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Anywhere you look these days, you'll see change, nowhere more apparent than here, amidst the growing manufacturing centers and the gentle mountains of Massachusetts. Springfield celebrates its 350th anniversary amidst economic growth and promise for the future. Your unemployment rate is four percent, well below the national average. Your six industrial parks are booming and your excellent transportation systems put you at the heart of western Massachusetts' distribution center. Springfield has been an active participant in a national renewal as welcome as the beautiful Massachusetts Mayflowers and the first strains of music at Tanglewood. From your enthusiasm here tonight it's obvious "the spirit of Massachusetts is the spirit of America." And speaking of change, massive deficits and Gramm-Rudman-Hollings are forcing us to reassess the proper federal role in transportation policy.

Obviously, defense and the facilitation of interstate commerce are very important federal roles, but in some other areas where it might be a desirable function, but not a necessary function, we will not be able to do all that we've done in the past. That's regrettable, but is absolutely necessary that all of us in the government and all of us as citizens across this country support efforts to bring down these deficits so that we can see the continuation of economic expansion and healthy growth in our economy.

Now, speaking of priorities, let's talk for a moment about whether or not all taxpayers should subsidize the travel of a few. Of course they shouldn't. So, we're going to be advocating cutting federal subsidies for Amtrak.

A lot of people have a warm place in their heart for Amtrak. You know, they don't want to give up our passenger service. When you look hard at it, the subsidy started out as a two-year, for profit, experiment. It's now \$12 billion later, and it's going to take \$6-8 billion to keep Amtrak running for the next decade. It provides only one percent of inter-city travel. The average subsidy: \$35 to \$36 per person every time someone rides Amtrak. So, this is enormously challenging, but we're trying to come to grips with the problem and call on the stakeholders who want to continue Amtrak service to help foot the bill.

We have enjoyed, of course, beginning in 1982, 41 consecutive months of economic growth. Productivity had risen. Inflation remains subdued at just 2.3 percent, and factories and offices alike have created 9.8 million jobs since November 1982, the height of the recession. The prime interest rate is 8.5 percent. So, young people can dream the truly American dream of home-ownership and realistically expect to accomplish it. We want to see this trend continue by getting these deficits under control.

And, transportation, of course plays a major role in our economy and in our businesses. Transportation, ladies and gentlemen, is an \$800 billion industry, which accounts for 20 percent of our gross national product. My department alone has a \$27 billion budget. We have 100,000 employees, and our responsibilities, quite literally, cover everything that moves. We even have a bicycle policy.

And, interesting enough, 70 percent of my budget is supported by user fees, where those who actually use the services pay for them whether it's on our highways or in our airways or on our waterways.

In a broader sense, we are letting the market, if you will, lead us into the 21st Century.

Free market principles are the guiding force of economic deregulation of transportation industries. The 1980 Motor Carrier Act, which provided for some economic freedom, has had significant and positive effects on the trucking industry. If there are truckers here tonight, not everyone would agree with that statement. In fact, I spoke at the board meeting recently of the American Trucking Associations and they're sort of split on the issue. I would say half of them are for total truck deregulation, and the other half would like to leave it where it is.

But, overall, our studies show that with freer entry into the trucking business, we've had an explosion in the number of firms with Interstate Commerce Commission operating authority from roughly about 18,000 firms to almost 31,000 last year. New service and price options are out there today

so that shippers have a lot more opportunity to select the kind of service that they need.

Established carriers have become more efficient: they've become more innovative because they can restructure their routes. They don't have to travel on just one set route. They've reduced their empty back-hauls. And they've been able to provide simplified rate structures and offer shippers incentives to move freight more efficiently. So overall, we feel that it's been very positive.

The regulation that exists today is really one big paper chase. Tens of millions of dollars are spent filing papers before the Interstate Commerce Commission, which really means very, very little today. And that money could certainly be spent in more productive ways.

When partial deregulation occurred in 1980, one of the things that people worried about was what kind of an effect it would have on small communities. Our studies show that about 99 percent of shippers in remote areas, and that's defined as 26 miles or more from an interstate highway, have found that services are at least as good as they were in the past, and in many instances better.

I look forward to working with Senator Packwood who is on a roll lately having managed to forge a delicate consensus on tax reform. We expect that his Midas touch will extend as he persuades his colleagues to support passage of a trucking deregulation proposal.

