DEPARTMENT OF TRANSPORTATION

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REMARKS BY ROBERT HENRI BINDER, ASSISTANT SECRETARY OF TRANSPORTATION FOR POLICY, PLANS AND INTERNATIONAL AFFAIRS, AT THE 17TH ANNUAL TRANSPORTATION CONFERENCE OF THE TEXAS TRANSPORTATION INSTITUTE, TEXAS A&M UNIVERSITY, COLLEGE STATION, TEXAS, THURSDAY, APRIL 3, 1975

Energy, Economics and Regulatory Reform

I welcomed the invitation from Texas A&M to participate with you today in this 17th Annual Transportation Conference. Of particular interest to me is that the two-day conference is intended to focus on the joint theme of challenges and opportunities in transportation--as they impact on energy, economics and regulatory reform.

I'm particularly pleased to be with you since this occasion gives me the chance to reflect on the Department of Transportation's current views on the pressing transportation problems before us. Your theme underlies the Department's motivation in pursuing programs to ensure that our transportation system remains the best in the world and continues to improve.

Let me stress our strong commitment to stimulate progress in transportation. We seek action for the betterment of the Nation's transportation system and for the consumers and shippers who use carrier services. We seek a viable transportation system that operates efficiently and economically at peak capacity. We also strive for the most efficient use by all forms of transportation of the Nation's limited energy resources.

And, we seek the economic gains that can be obtained through constructive modification of the existing Federal regulatory structure governing common carrier operations by surface and air.

These goals are some of the key policy development and implementation objectives guiding the formation of the Department's programs. They also provide the impetus behind our problem-solving approach to the issues of energy, economics and regulatory reform.

From a national and international perspective, the issues you have identified couldn't be more timely. They are also among the most complex ever to face the transportation industry.

We firmly believe that these issues and problems can be addressed rationally, taking into account many diverse viewpoints, to produce solutions with far-reaching and long-lasting benefits to the public and the national economy. Our caveat is that as we develop programs that are responsive to energy and economic pressures, we must also have the resolve to ensure that such programs are effectively implemented.

The recent rapid increase in the price of imported crude oil has presented the Nation with the need to reduce energy usage and improve domestic energy supplies. A major Departmental target is the reduction of the amount of gasoline consumed in automobile travel. We have been working to increase the efficiency of the automobile--through lower speed limits and more efficient engines--and to reduce the use of autos by providing alternatives--such as improved transit and disincentives on automobile travel.

The importance of these efforts has been recognized by President Ford, who has adopted a lower national speed limit and traffic control measures as major elements in his energy program and who has personally asked the automobile industry to increase the fuel efficiency of automobiles.

The Department's involvement in energy issues has been intensified in recent years, reaching a high level of activity during the severe gas shortage 16 months ago. Our efforts were brought to bear on a number of fronts, from weekly monitoring of transportation fuel availability to filings with Federal energy officials to responding to the fuel-related problems experienced by various segments of the transportation industry.

The gas shortage caused hardships throughout the economy, particularly among the independent truck owner-operator segment of the transportation industry. We worked closely then with the independents, and our cooperative effort continues in terms of resolving grievances they brought to the surface during the shortage. In fact, we are completing this month an extensive study of one of their difficulties: The barriers caused by the diversity of State requirements for licenses, permits, fees and taxes concerning trucking operations across State lines.

The Department has also been working for several months with auto manufacturers to improve the fleet average fuel efficiency of new cars by 40% in 1980 over 1974. We are developing methods by which States are to certify that they are enforcing the nationwide 55 miles per hour speed limit. The Act establishing the limit requires the certification as a condition for the receipt of Federal-aid highway funds.

As still another step in reducing fuel use and improving urban transportation efficiency, the Department is recommending that States and localities develop short-range plans for implementation of a number of urban traffic control measures. Urban transportation and highway funding would be conditioned on their designing such plans, and should also be conditioned on the implementation of these plans. The traffic control measures would be aimed at improving transit service and increasing carpooling, such as through a system of reserved lanes for buses and carpools, carpool promotion programs, transit scheduling and routing improvements and pricing policies affecting auto use and parking.

