



U.S. Department of
Transportation

News:

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Washington, D.C. 20590

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TOPEKA, KANSAS
MAY 14, 1987

I'm so honored to speak before this very prestigious and important organization. Of course, Kansas is my adopted home so I'm doubly proud to spend this time with fellow Kansans.

As one who has spent 20 years in public service, I'd like to reflect today on a most critical issue of our time. The ability of the public sector to simply perform, and our capacity to govern ourselves.

Those of us in the public sector, I believe, must prove once again to the American people that the branches of 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.

There is perhaps no better example of public sector gridlock than Congress' inability in recent years to expeditiously pass federal legislation authorizing highway construction. For the fourth time in five years, federal highway construction funds were held up last fall because Congress felt compelled to dictate spending rather than allowing the states to set their own priorities. Earmarking projects for construction that were not at the top of the state's priority list. Because of the delay, many states had used up most of their construction funds before legislation was finally passed. Thousands of jobs were threatened. It's time for change 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. I intend to announce some fundamental changes...

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

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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 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, customer orientation, an emphasis on value, an orientation toward people generally, innovation and speed.

It is those characteristics which must be adopted in the search for excellence in the public sector. We're going to have to 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're going to have to 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've got to start anew to develop a system of welfare that works.

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

Treasury Secretary Jim Baker recently told the Board of Directors of the New York Stock Exchange, "The challenge for policy makers is clear: a country with uncompetitive financial products, or outmoded financial regulations, is a country that risks suffering a loss of capital and jobs, and perhaps a decline in economic growth."

After a recent cabinet meeting, I told Jim that I was going to be speaking to the Kansas Bankers. We got to talking about deregulation in the financial and transportation industries. Clearly, there are similarities between the two.

And like the transportation industry, yours suffers from excessive regulations while foreign companies and other countries benefit. Further deregulation, immediately, is crucial -- critical, in banking. Foreign financial institutions are entering lucrative areas of business that are off-limits to American banks. Such market expansion has helped make our competitors large, diverse and strong. According to a 1986 survey by the

American Banker Newspaper, only one U.S. bank is now among the 10 largest in the world, based on total deposits. Japan has the largest, and Japan has seven of the 10 largest! and three of the top five: numbers one, two, and three. Thirty years ago, by comparison, five of the top 10 were American, and the top three were all American banks: And 10 years ago, the Japanese were nowhere in the top 10.

I'd like to give you an example of how transportation regulation hurts our competitiveness. Because of continued regulation, 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 averages 25 percent of the cost of a delivered product. Regulation adds an average of 20-40 percent to the transportation cost.

Indeed, this is the time for policy makers and the private sector to reassess the situation and see just where we can improve our performance. Talk just isn't enough.

That reminds me of a story about this fellow from North Carolina I heard about from a lawyer in my home town. A banker had died and his family met in the lawyer's office for the reading of the will.

He left \$20,000 to his wife, \$75,000 to his brother, and \$10,000 each to his sisters. Then the will read, "And to my nephew Ralph, who always wanted to be mentioned in my will, I say, 'Hello, Ralph.' "

We'll be as out of luck as poor Ralph was if we don't get busy right now to clear excessive regulations from the books. I'm proud to say that the Department of Transportation has taken the lead in the federal government's efforts to reduce regulations that impede American competitiveness.

We face a major effort to reregulate by 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 this, ladies and gentlemen, is exactly what the fight is all about.

Economic deregulation of the nation's airlines, railroads 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 the 1978 Airline Deregulation Act, the number of passenger boardings has grown by over 100 -- a 40 percent increase. People who never thought they'd have the means to fly are in the air today.

The benefits of reduced economic regulation of rail and trucking have been equally dramatic. A dose of the free market has reinvigorated a

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deteriorating and undercapitalized rail industry once diagnosed as near death. 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 10-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 the track.

Deregulation has revitalized that once dying industry. Since 1980, railroads and shippers have entered close to 50,000 new 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. Conrail, turned a profit for the last five years, thanks largely to deregulation.

Similarly, the partial deregulation of the trucking industry in 1980 vastly increased the 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 moving 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.

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 we still have a long way to go. One industry executive 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 over foreign imports. Obviously, any action we can take to reduce transportation costs in domestic markets will have a significant and disproportionate effect on lowering costs vis-a-vis foreign products.

Economic deregulation of an industry, however, 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 415 million passengers traveled 300

billion miles on the major U.S. 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. I've found my own little footnote in history at the Department of Transportation. For I am the first woman to head a branch of the armed services -- the U.S. Coast Guard. 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 young people. And at the same time, we are moving to combat the demand for and the use of drugs in transportation.

We have had impressive successes 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. But that's not all. We're not going to tolerate drunk drivers in automobiles -- why should the American people have to tolerate drunk and drugged driving on trains, planes or any other form of transportation.

The problem of drug and alcohol abuse is pervasive in American society. That means, transportation is not exempt. To combat drug use in the transportation system, I announced recently a strong 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. A major element of our program is to provide the means for rehabilitating employees who need help.

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 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 of government-produced assets is another. The word "privatization", an awkward word at best, is associated 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.

In addition, I recently had one of the most exciting moments of my life standing on the floor of the New York Stock Exchange as eager investors bought every last share of the government's stock in Conrail. That sale brought \$1.88 billion for the federal treasury. It was the largest initial industrial public offering in U.S. history. After seventeen years as a ward of the state, Conrail is now a healthy, publicly traded, privately owned railroad. Conrail could not have been sold without deregulation. And as I mentioned, thanks to deregulation, it turned a profit for the last five years.

And the President recently assigned me the responsibility of overseeing the commercialization of space. Our job at the Department is to help our fledgling industry get moving. Initially, I thought this meant clearing away excessive regulations. But it soon became clear, however, that the greatest barrier to success was not excessive regulation, but a highly subsidized Shuttle system. This forced companies into a losing contest against their own government for launching routine communications satellites. These same companies could 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.

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 and launching rockets for Uncle Sam and at a highly reliable rate.

Already Martin Marietta has ten launch reservations and McDonnell Douglas reports it has received nine down payments for future launch dates. And what does it mean for the Shuttle? Now, the Shuttle is 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 with the French, the Chinese, and the Russians. We at the Department of Transportation will be setting the safety regulations for private sector launch sites and clearing the way of excessive federal regulations. The ramifications for the future of America are enormous.

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, indeed. 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.

Last week, Jeana Yeager and Dick Rutan visited the DOT on behalf of my drug initiative. And I recalled that in the wake of their non-stop around-the-world historic journey, Dick Rutan struck the keynote of our shared philosophy. He took the occasion to thank the President for establishing and maintaining an environment conducive to pioneering. As he put it, he had to fill out only two pieces of paper in the six year history of his aircraft, Voyager. One was an application of airworthiness, the other, an application for a tail number.

Who knows what long range ramifications will flow from this graphite ship of the air? This much we know: Voyager did not originate in the Department of Transportation. Its birth certificate was a restaurant napkin, its first blueprint a series of doodles by an aeronautical dreamer. Dick Rutan said it best -- "What kind of a world would there be if there was no daring?"

The government is not exempt from daring. 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, and we must continue to look for creative ways to make government more responsive and more efficient. In short, we must become 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.

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