



U.S. Department of
Transportation

News:

Office of Public Affairs
Washington, D.C. 20590

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REMARKS PREPARED FOR DELIVERY BY SECRETARY OF TRANSPORTATION
ELIZABETH HANFORD DOLE
TO THE NATIONAL INDUSTRIAL TRANSPORTATION LEAGUE
KANSAS CITY, MISSOURI
NOVEMBER 17, 1983

Looking out of the plane window as we landed this morning, seeing this bustling, modern city below, I thought of that catchy tune "Everything's Up-to-Date in Kansas City." How fitting it is that the N.I.T. League chose Kansas City for its annual meeting, for your organization is right in step with the times. You are using the powerful force of deregulation to fuel progress, not only for yourselves, but for the American people. Everything is not only up-to-date with the N.I.T. League, but moving forward -- with no let-up in sight.

That, together with the theme of your 76th annual convention assures me that I have come today to the right place at the right time. We are indeed at a "transportation crossroads", and -- like you -- we seek those "strategies for the '80's" that will best serve America's shippers, consumers and carriers.

The signposts point in two directions -- we can proceed further along the road toward total economic deregulation, or we can take the detour leading to re-regulation. For me, and I'm sure for you, the choice is easy. Deregulation is clearly the wave of the future; burdensome regulation a relic of the past. Consumers are experiencing a new era in transportation -- an era of lower costs and greater choices. The big winner under deregulation is the traveling public. Like you in the N.I.T. League, we in the Reagan Administration believe in free enterprise, and we're doing all we can to restore it.

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We're also doing all we can to expand it. I'm pleased to announce today the Administration's plans for the deregulation of the newest transportation industry -- space transportation.

Last May, President Reagan expressed support for the development of a private sector satellite launch capability. It is clear that the market for space transportation will soon outstrip the capacity available today. Rather than rely solely on NASA and the Department of Defense for the expendable launch vehicles -- the rockets that power satellites into orbit -- companies interested in putting payloads into space should have ready access to private sector launch services.

We don't want the progress of the expendable launch vehicle industry to be handicapped by the regulatory constraints that have restricted other transportation industries. Even now, those seeking to enter the satellite launch business have been reluctant to make substantial investments because the regulatory and approval process is so cumbersome.

We are changing that. Just yesterday President Reagan designated the Department of Transportation as the governmental focal point for the emerging new expendable launch vehicle industry. In that role we will work with other agencies to assure that this new industry is free to grow and develop unobstructed by regulatory barriers.

I view this responsibility as an opportunity to help launch a whole new U.S. industry -- one with potentials as unlimited as space itself -- and we are already at work on plans to consolidate and simplify the regulatory process for space transportation.

But to return to earth and to the business at hand, you as shippers have pressed hard for more competitive rates and the greater variety of services deregulation has brought. Deregulation has provided a similar boon across the scope of transportation, and is one of the pillars of the President's economic recovery program. Certainly, there has been some discomfort as American industry regains its competitive legs, but our faith in an America free to compete is unshakable. Recovery has begun and, just as your industry is rebounding, so are others. We are not about to turn back the clock now. As President Reagan has said, there is magic in the market place and it works. We will not yield to the petitioners for re-regulation who take comfort in a less competitive world.

Let me state the issue somewhat differently. By training, I am a lawyer, and lawyers seek the underlying reasons why and how an issue comes to prominence. In the case of deregulation, two sharply differing approaches to transportation policy conflict with one another. First, there is the free marketplace, of which I have spoken. Second, there is the case for regulation. But its genesis was in a totally different time, and under vastly different circumstances. This is late 1983. Many of yesterday's infant industries have become today's transportation giants. There are still problems, to be sure, but all across America we are witnessing the revitalization of the transportation sector of our economy. That's good news for the American consumer, American business, and American transportation.

The N.I.T. League, with leaders like Don Kuster, Tony Sarkis, Jim Edler, Jim Bartley and Stan Sender, among many others, has demonstrated both the vision and the wisdom we need as we progress toward a more efficient and effective freight

transportation system. Together we are casting off yesterday's worn-out dogmas in favor of fresh ways of achieving the greater prosperity we seek as a nation.

Deregulation, I am convinced, is one of those ways. It has also been one of my uppermost goals. I well recall that back in the early 1970's, when I was serving on the Federal Trade Commission, we were among the first in Washington to question the merit of continued government economic regulation over industries that had long ago ceased being monopolistic and were, in fact, naturally competitive.

