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U. S. DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20590

REMARKS BY M. CECIL MACKEY, ASSISTANT SECRETARY OF TRANSPORTATION FOR POLICY DEVELOPMENT, PREPARED FOR DELIVERY AT THE JOINT MEETING OF THE AERO CLUB OF WASHINGTON AND THE TRAFFIC CLUB OF WASHINGTON, WASHINGTON, D. C., NOVEMBER 28, 1967

Just a little more than a year ago, the President signed into law the bill establishing the Department of Transportation. That law, as you know, directed the Secretary of Transportation to provide general leadership in the identification and solution of transportation problems, with the objective of assuring the Nation of an efficient, coordinated transportation system. Today I thought I would give you a brief report on some of what we have been doing so far in carrying out the mandate of the Congress and the President. Understandably, I will focus some attention on air transportation but -- and this requires strong emphasis -- it is vital to recognize that we view our responsibilities at DOT in a systems context. It is not our job to view the country's transportation needs on a mode-by-mode basis -- rather, it is DOT's responsibility to take a comprehensive look at the problem of transportation.

Eight months have passed since the Department formally came into existence. Life during those eight months has indeed been hectic down at 800 Independence Avenue -- where we occupy a structure once known as the FAA Building. The character of our work has been remarkably diverse. The needs of international, intercity, and urban

transportation -- the demands for the efficient movement of people and goods -- have presented a formidable but nonetheless exciting challenge to all of those who are seriously interested in providing the United States with a transportation complex that efficiently meets the needs of an \$800 billion economy. Perhaps our most important and immediate task has been the development of the fiscal 1968 budget and the formulation of a budget for fiscal 1969.

In addition, however, the Department has commented upon more than two hundred bills, trying to fit these legislative proposals into a larger policy framework. In addition, we have intervened or are participating in cases before each of the major Federal transportation regulatory agencies. Before the CAB, we have intervened in the Transpacific case, and in the Washington Area Airport Investigation, as well as in the Washington-Baltimore Helicopter proceeding. Before the Federal Maritime Commission, we have protested a maritime conference agreement that would have had the effect of seriously interfering with the rights of American and many foreign maritime operators to move goods in international commerce. In public statements, the Department has drawn attention to the larger economic consequences of proposed transportation rate increases.

Most recently, just last week, we intervened in a case before the ICC in support of a new "rent-a-train" proposal. This concept is

a significant breakthrough in ratemaking and well suited to promote more efficient transportation. The Department strongly supports experimentation and innovation and we will encourage the competitive environment which will allow the resulting gains in efficiency to be passed on to the public quickly in the form of lower rates and better service.

I could recite several additional types of action which DOT has taken, but rather than run through a long list of activities, I would rather seek to answer a question which I am certain has occurred to many of you: What do all of these particular steps -- as reflected in budget decisions, in regulatory participation, in legislative activity -- add up to in the way of Departmental philosophy.

Let me try to answer that question by citing and then discussing briefly two policy principles of special relevance to air transportation.

First, airports and airspace utilization raise what are, in essence, allocative decisions which call for the development of pricing and regulatory devices to ration scarce resources in accordance with our overall understanding of transportation priorities and national goals.

Second, and closely related, air safety must be viewed as part of this allocative process and not as a separate functional category where investments can be made without economic inhibitions.

For the last several months, we have been confronting squarely the many difficult issues concerning our total air transportation system. The explosion in air traffic anticipated in the next few years and the accompanying demands for investment in airports and the airspace system make these issues ones of acute public importance. Within a decade air transportation passenger traffic will nearly triple. In ten years, and maybe less, nearly a million people a day will board commercial planes in the United States. Air cargo will become increasingly important as a revenue source -- accounting for at least six times as much traffic in 1975 as at present and approximately 40 times as much by 1985. It will also influence the size and the nature of the fleet and will generate tremendous requirements for ground handling capability. Perhaps the most striking of all, however, are the forecasts of growth in the number of general aviation aircraft -- from 95,000 in 1966 to 166,000 by 1975.

To recognize the scale of the airport and airspace problem, however, does not tell us what to do about it. It does not tell us what should be invested in additional airspace facilities and airports -- by the Federal Government or by other governmental or private agencies -- or where. Nor does it tell us what the tradeoffs are between additional investment and regulation.

With only slight reservation, I assume that the state of the art and the size of the economy are such that we could build all of the

airports and install all of the electronic gadgetry and hire all of the highly skilled personnel needed to provide a system with sufficient capacity and adequate safeguards to take care of all future air transportation requirements.

But to say that is not to answer the question. Even if we set aside temporarily the whole range of urgent problems related to environmental impact, there are still major constraints on our investment planning. Dollars that can be spent for airports or instrument landing systems can also be spent for other forms of transportation -- on freeways or subways or high-speed ground transportation in densely populated urban complexes. And in virtually every one of these areas of transportation both the present problems and the projected growth are at least as staggering as those for aviation.

Too, the same dollars can be used elsewhere for non-transportation purposes -- for recreation facilities, education, hospitals, or the rejuvenation of our cities. The competition for dollars is intense at every level of government. Further, we should not forget, nor can we overlook in our planning, the private sector's demands for and legitimate uses of our Nation's resources.

What we must recognize is that the construction of airports and the installation of equipment for the airspace system constitute demands which, valid though they are, intrinsically have no greater

claim to the Nation's wealth than any of a number of other purposes. It is this simple yet crucial fact of allocation which has, all too often, been overlooked in our discussions of the Federal role in air transportation -- and in other areas of transportation as well.

