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REMARKS PREPARED FOR DELIVERY BY
SECRETARY OF TRANSPORTATION ELIZABETH HANFORD DOLE
TO THE NORTH CAROLINA CITIZENS FOR BUSINESS AND INDUSTRY
RALEIGH, NORTH CAROLINA
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What a great honor to speak to such a distinguished group. You are the people who have done so much to make North Carolina one of the fastest growing states in the country as well as the nicest place to live anywhere.

This event is a particular pleasure for me because I come from a family of North Carolina businessmen spanning four generations, and going back to 1905, when my grandfather settled in Salisbury...

Driving into Raleigh a few minutes ago, I saw your bumper sticker -- "Drive Drunk in North Carolina and its the end of the road." You have undertaken a very impressive highway safety program, and I can't tell you how much I appreciate your tremendous effort to crack down on drinking and driving. Together we're not going to rest until we get every last drunk driver off the roads and highways of this state and this nation.

Jim Martin is also working hard for more business investment in North Carolina, attacking illiteracy, working with the State Legislature and the federal Department of Transportation for North Carolina's roads and highways. We are mighty fortunate to have you at the helm, Jim, and it's my privilege to have your advice and counsel of transportation needs of importance to our state.

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 of 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?"

As Secretary of Transportation, I often find it useful to ask myself the same question. Indeed, I would argue that anyone in public service should ask himself that question -- frequently. Those of us entrusted with the responsible exercise of even a tiny piece of such enormous power, must be ever vigilant in scrutinizing our actions. The decisions we make can profoundly affect the lives of other people in so many, often unpredictable ways.

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 problem, legislate it. If there's a budget, break it. We learned the hard way that government "solutions" can sometimes be worse than the problem, and that government often can do a great deal of good simply by doing less.

The removal of inefficient and burdensome regulations is an excellent example. Economic deregulation of the nation's airlines, railroads and trucking companies has saved American manufacturers and consumers literally billions of dollars. A 1986 study by the Brookings Institution estimated that airline travelers have benefited by about \$6 billion per year in lower costs and more frequent flights. People who never thought they would have the means to fly are flying. Since passage of the 1978 Deregulation Act, the number of passenger boardings has grown by over 100 million -- a 40 percent increase.

The effect of the 1980 Staggers Act reducing regulation of the nation's railroads has been even more dramatic. Only a decade ago, the heavily-regulated railroad industry was literally on its knees. Nearly one-quarter of the nation's track was in bankruptcy. The industry faced a ten year capital shortage in excess of \$13 billion. Undercapitalization and deferred maintenance had exacted a heavy price: a seriously deteriorating rail infrastructure. Train accidents were three times as high as they are today. In fact, the late 70's brought a new accident category to the Federal Railroad Administration's reporting data -- the standing derailment, in which a freight car, standing perfectly still, simply fell off a deteriorating track.

Deregulation has revitalized that once dying industry. Since 1980, railroads and shippers have entered over 45,000 contracts tailored to the specific needs of individual shippers. Under regulation such contracts were prohibited. Rates per ton mile have fallen significantly and service has improved markedly with faster, more reliable delivery, reduced loss and damage, and more competitive options for both operations and rates. This has enabled Conrail to make a profit. The rebirth of competition has allowed the railroads to generate the capital necessary to upgrade their

infrastructure into a safer system. Train accidents have been cut by two-thirds.

Partial regulatory reform came to the trucking industry in 1980. Most notably, control over rates and entry for truckers was reduced, with substantial benefits. The number of carriers in the market soared from about 18,000 to well over 30,000. Rate systems were simplified, new price and service options were introduced, routes have improved. The impact shows up clearly on the bottom line. In 1980, total distribution costs, which include transportation and warehousing, were 14.7 percent of GNP. After deregulation, total distribution costs fell to only 11.1 percent of GNP.

But, while we've been largely successful in our deregulation efforts, we still have a long way to go. One industry executive has estimated that complete deregulation of trucking, for example, would save American businesses \$87 billion in distribution costs over the next five years and increase their competitiveness against foreign imports. 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 its own state of Texas! 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. Obviously, in lowering our product costs vis-a-vis the imported goods.

Now let me make it clear. Deregulation in my book means economic deregulation, not the deregulation of safety.

When I became Secretary of Transportation, I stated that safety would be my number one priority. That decision was driven by my understanding that the fundamental function of any government is to protect the physical safety of its citizens. And I can't believe there's any better way, in the time that I have to make a difference, a positive difference in people's lives.

The abuse of drugs and alcohol poses a serious potential threat to the physical safety of the traveling public. It also undermines U.S. competitiveness in the world at large by impairing the productivity of American workers. To combat drug use, I have proposed a series of anti-drug initiatives, which has not exactly made me the most popular person around. Department of Transportation employees in safety and security-related positions who test positive in a random drug testing program will be transferred to a different position and offered rehabilitation. This includes air traffic controllers and railroad, truck, aviation and highway inspectors. I will propose regulations requiring pre-employment testing, post-accident testing and random drug testing for commercial airline pilots and crews, and for other employees directly responsible for the safety of flight operations. Railroad employees are also included.