The first legislative initiatives came in 1976, under the presidency of Gerald Ford, when the landmark "4-R" railroad bill was passed. Two of the "R's" in that legislation, you will remember, stood for "regulatory reform."

Since then we have come a long way in making deregulation an active and positive force in the American economy. The Air Cargo Reform Act of 1977 deregulated the air freight business. Now it has swept through the airline, trucking, rail and interstate bus industries and on into the maritime industry. This is a time of transition not without stress, not without strain. For some companies, this transition has brought problems. For the advent of deregulation coincided with a period of recession, marked by higher fuel prices and other cost increases. But for most shippers and consumers alike, deregulation is delivering what it promised: greater choice, more efficiency, competitive pricing. On balance, the benefits of deregulation far outweigh any temporary dislocations it has caused. We have come to the crossroads. And we have chosen the road that is leading us to recovery.

Someone has said that it's easy to distinguish between a wholesale price increase and a wholesale price decrease -- one of them gets passed on to us. The best way to assure that the savings achieved through productivity gains get passed on to the shipper, and ultimately to the consumer, is through competition. And that has been the primary goal of our emphasis on economic deregulation -- to make the transportation of people and goods more efficient by making it more competitive.

I'd like briefly to review with you today just where we are, what we have already achieved, and what remains to be done if we are to meet the competitive ideal.

Air cargo was the first to be cut loose from the lock-like restraints of Federal regulation. But rather than stumbling in a new environment, the air express business is soaring. Today it is growing almost as fast as the couriers deliver their shipments. In less than seven years the industry has grown to a multi-million dollar business, delivering 700,000 packages door-to-door every night. Industry stocks, which are a pretty reliable barometer of financial success, have gone up by as much as 108 percent so far this year alone, and many analysts view their future prospects as "virtually limitless."

Let me hasten to say that's not a stock "tip" but I think it is a good tip on what deregulation has done for that segment of the civil aviation industry. And -- I firmly believe -- an indication of what deregulation can do for the passenger arm of the industry as well.

Some carriers were not well positioned to compete effectively in deregulated skies and are taking some dramatic measures to survive. But many of their problems were anticipated when the Airline Deregulation Act of 1978 was passed. It was understood then that some carriers might not survive in a fully competitive environment. It was recognized then that fares on some short-haul, low-density routes

might go up, when the Civil Aeronautics Board's cross-subsidy policies ended. Mile for mile, short-haul routes of the same density are more expensive to serve than long-haul routes. So again, it was understood that, once the rules were no longer written in Washington, fares would be based on actual costs, not industry-wide averages, and that would mean higher fares on some routes and lower fares on others.

As the industry adjusts to deregulation, future fares will be disciplined by the same free market forces that have made prices competitive in other American industries.

What was not, and could not be foreseen back in 1978, were the large fuel price increases of 1979 and 80, the high interest rates, the air traffic controllers' strike and the recession. Deregulation has sometimes been used as a scapegoat, when really those other factors have caused most of the problems. The truth is, that without the flexibility of deregulation, the airline industry would have had vastly greater difficulty adjusting to those conditions.

Prior to 1978, economic regulation of the airline industry was so complete, and so restrictive, that in 40 years of CAB control over routes and fares, no new long-haul airlines were established. The carriers flew the routes assigned them by the CAB, serving their designated city-pairs, at uniform and prescribed fares. Those of you who flew across the country may remember that the fares on all of the transcontinental carriers were identical. You chose American, or United, or TWA for the food, or the convenience of a particular departure time, or for the "image" the airline conveyed. Since all the airlines traditionally appealed to the CAB for fare levels sufficient to cover costs and provide a reasonable profit, they were essentially protected and had little incentive to constrain costs, improve worker productivity or offer innovative services. Even when a carrier tried to compete by offering special fares, the necessity to file publicly with the CAB guaranteed other airlines the opportunity to respond. Only rarely were airlines permitted to add any new routes. As a result, regulation effectively shielded the industry from the disciplines of real competition. It just as effectively cut off air travelers from the benefits of real price and service competition.

America's pioneer woman aviator, Amelia Earhart, once crash-landed in a field of cabbages. It didn't diminish her love of flying, she said, but it changed her taste for cabbage.

