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DRUG, CHEMICAL AND ALLIED TRADES ASSOCIATION DINNER
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I am delighted to be invited to participate in this distinguished gathering of one of the oldest trade associations in the country. I have the highest regard for this organization. The diversity of your membership, professions and products stimulates new thinking and different approaches to the challenges your industries face. And I greatly admire your commitment to volunteerism, both within the organization and in the communities you serve. And I am delighted that this dinner is used as a fundraiser for the Drug, Chemical and Allied Trades Association's (DCAT's) scholarship program for employees of member firms and their families: helping bright young people to develop their potential.

Your membership ranges in size from Fortune 500 companies to small businesses, independent entrepreneurs and consultants, all with a common goal -- top performance. Your firms must perform or you're out of business. It's a little different where I come from. As one who has spent 20 years in public service, I'd like to reflect on a most critical issue of our time, the ability of the public sector to simply perform, and our capacity to govern ourselves.

Let me share with you a local story. There is an ice skating area in Central Park, here in New York City, called Wollman Memorial Rink. This rink had been undergoing a seemingly endless series of repairs for more than six years. Last May, following a record of non-accomplishment, the city decided to start all over again after two independent studies were unable to identify a single cause for the delays. They did find, however, a litany of

problems. The new process the city decided upon would take an additional two years, and another winter's skating would be lost.

A well-known developer read about the project's problems and offered to take it over. He emphasized performance and a return to basics, saying in essence, "We have this 33,000 square foot rink and we want it to work." The result? On November 22, 1986, Wollman Rink reopened, a month before the developer's December deadline and \$750,000 under budget.

The real lesson of Wollman Rink is not that the private sector can build projects quicker than New York City, or that the private industry should always be the choice in providing services. The real lesson is this: the challenge to government in our era is simply to perform, to find ways to deliver the services that the public demands and deserves, and to do so with in the resources available.

Well, it's time those of us in the public sector prove once again to the American people that the branches of our government can indeed govern in the manner which the founders of our democracy envisioned. For the truth of the matter is that in recent years, Washington has become a city gripped by institutional gridlock; her natural checks and balances have been used all too often to delay and postpone, rather than to deliberate and decide.

As I speak, Congress is in the midst of a struggle over the funding of America's highway and transit systems. There is perhaps no better example of public sector gridlock than Congress' inability to pass a federal highway program. For the fourth time in five years, our nation's highway construction program is at a standstill because Congress feels compelled to dictate spending rather than allowing the states to set their own priorities for needed highway projects. As a result, 35 states have depleted the bulk of their interstate construction funds, 38 states have spent most of their primary road funds and 25 states have all but exhausted their interstate repair funds. Because of short construction seasons, many contracts have been cancelled or postponed. The National Governors Association has estimated that 500,000 construction jobs are in immediate jeopardy. Gridlock in this instance presents us with an opportunity to consider fundamental changes in our highway program so we never again have to say to the American people that their government is incapable of properly managing the funds entrusted to it.

But while gridlock has been developing in Washington, an institutional revolution has occurred in the private sector these past few years, a revolution you in this room have helped bring about. There are many lessons to be learned from this revolution, I believe, as we strive once again to govern effectively, to act, to perform.

Deregulation, decentralization and entrepreneurship have combined to cause absolutely fundamental alterations in our economy and our way of doing business in America. There has been a renewal of risk-taking and innovation, downsizing in large organizations and success in smaller ones.

Our cultural heroes have become the entrepreneurs, the job-creating problem solvers who have captured the imagination of the media and the American people.

In meeting our challenge to perform, we in the public sector can learn from those traits that have characterized success in the private sector. The author of the best selling book, In Search Of Excellence, Tom Peters, recently listed the six key characteristics in successful companies he has surveyed. They are simplified organization, concern for customers first, an emphasis on value, an orientation toward people generally, innovation and speed.

It is those characteristics which must be adapted in the search for excellence in the public sector. We must simplify our bureaucracies in both Congress and the agencies, and continue to decentralize government by returning rights and responsibilities to cities, states and to the people. We must measure our programs not by how much we spend, but what value we create, and sort out those programs that cannot show value. We must ask whether programs benefit the "customer," not the special interests who strive to protect the status quo. We must encourage innovation and speed, not discourage it by stifling creativity.