The gentleman from Oregon has put together a solid motor carrier reform bill that promises to finally get the federal government out of the trucking business. This comprehensive measure will release the industry to operate in the free market without filing tariffs, reporting entry, or dealing with the red tape of ICC rate regulations.

In essence, the Senator's initiatives will permit interstate carriers of properties to carry whatever commodities they wish, over whatever routes they wish, at whatever rates are mutually agreeable to them and their customers. It is a responsible measure, retaining federal safety and financial responsibility standards intact.

Now let's talk about railroad deregulation for just a moment. When Congress debated the Railroad Deregulation Act six years ago, nearly a quarter of the nation's railroad track was in bankruptcy. Deferred maintenance, derailments, unreliable service was commonplace.

In fact, the rate of train accidents was three times as high as it is today. And, in the late '70s a new accident category was introduced to the Federal Railroad Administration's data bank. It's called a standing derailment, in which a freight car standing perfectly still simply fell off the tracks, because the roadbeds were in such deplorable conditions. And that, believe it or not, occurred twice in a single year.

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The contrast between the '70s and current conditions make the case for rail deregulation. Today's railroad industry survived the recent recession, the deepest since the 1930s, without a single bankruptcy. Capital investment has increased dramatically. Deferred maintenance has been virtually eliminated from the nation's mainlines and the pace of branch-line abandonments has definitely slowed.

There are 30,000 contracts now between railroads and shippers so that you can tailor your needs with a specific contract, and that was not permitted under regulation.

Captive shippers such as coal and grain operators with no other means of transporting their products are entering into contracts which alleviate their earlier reservations about deregulation.

As we move forward with economic deregulation, let me assure you that we will in no way permit safety to be diminished. We have just succeeded after twelve years in getting a rule addressing the significant problem of drinking and drugs on the railroad.

We're going to address the safety issues, whether it's on the railroads or on the highways, where 92 percent of the fatalities occur. And, I'm going to keep working until we get every last drunk driver off the roads and highways of this country.

We lose about 44,000 people in a year in the United States on our highways. And, I think if we can just get people to realize that using that safety belt is important, we can eliminate 10,000 deaths a year. If we eliminate drinking and driving, we can prevent 25,000 deaths a year. So, we have our work cut out for us, certainly.

Some of you who have new cars may be familiar with the high-mounted stop light required on all new cars. Our studies show that one little light at the base of your rear window will eliminate about 900,000 accidents involving rear end crashes, and save almost \$500,000 in property damage every year.

The safety belt rule that took effect two years ago (Rule 208) has spawned 25 state safety belt laws, one of them here in Massachusetts, and I am so pleased because your statistics are already showing many lives saved by passage of that legislation.

Air safety is on everyone's mind today. And again, deregulation has been successful in the airline area. First and foremost, let me emphasize that when we speak of "airline deregulation," we are talking about the elimination of economic regulation. Safety has most assuredly not been deregulated. And the benefits of economic deregulation both to the consumer and the American economy as a whole cannot be exaggerated. They are real, substantial and ongoing, and they are measured in billions of dollars in reduced travel costs.

Under deregulation, entrepreneurs launched a new era in aviation. Today there are twelve major carriers flying, another score or so of medium-sized carriers and a host of regional and commuter airlines. Deregulation has clearly brought a new level of cost consciousness and service options to the airline industry. Before deregulation when we travelled, our choice was limited to first class or coach. Today, you can find as many as 10 categories of fares, each tailored to a specific market segment.

The low fares mean that air travel has been brought within the financial reach of millions who otherwise could not have afforded to fly. Exotic vacations and distant family and friends have been brought closer for millions of people.

And again, here is the important point: these benefits have not, as some would claim, come at the expense of aviation safety. Flying remains one of the safest forms of transportation, and air travel in the United States is still the safest in the world. Each day, some 15 thousand scheduled airline flights carry an average of one million passengers, and 99.999 percent of these flights reach their destinations without so much as a minor operational error.

Now there has been a lot of concern recently because international commercial aviation in 1985 experienced its highest number of fatalities in a single year -- 1,622 people lost their lives. While even one fatality is too many, it is crucial, however, that this bare statistic be put in perspective. About 70 percent of these fatalities occurred in accidents on foreign airlines and over 50 percent occurred in the crashes of Japan airlines with 520 deaths and Air India with 329 deaths. We have found no common thread in the causes of last year's tragic accidents -- either here or abroad -- and we have no evidence that the presence or absence of government economic regulation contributed to those crashes. In fact J.A.L. and Air India operate under heavy government economic regulation.