Deregulation has both aided our airline industry's ability to grow and prosper, and it has surely changed the way that prosperity is being attained. To be successful today, under deregulation, an airline must be both cost-effective and price-competitive. For example, some of the new carriers on the scene have seat-mile costs half those of their competitors. With lower operating costs and fewer frills, they can offer air transportation at bargain fares and still show a profit. On the other hand, those who resort to uneconomic pricing without first getting their costs under control cannot expect to survive.

Similarly, it doesn't pay for carriers to serve markets that can't support the service. But this does not mean the wholesale abandonment of small communities. Under the Essential Air Service provision in the Airline Deregulation Act, 455 communities eligible for service before deregulation are guaranteed service for 10 years. But much of this service today is being provided by commuter airlines, who were

never required to be "certificated" by the CAB in the first place, using equipment better suited to low-density markets. The end result is a more effective and less costly way of maintaining service to small communities. Prior to deregulation, taxpayers were paying as much as \$80 million a year to help meet the costs of certificated carrier service to small communities. Even with these price supports, and under full regulation, the CAB allowed the certificated carriers to abandon service to 173 points between 1960 and 1975. On the other hand, since deregulation, none of the communities receiving or eligible to receive certificated service has been left without access to air transportation. But since the carriers operating smaller aircraft are now eligible for subsidies formerly available only to certificated carriers, the cost to the taxpayer has been cut in half.

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 before. There are more carriers in operation throughout America, and more airlines flying what we usually think of as "big aircraft" to more places. In the five years since deregulation, 22 new scheduled carriers have begun service. It is no coincidence -- and no surprise to me -- that the airline industry is now sharing in the economic recovery we are enjoying nationally. Third-quarter earnings for the major carriers were the second highest in their history. Domestic travel in September increased 7.9 percent over a year ago. October topped that, at an estimated 10 percent, and the industry as a whole now forecasts an operating profit for the fourth quarter -- usually one of the weaker seasons for air travel. Industry-wide, the scratching is bringing its own reward. And this has been achieved with no relaxation of the vigorous safety standards under which airlines must operate.

I am well aware of the problems which, like hot spots, have flared up here and there in the industry. Deregulation has not yet produced the perfect system.

But it's a lot better than the system produced by 40 years of regulation. If deregulation were the sole or even the principal cause of the airline industry's financial problems, as the proponents of re-regulation have charged, carriers still under governmental regulatory authority should be doing well. Most foreign carriers, for example, are government regulated. But they are not, as a group, doing well. The foreign airlines belonging to the International Air Transport Association (IATA) have suffered substantial losses over the last three years. Since fares for travel between foreign points are generally higher than fares for comparable distances in the United States -- meaning that foreign airlines take in more revenue per passenger mile than U.S. airlines take in -- the losses experienced by foreign carriers in a regulated environment should leave little doubt that re-regulation in the United States would be no panacea. Quite simply, airline regulation -- whether in the U.S. or in other countries does not appear to benefit anyone -- the air traveler, the taxpayer, or the airlines.

Now, let's look at trucking deregulation.

The Motor Carrier Act of 1980, partially deregulating the trucking industry, has now been in effect for over three years. By and large, industry response to its basic reforms has been positive. With the free entry permitted under deregulation, there are now more trucking firms in business than ever before -- from 18,000 three years ago to 33,000 today. New price and service options have been introduced. Established carriers

have become more efficient and innovative. All of these changes are leading to shipper rates lower than they would have been otherwise, and to savings for consumers.

Still, because of the recession, there are real difficulties in the trucking industry. The decline in tonnage levels drained off profits and led to some business failures. But with the economy now rebounding -- coming back more strongly than almost anyone had predicted -- I predict a continuing increase in demand for freight services. And that's not all. I believe that their greater freedom to compete, together with productivity improvements in the industry, will mean greater earnings for many truckers in the months and years ahead.