In short, we must become entrepreneurs in the public sector. We can learn to do better with the resources we have. For example, additional billions to a welfare system that has institutionalized dependency is as irrelevant an answer as ignoring the needy and dependent. We must start anew to develop a system of welfare that works. Protectionist legislation will not cure a trade deficit, but education, training, and a strong emphasis on competitiveness will. We must eliminate unfair trading practices where they exist, to make the playing field of international competition a level one.

We learned the hard way what you've known all along -- government "solutions" can often be worse than the problem, and government often can do a great deal of good simply by doing less.

That is exactly what I've been trying to do in transportation. For example, removing inefficient and burdensome regulations from our transportation industries. We face a major effort to reregulate in this Congress, encouraged by special interests. I am committed to fighting this turning back of the clock, but I need your help to be successful. You believe in a strong, competitive American economy -- and that, ladies and gentlemen, is exactly what this fight is all about.

Economic deregulation of the nation's airlines, railroads, bus and trucking companies has saved American manufacturers and consumers billions of dollars. A 1986 study by the Brookings Institution, for example, estimated that airline travelers have benefitted by about \$6 billion per year in lower costs and more frequent flights. Since passage of the 1978 Airline Deregulation Act, the number of passenger boardings has grown by

over 100 million -- a 40 percent increase. Many people who never thought they'd have the means to fly today are flying.

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. Only a decade ago, the heavily-regulated railroad industry was on its knees. Railroads and shippers have signed 45,000 new contracts tailored to the specific needs of specific shippers since deregulation, contracts formerly prohibited. And, the partial deregulation of the trucking industry in 1980 vastly increased the total number of trucking firms by allowing freer entry by new competitors. And established carriers have become more efficient and innovative by restructuring routes, reducing empty return trips, providing simplified rate structures and offering shippers to move freight more efficiently. Small communities are equally or better served by carriers since deregulation. We are now moving to complete the deregulation of the trucking industry this year, so the tens of thousands of dollars it costs to file papers at the Interstate Commerce Commission in a meaningless paper chase can be spent more productively.

But economic deregulation is not just greater convenience or lower consumer prices -- although certainly these are important and desirable. In an increasingly competitive world economy, deregulation is one major way America can gain a valuable edge. Transportation, for example, averages 25 percent of the cost of a delivered product. Regulation adds an average of 20-40 percent 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 right in his state of Texas. 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 I'm sure that both American consumers and producers would welcome that. Global competitiveness will, indeed, be a major issue on everyone's agenda for 1987, 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 we are deregulating safety. On the contrary, 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. Each day, some 15 thousand scheduled airline flights carry an average of 1 million passengers, and 99.999 percent of these flights reach their destinations without incident. Last year, almost 400 million passengers traveled 300 billion miles on the major scheduled carriers without a single fatality.

But we never stop working to make the safest system in the world ever safer. Take, for example, the subject of drug and alcohol abuse. At DOT, we have a mandate to focus on both sides of the problem -- supply and demand for drugs. - The Coast Guard is engaged as never before in patrolling the waters which surround America, combatting the scourge of illicit drugs which might poison the veins of our countrymen. And at the same time, we are moving to combat the demand for, and the use of drugs, in transportation.

We have had impressive success in our continuing efforts against drunk driving, and we will not stop until we get every last drunk driver off the roads and highways of America. Nor will we tolerate drunk and drugged driving on trains, planes or any other form of transportation, where even more lives are at stake.

The problem of drug and alcohol abuse is pervasive in American society. That means that transportation is not exempt. To combat drug use in the transportation system, I announced recently a sweeping program of random drug testing, and counseling and rehabilitation for DOT employees who hold safety and security-related positions and who may be suffering from a drug problem. Also, we'll address such problems among airline and railroad personnel. We are trying to be sensitive to our employees' needs, and provide help with this terribly serious problem. Our goal is to provide the means for rehabilitating employees who need help, without the loss of their jobs.

But as we move forward with these initiatives, government action must never become so extreme that it threatens the preservation of individual liberty -- another basic purpose of government. Thus, in the implementation of any drug testing program, let me emphasize that our watchword at all times will be the utmost respect for individual dignity and privacy.

