



U.S. Department of  
Transportation

# News:

Office of the Assistant Secretary for Public Affairs  
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Contact: Ownie McBride Smolko  
Tele.: (202) 366-4570

REMARKS PREPARED FOR DELIVERY BY  
SECRETARY OF TRANSPORTATION ELIZABETH HANFORD DOLE  
BEFORE THE  
MURDOCH BUSINESS PUBLICATIONS' DINNER FOR CHIEF EXECUTIVE  
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It's a pleasure and an honor to be asked to address this prestigious group of leaders in the travel, hotel, and aviation industries.

Since the founding of this country, we have debated and even fought over what the proper role of the Federal government should be. That debate has again become intense during the 1980's. Critics of the Reagan Administration frequently frame the argument in terms of those who would give versus those who would take away. I would argue, however, that the current debate is best understood, not in terms of who would offer the American people the most goods and services, but rather how these desirable goods and services can be most efficiently produced and delivered. The answer to this question nine times out of ten will involve one or more of the following conclusions: defederalize, deregulate, privatize.

Economic deregulation has been the most visible success story, but it has recently come under heavy attack, especially in the airline industry. Furthermore, we were barely able to beat back a major attempt last fall to gut the Staggers Act and substantially reregulate the railroads. When one considers the huge benefits transportation deregulation has bestowed on the American economy and people, I am amazed that there can be any question about its retention. A 1986 Brookings study estimated that airline travellers have benefited by about \$6 billion per year in lower costs and more frequent flights. Once the exclusive province of the elite, more people are flying now than ever before. Since 1978, passenger boardings have increased by over 100 million. They are offered a much greater variety of departure and arrival times and certainly a wider range of fares.

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The benefits of rail and trucking deregulation have been equally dramatic. A dose of the free market has reinvigorated a deteriorating and undercapitalized rail industry once diagnosed as near death. One-quarter of the track in this country was in bankruptcy. As a result of deregulation, the American rail industry has been reborn. Railroads and shippers have entered close to 45,000 new contracts tailored to the specific needs of specific shippers. Rates have increased only 4.6 percent over the five years following the Staggers Act as compared to 10.6 percent in the prior five years.

Similarly, the partial deregulation of the trucking industry in 1980 vastly increased the total number of trucking firms by allowing freer entry by new competitors. New price and service options have been introduced. Established carriers have become more efficient and innovative by restructuring routes, reducing empty backhauls, providing simplified rate structures and offering shippers incentives to move freight more efficiently. To consolidate and expand these gains, we intend to reintroduce legislation in Congress this year to complete the economic deregulation of the trucking industry and sunset the Interstate Commerce Commission. The remaining regulations do nothing but impose an expensive paper chase on the industry, wasting tens of millions of dollars that could be spent more productively. It's time to complete what we started in 1980 and liberate the trucking industry once and for all.

The benefits of economic deregulation should not be thought of only in terms of greater convenience or lower consumer prices - although certainly these are important and desirable. In an increasingly competitive world economy, however, deregulation is one major way America can gain a valuable edge. Transportation, for example, averages 20% of the cost of a delivered product. Regulation adds an average of 20-40% to the transportation cost. And, while we have been largely successful in our deregulation efforts, we still have a long way to go. Because of continued regulation in the United States, it is cheaper in some trades to ship goods from overseas than it is to ship the same goods within the United States. For example, a retailer in Dallas reportedly pays less transportation cost per garment to import blue jeans from Taiwan than from manufacturers in Texas. Domestically-produced items are transported in the U.S. an average of eleven times, from raw materials to final consumer, whereas imported products may be transported only once or twice from the port of entry. Naturally, this difference results in higher prices for American consumers and hurts the competitiveness of American producers. Any action we can take to reduce transportation costs in domestic markets will have a significant and disproportionate effect on lowering the costs of domestic products vis-a-vis imported products and foreign producers in overseas markets. And that would be welcome news to both American consumers and producers. Global competitiveness will, indeed, be a major issue on everyone's agenda this year, and the removal of inefficient and burdensome regulatory restraints and red tape is one piece of trade legislation that really works.



I want to emphasize, however, that the economic deregulation of an industry does not mean the deregulation of safety. For example, aviation accident and fatality rates in the U.S. have declined steadily over the past 25 years, and this very reassuring trend has continued unabated since deregulation. Indeed, the fatality rate has been more than halved for scheduled and non-scheduled carriers and is down by over one-third for commuters since the 1978 Airline Deregulation Act.

1986 was one of the safest years in aviation history -- not one passenger fatality on a major U.S. passenger carrier. Commuters had their safest year in history, and there were no fatalities on charter airlines. General aviation's fatal accident rate improved for the fourth straight year with a record low number of fatal accidents.

We never stop working to make the safest system in the world even safer. I have proposed an FY 1988 budget for the FAA that is 20% higher--almost one billion dollars more--than in FY 1987. It includes an increase for 225 additional air traffic controllers, 178 more aviation inspectors, increased security staff and improved communications. I am requesting a 68 percent increase over what Congress provided for 1987 to continue our ten-year program--the "NAS Plan"--to replace completely the hardware and software of the air traffic control system. Ninety percent of NAS Plan projects will be underway by the end of this fiscal year.