As the industry emerges from this transition period, those who adjust most effectively to a more competitive way of life -- by trimming operating costs, offering new service and developing new markets -- will prosper the most. For shippers, the evidence we have -- and I hope you concur -- indicates a wider and growing satisfaction with the results of motor carrier reform. You, as shippers can play an active role in the distribution process. You have a hand in negotiating rates and a greater choice in selecting carriers. You can consolidate shipments, contract for particular services, and work with the carriers to design transportation services best meeting your overall needs. Brokers are consolidating less-than-truckload shipments, "topping-off" loads and otherwise bridging many of the gaps once existing between common, contract and private carriers. It's a whole new world. Today transportation planning for shippers entails more than thumbing through a rate book. You put more into it, but you can also get a lot more out. I just want you to know what a pleasure it is to appear before a group so filled with the American "can do" spirit. This hall is filled with honest-to-gosh entrepreneurs, and America needs you.

In small communities and among small firms, where some argued that service would deteriorate under deregulation, surveys show that shippers remain largely satisfied with their trucking service. In Florida, for example, a survey we sponsored indicated that among shippers reporting changes in service levels, the findings were three to one that service under deregulation was better.

At the same time there are shippers, I realize, who may receive less frequent service and, for others there may yet be no appreciable reduction in rates. But overall, I think you will agree that trucking deregulation has been good for shippers.

The next step, in my view, is the withdrawal of antitrust immunity for collective ratemaking. Single-line immunity, as you know, is scheduled to expire automatically July 1st of next year. In September, I testified before the Senate Commerce Committee that anti-trust immunity is no longer needed. Earlier this month I advised the Congress of the Administration's strong objection to a House-passed amendment to a highway bill that would have extended single-line immunity to 1986. In fact, we agree with the report of the Motor Carrier Ratemaking Study Commission, chaired by Senator Packwood, recommending the removal of all antitrust immunity for motor carrier collective ratemaking. As you know, the NIT League was represented on that Commission by Jim Edler whose expertise contributed significantly to the effectiveness of its work.

In its report, the Study Commission found that collective ratemaking results in higher rate levels, largely because inefficient and marginal carriers are able to pass on their higher costs. These factors increase the overall cost of transportation to shippers and the cost of finished goods to the consumer.

We believe that attitudes as well as institutions will shape the future of the trucking industry. Since the Motor Carrier Act, we have seen a gradual trend toward acceptance of reform on the part of industry executives. A recent survey by The Consulting Center of Marlboro, Massachusetts, for example, turned up a 40 percent agreement by trucking industry executives that antitrust immunity is no longer necessary. I feel this attitude will become even more prevalent as truckers adjust to a way of life that is more competitive, but potentially more rewarding as well. As to when we take that step, to total trucking deregulation, it all comes down -- I believe -- to a matter of timing. We must be satisfied that the timing is right to go the final mile.

To further help those in the trucking industry we sent a legislative proposal to the Congress earlier this week calling for a working group of state representatives to make recommendations for greater uniformity in truck taxing and registration procedures. I am asking all 50 governors for their support in this effort to reduce the administrative burden on interstate truckers. In a sense, this -- too -- is a form of deregulation.

The deregulation story doesn't end there -- which brings me to the railroads.

It doesn't seem so long since America's railroads were rapidly becoming an economic basket case. The bankruptcies of the Penn Central and six other Northeastern and Midwestern railroads had crippled the rail freight system. The transfer of passenger operations to Amtrak a dozen years ago, direct Federal financial assistance to some of the most hard-pressed lines, the 3-R Act of 1973, and the 4-R Act of 1976 all provided some temporary help. But the Staggers Rail Act of 1980 -- the most important regulatory reform measure to be enacted for this industry in a hundred years -- was largely responsible for the turnaround in the midst of recession.

I know the NIT League played a leading role in the development and passage of the Staggers Act. Your vision and dedication have helped revitalize the industry. Railroads are better able to buy new equipment and maintain what they have, so service is more reliable and efficient. And it is much safer service, too, I might add. To date, some 10,000 rate and service contracts between shippers and railroads have been signed. Such contracts didn't exist before 1980. Now the rail carriers can count on business and shippers can depend on rates. And rail "Piggyback" business has grown to record levels, increasing nearly 20 percent between 1980 and mid-1983.

Like the trucking industry, deregulation of the rail freight industry is not yet complete. Regulation remains, as it should and where it should, in those areas where railroads retain market power over specific traffic; in other words, where there are captive shippers subject to the possibilities of the abuse of market power.

I know your concerns in this area. The railroads are unique because they operate over their own rights-of-way and the only practical way for some commodities to move is by rail. Opportunities for rail competition are more limited. We are mindful of these distinctions, just as we are of the importance of preserving competition.