The deregulation experience is one way in which the private sector has shown what it can do if the government gets out of the way. Privatization is another. The word "privatization," an awkward word at best, was associated first with Margaret Thatcher's splendid program in Great Britain. I had the opportunity on several occasions to discuss it with her in depth. The time has come to use the British model here. We've already transferred the Alaska Railroad to the state. And I've recently signed the lease to turn over the last two federally-owned airports, Washington National and Dulles, to an independent regional commission. This will clear the way for these two gateways to the nation's capital to use revenue bonds like every other airport, so \$700 million for badly needed improvements can go forward -- \$700 million the federal government does not have to spend.

I am now presiding over the flagship of privatization, the sale of Conrail, our government-owned freight railroad. I will meet tomorrow with the investment bankers regarding the pricing of Conrail's stock. In a very short time, the largest initial industrial stock offering in U.S. history will produce an enormous sum for the federal treasury, reducing the deficit by a commensurate amount. And two weeks ago, I created a commission, headed

by former Illinois Governor Richard Ogilvie, which will explore ways the federal government can eliminate subsidies to Amtrak while preserving economically feasible rail passenger service. Amtrak provides less than one percent of intercity travel and it cost us taxpayers \$27 every time someone steps foot on Amtrak. It's high time we got the government out of the business of running railroads and airports.

Our privatization efforts are not limited to national transportation systems. At DOT, we are taking the lead in government in contracting out to the private sector services best provided by private enterprise. And we're encouraging local communities to contract out to private enterprise at competitive bids those services that can be done by the private sector more efficiently at a lower price -- in some cases as much as 50 percent lower.

If you think our privatization schemes seem like pie-in-the-sky -- in one area you are absolutely right. We are working on the privatization of space. For three years I've argued within the government that the federal monopoly in space must be ended. Last summer, the private sector was given the green light. The President announced that routine commercial satellites would no longer be launched by the space shuttle. Now if there was ever a pure case of privatization, this is it. Companies for twenty years have been manufacturing rockets for Uncle Sam and at a highly reliable rate. Those same companies can launch satellites on a more competitive basis, at a lower cost and more efficiently than the government could ever hope to. But there was no way they'd compete with Uncle Sam, who was offering a 40 percent subsidy. Already Martin Marietta has nine reservations; General Dynamics has four. And what does it mean for the shuttle? The shuttle is now freed to perform more important, exotic missions --manned space, the space station, SDI, research and development, and planetary exploration. It is exciting to watch this fledgling industry move out now to compete against the French, the Chinese and the Russians. We at Transportation will be setting the safety regulations for the launch sites and clearing away excessive federal regulations. And I'm pleased to announce that the International Telecommunications Satellite Organization (Intelsat) just chose Martin Marietta to launch two of its communications satellites. Construction of the Titan III space launch vehicles will begin immediately, and the launches will take place as early as 1989. This marks another great step in our voyage to the heavens.

Now let me come back down to earth for a minute.

There's a famous story about Justice Oliver Wendell Holmes, who once found himself on a train, but couldn't locate his ticket.

While the conductor watched, smiling, the 88 year old Justice Holmes searched through all his pockets without success. Of course, the conductor recognized the distinguished justice, so he said, "Mr. Holmes, don't worry. You don't need your ticket. You will probably find it when you get off the train and I'm sure the Pennsylvania Railroad will trust you to mail it back later."

The Justice looked up at the conductor with some irritation and said, "My dear man, that is not the problem at all. The problem is not, where is my ticket. The problem is, where am I going?"

Where are we going from here? For the past 50 years, the Washington solution to almost every problem has been: if it's income, tax it. If it's commerce and industry, regulate it. If there's a budget, break it.

We in the Reagan Administration have tried and will continue to try to cut government spending and regulation, and privatize government operations that should be run by the private sector. I ask you to work with us to make sure the changes we have made are institutionalized, so that the American economy can operate to its full potential, expanding opportunities for all our citizens.

You in the private sector have the drive, the creativity, that it takes to be the best in the world. You know that prosperity in America is earned; it is not a gift from government or anywhere else.

We in the public sector must restructure our way of governing to adapt to changing times and changing markets. We must make full use of the powerful and effective tools of economic deregulation and privatization in our pursuit of greater government efficiency. We must continue to look for creative ways to make government more responsive and efficient. In short, we must become the entrepreneurs of the public sector. And we would be well-served by following the examples set by you in private enterprise.

Thank you very much.