As John Robson, who served as chairman of the Civil Aeronautics Board before deregulation, recently said in a Wall Street Journal column, "for U.S. carriers operating scheduled service with large aircraft (which includes all the major airlines), the 1985 total accident rate ranked among the lowest of the past decade. In fact, the domestic fatality rate for these carriers in the seven years after deregulation is only about half that of the five years immediately preceding deregulation. The commuter airlines, which have had an explosive growth under deregulation last year had the lowest accident rate in their history. The one dark spot is that 1985 fatalities on air-carriers were at a record high, primarily because of the Newfoundland crash. The charter carriers have been the aviation segment probably least affected by airline deregulation. They are now the subject of a special FAA safety probe. Overall, the aviation accident rate in the U.S. has declined steadily over the past 25 years, and there is no evidence that deregulation is having any adverse effect on this comforting trend. Travel by air remains about the safest way to get there."

None of this should come as any surprise if you remember that, contrary to the snap judgment some have made, competition promotes safety. If a carrier acquires a reputation for sloppy operations and marginal practices, passengers will stay away in droves. It is also important to recognize that airline executives faced economic pressures before deregulation but had much less flexibility to adjust to those pressures than today. Because the government set fares under regulation, the carriers could not, in order to increase overall net revenue, lower their fares to attract new business or adopt new schedules to meet changing consumer demands. One of the few ways a carrier could reduce losses or increase profits was by cutting maintenance, pilot training and other safety items.

I am not claiming, however, that the post-1978 era has been problem-free. It is inevitable that in the transition from a stagnant, regulated industry to a booming competitive one, 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 work force 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.

In rebuilding the controller work force, the objective was not merely to replace the fired controllers, but to create a system for the future. We reached our goal of approximately 14,000 controllers in February 1985, but the demands on the Air Traffic Control System continue to grow. We are increasing the size of the controller work force by 1,000 over the next two years to accommodate future growth in the aviation system. I increased the inspector work force by 25 percent beginning in early 1984, bringing it to the highest level in FAA history. Once again, as we focus on future controllers, I will be adding 500 additional inspectors.

Historically, our aviation security programs have been extremely effective, as they are today. Since the security program was initiated in 1973, we have screened over 7 billion passengers and 8 billion pieces of carry-on baggage. These screening and inspection procedures have detected 34,000 weapons before they were carried aboard aircraft, and resulted in over 14,000 related arrests. At least 116 hijackings have been prevented.

As conditions have changed and would-be hijackers and other terrorists have tried new approaches, our security programs have been tailored to meet these new challenges. When international terrorists activities escalated last year, we put in place tough new security procedures to ensure the safety of Americans traveling abroad. Last June, after the hijacking of TWA Flight 847 and the senseless murder of an American serviceman, I went to the International Civil Aviation Organization (ICAO) to seek tougher security standards worldwide. With the help of the other concerned nations, ICAO introduced 11 new specifications into its Security Annex and 19

specifications were adopted as standards. Those new standards are now being followed throughout the world.

To counter the terrorists threat in the United States, we are moving aggressively against terrorism in the skies. The FAA continually conducts security assessments of more than 50 of the world's largest foreign airports. We also issued new checked baggage and cargo security measures. And we have expanded our research and development efforts to keep pace with terrorists, whose criminal activities are ever more sophisticated.

The tremendous growth in the airline industry brought on by economic recovery has required major changes in how the FAA does inspections. In addition to adding inspectors, we recently scheduled in-depth inspections of all major carriers. To eliminate completely the risk of familiarity between our inspectors and the airlines they police, we are bringing in inspectors from around the country to review each major carrier from top to bottom.

The large proposed fine of Eastern Airlines is the first example of the benefits of this new program. I want to emphasize that Eastern is safe, and had made major internal changes after our inspection. While we believe Eastern is currently complying with safety regulations, the nature of the violations discovered demands strong action. If it does not pay the \$9.5 million fine by this Friday, the FAA will file suit to recover the full amount allowed by law, which would be many times the proposed fine. But Eastern has not been singled out; other major carriers are being intensively inspected, and others will follow, under the new procedures I have instituted.

Now, another top priority at DOT; Privatization. Until recently, the expression was associated primarily with Prime Minister Margaret Thatcher's splendid program of transferring responsibility for services from government agencies to private profit-making enterprises. I had the opportunity twice to discuss transportation policy with Prime Minister Thatcher in the last couple of years, and she, by the way, is a very avid seat belt fan. They have 95 percent compliance in England and their fatalities are down 26 percent.