Secretary Boyd, in his testimony before the Senate Aviation Subcommittee last August made it very clear that he did not believe expansion of the Federal airport grant-in-aid program along its present lines was either realistic or desirable. The President confirmed this approach in a broader context in his letter of September 20 to Secretary Boyd. The President called for a long-range comprehensive plan for facilities, equipment and personnel and declared that where additional outlays of Federal funds for the air traffic control system are required, the user and not the general taxpayer should be asked to shoulder the burden.

The capital requirements for air transportation must be recognized as presenting straightforward economic questions of allocation. All of us who are concerned with air transportation -- all of us who have the responsibility for promoting and fostering its growth and development -- must do everything we can to insure that the funds which are available for aviation are used in the most efficient way possible. As with any scarce resources, airport capacity and airspace capacity must be allocated in a way which takes into account

the productivity of the users in the light of our overall transportation objectives. This means that allocative techniques must be established that yield the greatest return on our investment.

Normally in our private enterprise economy, this process, which is in effect a rationing process, is carried out by the price system. But here, in air transportation, where the Federal Government controls the airspace system and governmental units of one kind or another own and operate many of the airports, the price system is only marginally applicable. Instead, public policy at each level must establish the necessary combinations of pricing and regulatory techniques that will ration the resources so as to gain the greatest possible use.

In the specific context of air transportation, this rationing process has not been evident. In some instances, as with the airspace system, there has been an effort to recapture for the Federal Treasury the amount of public money that has been invested. The application of this effort has been quite uneven and inequitable as among the different classes of users. Neither pricing nor regulation has been used to increase capacity or improve productivity.

In the case of airports, there has been virtually no use of regulation to relieve congestion or increase efficiency. Where charges have been imposed, generally in the form of landing fees, the objective has been simply to "pay" for the facilities. The notion of rationing;

i. e., the deliberate manipulation of charges and other devices to increase capacity, improve productivity, relieve congestion or achieve greater efficiency, has literally played no significant part in our provision of air transportation facilities.

All too often local authorities have not been willing to take the steps which in our economy are normally considered quite logical to solve either their financial problems or their congestion problems. Frequently aviation has simply not been assigned a very high priority at the State or local level nor has there been a willingness to levy charges on all users consistent with the facilities and services offered or desired.

Interestingly enough, the airlines have long recognized a scarce commodity when they saw it and priced their product accordingly. Strangely, however, the same product they have been selling at a premium price -- prime time -- has been offered to them and to other users as well as though it were a commodity available in unlimited quantity, with no differential pricing. In some cases it has been available to some users as though it were a free commodity. This kind of glaring inconsistency undoubtedly contributes to many of our congestion problems today.

The Department of Transportation recognizes that the problems associated with aviation growth can not be solved simply by unlimited

additions of concrete and electronic gear. The problem is basically that of allocating scarce resources and must be dealt with in those terms. This is the approach that we will be taking. We will encourage both private and public authorities to use their initiative and imagination in dealing with those aspects of the problem which can best be handled at the local level.

I would like to turn now to the question of air safety. It is clear, I think, that the process by which both investment and regulatory decisions affecting air safety are made will have to be improved in the future. Our overall record in air safety is good, but by no means good enough. In aviation we are very fortunate to have a relatively balanced program of safety. We deal with the airman, the aircraft and the airway in all three phases -- prevention, crash and post-crash. Nevertheless, a review of our safety programs readily shows that there are substantial differences in the payoffs associated with various programs and with individual projects within programs.

Given the existence of so many legitimate demands for public dollars, I think we must all recognize that the days are long since gone when it was possible to gain additional millions for equipment for the airspace system or for airport projects with little more than an energetic wave of the "air safety" flag. By the same token, our air transportation system has grown to a point where regulatory decisions intended to accomplish safety objectives almost inevitably have

complex, far-reaching and expensive implications for many users of the airspace.

Uncomfortable as it may be, we must strip away the mythology which has too often been associated with our thinking and our decisions about air safety. The fact that we must make decisions which we know in the final analysis will affect human life can not serve as a justification for ducking our responsibility to deal with the issues squarely and in a rational framework. The situation is also one of limited resources -- both public and private -- for dealing with the problem and these resources must be used in ways which we believe, in our best and most informed judgment, will offer the greatest protection for the air traveler.

We must assess old assumptions in the light of current realities and shape the future to meet our needs. The rules which establish both rights and restrictions must be constantly tested and retested to see that they are realistic and acceptable in the light of our safety objectives and our operational capabilities. Obsolete concepts must be discarded and old rules revised when they are found to be inadequate.

Neither Government nor industry can do "whatever is necessary" any more than either can spend "whatever it takes" to insure air safety. We can do many things and we can and will spend a great deal of money in an unending search for greater safety but we must constantly ask ourselves the question: What price are we prepared to pay to achieve

marginal increments of safety and how should the burden be distributed? We must also be fully aware of the increased costs and the restrictions on freedom of activity which are imposed by regulatory actions.

Our investments and our regulations which are designed primarily for safety purposes must be closely related to our investment in our regulatory decisions to achieve efficient utilization of both airspace and airport capacity. The two are closely interrelated from an operational standpoint as well as from an economic standpoint.

The establishment of the Department of Transportation in and of itself demonstrates an awareness of a need -- it is in fact a commitment to take a fresh look at all our policies. The Department is charged with stimulating technological advances in transportation. Deliberate steps will be necessary to insure that the economic gains from technological innovations can be quickly and fully exploited, and that our decisions recognize the allocative process which confronts us.

The hero in one of Louis Auchincloss' recent stories observed that "the world is too busy to revise old judgments." As a general proposition this may be true, but I do not believe that we can allow it to be true of aviation.