higher, outrageously high. On one Amtrak route the subsidy averages \$140 per passenger. It is well worth recognizing, too, that the average Amtrak rider is far from needy. Amtrak riders tend to be middle and upper income earners. Fifty-five percent of Northeast Corridor passengers in 1983 had incomes above \$30,000 and much of Amtrak's Northeast corridor traffic is business travel.

Quite simply, my goal is to get the federal government out of the railroad business. This year I have sold the Alaska Railroad to the State of Alaska. We seek to end Amtrak subsidies, and to sell the largest federal rail enterprise, Conrail.

The Conrail sale is much more than a transportation issue. Our economy and government will be feeling the repercussions of the Conrail decision for many years to come, for a critical conservative policy idea is at stake -- the idea of privatization. You have probably heard that expression in connection with Prime Minister Margaret Thatcher's splendid program of transferring responsibility for many services now provided by government agencies to private, profit-making enterprises. Our proposal to sell Conrail is the first major legislative test of privatization at the federal level in the United States.

Conrail has existed as property of the U.S. government since 1976, when Congress came to the rescue of seven bankrupt or failing rail companies in the Northeast and Midwest. The taxpayers have spent several billion dollars keeping it in operation. Congress never intended that Conrail permanently remain under government ownership, and it's turned a profit the last five years.

I have proceeded very carefully, through a negotiated competitive bid process, which produced 15 bidders, to return the railroad to the private sector. Just this past month, I announced my decision to sell Conrail to the Norfolk Southern Corporation, a highly profitable company which prides itself on having the highest operating and maintenance standards in the rail industry. Now it is Congress' turn to act.

The taxpayers have much to gain from this sale. At the time of closing, Norfolk Southern will pay us a minimum of \$1.2 billion in cash. And that's just part of the payment. Norfolk Southern will forego all of Conrail's net operating loss carry-forward benefits, worth about \$2.1 billion, and \$275 million in investment tax credits.

Norfolk Southern has also agreed to a set of tough covenants which I negotiated, designed to ensure that the railroad will be strong and healthy forever. I might have received a higher cash price for the stock if I had been willing to forego the protective covenants, but I believe that they are essential to the public interest. The covenants will preserve quality service, protect Conrail's shippers, and ensure continued financial strength.

Some critics of our plan are seeking to delay, maybe even block altogether, the sale of Conrail. And some members of Conrail management have proposed that Conrail be sold only through a public stock offering. I have carefully examined that option. I asked our financial advisor, Goldman Sachs, to give me its judgement on that course of action. Goldman Sachs advised me that it was highly unlikely that a public offering would net any more cash than a private sale, and may produce less. Measured against the criteria I established for the sale, it advised me that the Conrail management proposal is less advantageous than the Norfolk Southern bid in a number of respects.

First, the management plan takes a minimum of \$300 million in cash out of the company to pay the government, regardless of Conrail's cash position.

Second, the management plan forces the company to issue \$600 million in preferred stock. Norfolk Southern has no preferred stock. In fact, this would be the largest preferred stock issue in American history. Four hundred million dollars would have to be borrowed to pay the considerable dividends necessary to make the stock attractive. And in a public stock offering, we lose the protections of the negotiated covenants, which I believe are crucial to the future of the railroad. Even if the covenants could be included in a public offering, you would expect them to depress the price we could get for the railroad.

The other reasons for favoring a negotiated sale to a single buyer should be quite clear: Selling to a well-managed, well-financed, going concern such as Norfolk Southern would provide long-term stability for the Conrail system. Finally -- and this point is critical to the idea of privatization -- our plan would get the government immediately, once and for all, out of the business of running a freight railroad.

Difficult political hurdles lie ahead. I cannot overemphasize how important Conrail is to the whole future of privatization in America. Leading conservatives here in Washington recognize this and are mobilizing. Ed Feulner of The Heritage Foundation, Ken Boehm of Citizens for Reagan, Paul Weyrich of Coalitions for America, Dave Keene of the American Conservative Union, Bob Heckman of the Fund for a Conservative Majority, Fred Smith of the Competitive Enterprise Institute and the National Forum Foundation chaired by Senator Jeremiah Denton, some of the conservative leaders and organizations who have already rallied to the cause. Privatizing Conrail deserves a place at the very top of the conservative movement's agenda for 1985 -- not just here in Washington, but in the states, at the grassroots. If we succeed, the movement toward privatization will most certainly gain vitality.

And our success or failure in liberating America's transportation economy will have effects far beyond our borders. International trade and travel is projected to accelerate through the remainder of the century. Because so much overseas

transportation involves American carriers, our ideas and successful practice of deregulation are actually exporting themselves.

I have had the wonderful opportunity to discuss the American and British experiences in transportation policy -- especially focusing on privatization -- twice in the past year with Prime Minister Margaret Thatcher. Last year she received me in London where I had travelled to address the Adam Smith Society, and last week on her state visit to Washington she honored us with a call on the Department of Transportation.

Margaret Thatcher's Britain may be well ahead of the other West European nations in transferring transportation activities to the free market, but the others are beginning to grasp the good sense of the idea. Last year after my visit in England, I travelled on to Oslo, Norway, to discuss America's free enterprise transportation policies before the European Council of Ministers of Transport. A good many democratic socialists were among the participants. Some of them confronted me with the familiar notion that government subsidies, government controls, government monopolies were necessary to satisfy the demands of social justice, to "meet human needs." I was able to respond that economic freedom serves human needs most fairly and most efficiently. I was able to answer that ours was not just an abstract doctrine. Experience proves our conviction that economic freedom not only serves human needs, it is a human need. Or as a Norwegian poet put it, "Freedom and life are one. As simple, as indispensable, as breathing itself."

Today, America's transportation industries, together with every other sector of our economy, are energized by new freedom and new competition -- and they are satisfying human needs and aspirations. Those who succeed in the new marketplace must put aside the conventional wisdom suited to earlier times. The traveling public and shippers will now decide who is efficient and who is not. They are no longer merely along for the ride. They are in the driver's seat.

There is a touch of irony to all this. Deregulation, when we really stop to think about it, is a revolutionary idea. But it is not newborn. In fact it was one of the first principles of our founding fathers, who believed supply and demand, competition and creativity, were the most efficient "regulators" of our society and the surest providers of both social justice and individual dignity.

For as long as we have called ourselves Americans, we have taken pride in our native ingenuity. We have displayed a willingness to take daring economic risks for great economic gains. We have placed our faith in a free market, disciplined by competition and tempered by a social conscience.

"There's magic in the marketplace," President Reagan has said, "and it works." I know that is your ideal, and I assure you it is mine.