She also told me a lot about privatization. Britain and the United States are in the vanguard, but the idea of privatization is really generating enthusiasm from the Potomac to the Ganges.

Conrail is the flagship of privatization in this country. It's the first one out of the box, so to speak. So, it's important that we win this because there are a lot of initiatives that will follow in its wake.

The sale of Conrail to Norfolk Southern also would produce the equivalent of ten percent of what Gramm-Rudman-Hollings would require from the federal government in fiscal year 1986. We would get \$1.9 billion from

the Norfolk Southern railroad the day we close the deal with and the Norfolk Southern buys Conrail.

Conrail has a very short profitability history. And, as we look out to the 1990s using Conrail's own projection, it's going to be marginally profitable. In fact, Hayes Watkins, CSX Chairman, told me early on that Conrail needs a strong parent. Conrail is subject to truck diversion because it carries short-hauls; therefore, trucks can compete with Conrail very effectively to take traffic away. He said it also doesn't have coal reserves and really is marginally profitable; it needs a strong railroad parent. And I think that's true.

Conrail's traffic has decreased at almost 4 percent a year for the last 20 years, and this past year it was down 5.2 percent. They're not going to get more traffic. And, Conrail has been shrinking its way to profitability by laying off workers, by cutting back on the lines. They recently posted 570 lines for abandonment. They sold off \$77 million in property last year, non-rail property, and they're projecting 5,400 jobs that they'll have to lay off in the next five years.

Now the Morgan-Stanley plan proposes to sell stock to investors. To make the stock attractive enough in dividends to sell it publicly, that means shrinking even more. That means that to pay the dividends that Morgan-Stanley requires, they will have to eat into their capital to the tune of \$133 million. That money will not go into the railroad. It will go into dividends. They will also have to lay off another 1,500 workers. They will have to sell more property.

That is not what I feel is in the best interest of the employees, the shippers and taxpayers because we want a strong, viable, financially healthy railroad that never again comes back for a federal handout. And, to do that, the first and foremost thing is to bring strength to that company.

Norfolk Southern has the highest operating maintenance standards in the business. They have a commitment to running a railroad: not to flip the stock quickly. Norfolk Southern will diversify the traffic. Conrail carries recession-sensitive traffic, and the merger with Norfolk Southern would bring \$180 million of extra volume on the Conrail lines every year, and other advantages.

There will be a long-haul single-line railroad north-south, and long-haul, single-line is important because you don't interchange railroads, which means you get lower rates for shippers and quicker delivery of goods.

I don't think the federal government is meant to be in the business of running freight railroads anymore than it's meant to be running airports. We have legislation before Congress to transfer Washington National and Dulles International, the two Washington airports, to an independent authority; thereby, putting them on par with all other airports in the United States. Approximately \$500-\$700 million will be needed for expansion

and refurbishing these airports. The independent authority can use revenue bonds like all other airport authorities and participate in the airport trust fund. Given Gramm-Rudman-Hollings and the federal budget, there is no possibility of putting such large amounts of money into the airport. I am optimistic after our strong Senate vote that we will succeed on this important issue in the House this year.

Now, in conclusion, let me just say that whether we're talking deregulation, safety, air security, selling a railroad, transferring airports -- whatever we might be talking about, we're striving on a number of fronts to provide the answers to complex questions that literally stretch you to the very limit of your being at times. I guess that's the challenge and the enjoyment of it, too.

It is an opportunity to make a difference, a positive difference, for people. I think of something that President Reagan said. He recalled how he first learned to deal with stress as the newly elected governor of California. And, he said, "each morning began with someone standing before my desk describing yet another newly discovered disaster. The feeling of stress became unbearable. I had the urge to look over my shoulder for someone I could pass the problem to. Suddenly, one day it came to me that I was looking in the wrong direction. I looked up instead of back, and I'm still looking up. I couldn't face one day in this office if I didn't know I could ask God's help and it would be given."

And, ladies and gentlemen, with all my heart, I agree with that statement. I think that's what it takes in this day and age with the challenges that we all face.

Ours is neither the time nor the place for men or women with faint hearts, feeble courage, weak commitment or selfish motives. With your help and your support we will reach our goal of a better life for all our people. America deserves it; history demands it; and, our children will reward it.

Thank you very, very much.