We are closely watching for any danger of single carrier market control, and are prepared to examine cases that come before the ICC and participate in support of the public interest.

As far as the rail merger trend is concerned, we will continue to examine every proposal to determine its competitive effects. In any instance where competition would appear to be reduced unacceptably, we will not hesitate to support the imposition of

conditions by the ICC -- such as trackage rights, reciprocal switching and the acquisition of rail lines -- to maintain an effective level of competition.

Then there are the buses, perhaps now more than ever in the public eye because of the recent temporary work stoppage at Greyhound. It is not my purpose to get involved in a labor/management dispute, but if we look beyond the headlines we'll see some significant transportation history being made.

Deregulation of the interstate bus industry just a year ago has prompted more than 2,000 applications for new operating authority -- a strong indication of just how little competition there has been in bus transportation. By comparison, in the four or five years prior to deregulation, only about 190 regular route applications were filed annually.

The recent strike reflects not so much a downturn in bus business, as it does a new cost-consciousness. For example, a carrier recently opened a new route running north/south across Western Kansas. Using mini-buses and vans, this operator is serving 25 communities that had no bus service at all, because the full-size buses were unsuited to the light density market. Yet this new carrier plans to expand to neighboring states and will soon serve a route system of 4,000 miles. In Wisconsin and in western New England, routes abandoned by former carriers now have more frequent bus service than before.

To complete the deregulation pattern, Congress is now close to agreement on the final chapter, one again in which the NIT League has been a major force -- maritime regulatory reform.

When he took office, President Reagan vowed to pursue regulatory reform of the maritime industry -- to work for a system sensitive to the needs of shippers and responsive to the competitive instincts of the liner industry. Landmark legislation to do that has already passed the House and Senate, and will soon be considered by the Conference Committee. This bi-partisan action represents the first major reforms in 67 years. It will breathe new life into the industry, enabling U.S.-flag carriers to better compete with their foreign counterparts. It will minimize government interference, opening new opportunities for shippers to negotiate for rates. And it will surely contribute -- in the long run -- to the revitalization of the U.S. flag fleet.

Today, all of our transportation industries -- air, rail, truck, bus and water -- are drawing new energy from competition. Those who would succeed must put aside the old ways of thinking and acting. The consumers 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 a philosophy newborn. 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. America's rugged individualists built our transportation industries out of little more than natural fortitude and raw courage. Their dreams have been realized in a system, unrivaled in the world, a humming

network that makes small our vast continent and links us to the world. Thomas Jefferson spoke of that philosophy in his first inaugural address:

"All that we need is a wise and frugal government, which shall restrain men from injuring one another and shall leave them otherwise free to regulate their own pursuits of industry and improvement..."

Deregulation is the embodiment of Jefferson's counsel -- a pillar of President Reagan's plan to renew America and the key to our individual and national success. Deregulation reflects government acting as it should, in the public interest and from concern for consumers as well as the transportation industries they patronize. Jefferson's word are long since the property of the historians --but the sentiments that lay behind them are as relevant as the morning headline or evening newscast. They take on new meaning every time a 747 lifts off, or a freight train bound for the West Coast passes through this crossroads of the North American continent.

Indeed, everything is "up-to-date" in Kansas City.

So let us not make the mistake now of retracing our steps or engaging in a foolish nostalgia for a Utopia that never was. Turn a skeptic's eye toward any who would counsel timid retreat when we must make bold advances. Re-regulation would tie the hands of shippers and carriers just when they need freedom and authority the most. For some carriers caught in the challenges of transition, living with competition may be temporarily painful. But for millions of American consumers, and for the shipping community especially, living without it would be decidedly worse.

Washington Irving, in his famous Sketch Book, spoke of that "spark of heavenly fire, which lies dormant in the broad daylight of prosperity; but which kindles up, and beams and blazes in the dark hour of adversity."

We have kindled the fires of competition, and out of adversity will come progress. I think of a woman who knew great adversity, yet her spirit and her example inspired millions. Her name was Helen Keller -- and she summed up her philosophy in a single sentence. "One can never consent to creep," she wrote, "when one feels an impulse to soar."

We have an impulse in America to soar -- to shake off the shackles of economic regulation, and go as far and rise as high as our competitive skills will take us. I know that is your ideal, and I assure you it is mine.

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