In addition, I have moved aggressively to ensure that no matter which mode of travel they choose, the American people will have a drug-free transportation system. Although we have no reason to believe that it currently poses a major threat to transportation safety, we have all recognized that the problem of drug and alcohol abuse has become pervasive in American society. Among other steps, I have just proposed a comprehensive program for DOT employees that includes drug testing of those--like air traffic controllers and aviation inspectors--in critical safety and security positions. I also plan to issue a regulation requiring pre-employment, post-accident and random testing for commercial airline pilots and crew, and for other employees directly responsible for the safety of flight operations.

While the news on air safety is extremely good, and these and our many other initiatives will ensure that it remains so, I am not claiming that the post-1978 era has been problem-free. Flight delays, for example, have increased this year. It is inevitable, however, that in the transition from a stagnant, regulated industry to one that has taken off beyond anyone's wildest expectations, there will be some growing pains. Additionally, the PATCO strike, right in the middle of our transition to a free market, compounded these pains by requiring restrictions on air traffic while the controller workforce was being rebuilt. Finally, the FAA, which had geared itself to the lethargic pace of an industry in which economic change was inhibited at every turn by the CAB, has faced the challenge of keeping a step ahead of a newly invigorated, competitive industry.



The important point, however, is that whatever problems exist now or in future, throwing the baby out with the bathwater is an unnecessary and ultimately self-defeating response. Economic reregulation would hurt--unnecessarily-- the vast majority of American consumers and producers. To the extent problems with the system arise, many creative and viable ways exist to address them that preserve the great benefits of free market competition.

To address the problem of delays, for example, I have just proposed a series of new initiatives. They include a limited grant of antitrust immunity to the airlines to permit joint discussions aimed at adjusting schedules to reduce delays and, pursuant to our authority, under Section 411 of the Federal Aviation Act, an investigation at 13 airports to determine whether airlines routinely misrepresent their schedules to consumers. These initiatives supplement ongoing programs designed to both enhance the efficiency of the air traffic control system and expand the system's capacity.

Despite our best efforts and arguments, we are currently facing a reregulatory threat from Capitol Hill encouraged by special interests. I am committed to fighting this turning back of the clock on deregulation, but -- and, I can't emphasize this enough -- I need your help to be successful. You believe in a strong, competitive American economy -- and this, ladies and gentlemen, is exactly what this fight is all about.

The deregulation experience is one way in which the private sector has shown what it can do if government gets out of the way. Privatization of government-produced goods and services is another. At the Department, we are implementing legislation passed in October authorizing the sale of Conrail. In a transaction that may be the largest initial industrial public stock offering in U.S. history, the sale should produce an enormous sum for the Treasury, reduce the Federal deficit, and ensure an efficient and productive northeastern rail system. The sale of Conrail is the flagship of privatization; never again will it be a ward of the state or a burden on the taxpayers and we are hoping to use the lessons learned through the Conrail sale to devise a plan to permanently wean Amtrak from its dependence on taxpayer subsidies, while preserving passenger rail service wherever it can become truly viable.

If you think our privatization schemes are nothing but pie in the sky -- in one area you are absolutely right. Just a few months ago, President Reagan declared that space itself is open for business. Henceforth, NASA will concentrate its energies on payloads other than commercial satellites -- on the important cutting edge of research and development, the space station and the Strategic Defense Initiative. Routine commercial satellites will be launched by private sector companies, which, by the way, have been launching for more than two decades.

A private, unmanned rocket industry will create jobs for thousands of workers. Satellite owners worldwide will have a broader choice of launch vehicles; this will stimulate



competition, help cut costs and generate new business opportunities in space.

I am not trying to tell you that privatization is an answer to all of the ills of big government, but it is an important way in which government can deliver the services and projects that the public demands in an era of limited public resources. Just because a service is provided by government and funded by the taxpayer does not mean that a certain level of inefficiency and waste should be tolerated. Nor does cutting the budget always mean cutting services. Indeed, it may mean better services at lower cost for the people who rely on them.

Let me cite a specific example of what can be done with a little ingenuity and private sector commitment. Three years ago, the Hillsborough, Florida Area Regional Transit contracted with a private developer to secure the right-of-way for a people mover connecting Harbor Island to Tampa. The developer agreed to finance the entire project with private money, maintain and operate the system for 15 years and then turn it over to the transit authority for \$1.00 after 15 years. The automated people mover is just one part of an overall, ten year, \$1 billion private sector program to develop Harbor Island. The completed project should be an important addition to the growth of Tampa and the economy of the region.

As this example and many others illustrate, economic deregulation and privatization are powerful and effective tools in our pursuit of greater government efficiency. But even where government retains absolute dominion over a particular asset or activity, gains can be realized by moving responsibility closer to the people. At DOT for example, we sold the Alaska Railroad in 1985 to the State of Alaska for \$23 million dollars. Last October, Congress passed legislation transferring National and Dulles Airport to a regional authority. They said it couldn't be done. Eight efforts since the late 1940's had failed to achieve passage in either the House or the Senate. It wasn't easy-- it took three years of tough work-- but we did it, and our success has encouraged me to look for other creative ways to make government more responsive and efficient by transferring power from the national to state and local governments. To return to my original point, the political debate today centers primarily on how goods and services can be most efficiently supplied, not on who would supply them and who would deny them. The legacy of the Reagan Administration as a whole and the Dole Transportation Department in particular will be, I believe, that we offered creative solutions to that question -- solutions that rely not on the formation and operation of new national bureaucracies, but on a properly structured, cooperative relationship between the public and private sectors, between state and Federal governments, between individuals and their elected and appointed officials.

Thank you very much.

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