The recent terrible tragedy when Amtrak and Conrail trains crashed outside Baltimore is an example of why drug testing is so important. If we had not had a rule in place for eleven months that permitted us on the railroads to test after an accident, we could not have even taken the tests on those employees. And as you know some of them showed marijuana in their systems. Now, in the eleven months that rule has been in place -- we have tested about 800 employees after accidents and we find a total of about 3.6 percent with drugs in their system and it goes to about 7.6 percent if you add alcohol. And that's the final evidence I needed to show me that we had to go further to random drug testing if we're going to lick this problem and give you what you deserve and expect -- a transportation system that is drug free.

I believe, however, that 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.

In determining when and if government action is in order, one must also ask, which government? The framers of the Constitution created a federal system so that most decisions could be made at a level of government closest to the affected citizens. The wisdom of that approach becomes even more evident in an era of limited federal resources and large budget deficits.

Thus, my fiscal year 1988 budget proposal concentrates resources on transportation needs that are truly national in character, and leaves regional issues to state and local governments. For example, I am asking for a 68 percent increase over what Congress provided for 1987 to continue our ten year program completely modernizing the National Airspace System. This is the largest non-military project since the Apollo man on the moon project. It's a very complex project which will take us to the highest levels of automation, thereby increasing our capacity, in the air, and also bringing on safety initiatives. Ninety percent of the projects will be under way by the end of this fiscal year, and I have increased the number of inspectors to the high level mark in FAA history. And also air traffic controllers have been increased to 1225, and we will continue to assess that system to have increases wherever necessary to keep up with the increase traffic.

In contrast, I am seeking to reduce federal taxpayer support of local mass transit. Unlike our national airspace, the local bus company has little, if any, impact on defense needs or the facilitation of interstate commerce. Yet a very high level of federal support has been given to mass transit over the past 25-years. States and cities spend less than 1 percent of their combined budgets on transit, and many states have annual budget surpluses.

Strong concern for a proper balance between state and federal government leads the President this week to veto the highway and transit

legislation. By directing the states to give priority to the construction of 152 "demonstration" projects, which don't demonstrate anything but pork. The Congress would establish itself as the nation's chief highway engineer, subverting the 60-year federal-state partnership under which the states have determined the priority of highway projects. Since 1973, there been about 9 highway bills and only 30 demonstration projects. Never before has a President been compelled to veto a highway reauthorization bill. But never before has a Congress so blatantly done an end run around state governments, to make them subservient to the whims of individual members of Congress.

We all put in that penny of federal fuel taxes for mass transit. One cent of that nickel a gallon increase in gasoline tax of 1982 goes to mass transit. But only 13 cities last year got 80 percent of that funding.

No matter how productive we are at home, or how efficiently we allocate resources between federal and state governments, or the public and private sectors, our prosperity is profoundly affected by the world at large. Thus, the federal government has a legitimate interest in assuming a strong role in the promotion and protection of U.S. commercial interests in international trade.

The Department of Transportation has the responsibility for protecting the commercial interests of U.S. companies providing air and maritime services at home and abroad. We have placed a high priority on helping these carriers to gain fair and equitable access to foreign markets and to operate efficiently once access has been achieved. We have successfully used a combination of negotiations and the withholding of rights to fight unfair trade practices by foreign nations and companies. In appropriate cases, we have been forced to use the government's retaliatory powers enacted by the Congress for these two service sectors. Indeed, the threat of using such retaliation alone is often a very useful negotiating tool in achieving a fair competitive environment for our carriers.

In aviation, for example, we forced Malaysia to accept a U.S. carrier as its ground handling agent in the United States because U.S. carriers must accept the Malaysian carrier, as a monopoly ground handling agent in Malaysia. We refused to grant Lufthansa, the West German airline, permanent authority to serve Houston until the airline corrected the anti-U.S. bias in its computer reservation system. And in Peru, restrictions placed on both our passenger and cargo carriers led to the suspension of air service, and eventual renegotiation of the bilateral agreement between our nations, to assure that our carriers have reasonable rights to Peru, and through Peru to points beyond.

In the maritime area, we persuaded the Pakistani government to suspend an 8 percent gross freight revenue tax that discriminated against U.S. flag carriers. We have made some progress in eliminating Japanese barriers to the use of more efficient high-cube containers by U.S. carriers. We have continually pressured the South Korean government to loosen operating

restrictions on U.S. carriers that hamper the carrier's efficiency, flexibility, and therefore, ability to compete for cargo in South Korea.

As these examples suggest, we have had the most success in eliminating unfair practices in the aviation area. The major reason for this is that in 1979 the Congress granted the Secretary of Transportation the tools to take prompt, effective retaliatory action.

In the maritime area, by contrast, we have less flexibility because the authority to retaliate is invested in an independent regulatory body -- the Federal Maritime Commission. That means when action is required, we have to formally propose sanctions by the FMC. The procedures are lengthy and cumbersome, and as a practical matter preclude us from mounting a quick, precise surgical strike at small specific problems. Nevertheless, we will seek such measures whenever we believe that negotiations alone will not be sufficient. U.S. companies providing air and maritime services play a vital role in our economy; rest assured that we will continue to move aggressively to defend the interests of our carriers and shippers against unfair trade practices wherever and whenever they arise.

I've tried today to give you an idea of the kind of things we are doing at the Department of Transportation to improve U.S. productivity and competitiveness. I've discussed the basic philosophical principles that can guide us in deciding when government action is appropriate, and what form it should take. Let me just add: while the actions of public servants must always be firmly grounded in basic principles, application of these principles must always be tempered with a healthy dose of basic common sense. As Samuel Taylor Coleridge put it, "Common sense in an uncommon degree is what the world calls wisdom."

Thank you very much.

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