More recently, under the auspices of the national Energy Resources Council, we launched with other Federal agencies a joint industry/government program to reduce the fuel consumption of trucks and buses. The program involves voluntary cooperation among manufacturers, suppliers, trade organizations and vehicle users, on the one hand, and, DOT, the Federal Energy Administration and the Environmental Protection Agency, on the other. Together, we are aiming for a major improvement in commercial vehicle fuel economy -- perhaps up to an 18 percent gain in fuel efficiency of newly-built medium-to-heavy duty trucks and buses by 1980.

These programs are focused on obtaining better and more energy-efficient use of existing systems while meeting the public's need for safe, economic and efficient transportation.

As we strive for greater fuel efficiency in transportation, we must also take steps to improve the economic performance of the transportation industry. Many of you are aware that the Administration has long sought to implement changes in regulatory policy. In our work on regulatory reform, we have maintained frequent contact with members of the regulatory agencies -- particularly the Interstate Commerce Commission and the Civil Aeronautics Board. We have also solicited the views of the public, the providers of transportation services and shippers who use these services. And, we have worked closely with the Congress in shaping legislative programs to implement our regulatory proposals.

We will continue this dialogue as we prepare to send to the Congress soon a series of regulatory reform proposals in the railroad, motor carrier and aviation industries. The proposals will seek fundamental reform of the regulatory practices governing the economics of the transportation industry.

Some regulatory controls no longer serve to meet the Nation's transportation or economic needs. We need to strip our system of unnecessary, restrictive regulatory policies.

The President's Economic Report to the Congress of last February addressed this and other regulatory issues, by noting that:

> "There has been a marked trend toward more rather than less governmental regulation, and this trend has been particularly evident in recent years . . . . The continuation of long-standing regulation as well as the recent proliferation of regulation have raised questions about the efficacy of regulation: In particular, what costs and benefits the various forms of regulation impose in the light of today's economic difficulties . . . . Whatever the rationale for regulation, once established it has a tendency not only to be maintained but to become more rigid with time, even if its economic costs become great and its effects differ from those originally intended . . ."

It has become increasingly apparent to us that revision of the transportation regulatory framework is a prerequisite to a viable transportation system, just as a viable transportation system is a prerequisite to a strong American economy.

We are concerned that Government regulatory policies sometimes contribute to financial and other difficulties encountered by carriers. At present, carriers, shippers and consumers frequently face a web of restrictive government regulations which stifle competition and discourage innovation.

Our experience and research have shown us that the present regulatory structure has become, in many respects, outdated, inequitable, inefficient, uneconomical and frequently irrational. The same structure misplaces incentive and disincentive, distorts competitive advantage, protects inefficient carriers from effective competition, over-restricts market entry, artificially inflates rates and misallocates our Nation's resources.

Under the current system, for example, many products purchased by business and consumers have a higher price tag because price fixing and other forms of shelter from competition sanctioned by our regulatory agencies protect the least efficient carriers and permit rates far over cost.

As many of you are aware, the Department proposed regulatory reform legislation in 1972 that would have beneficially affected both rail and motor carriers. The initiative failed to win approval by the Congress and, in fact, did not get out of committee. Then, last spring, the Department submitted a rail-oriented proposal -- the Transportation Improvement Act. Several parts of the proposals were subsequently incorporated in the Surface Transportation Act, which was overwhelmingly passed by the House (377-15) in December; however, the STA, as it was called, was not acted on by the Senate.

Building on our prior research and legislative efforts, we plan to transmit to Congress soon a new rail package. It will be designed to eliminate overly restrictive regulatory practices and provide financial incentives to rationalize and modernize rail facilities.

The proposal will improve rail ratemaking procedures and rate bureau practices, ensure a more consistent and reasoned evaluation of rail abandonment proposals, facilitate intrastate ratemaking, end discriminatory State and local taxation of interstate carriers and improve cost and revenue accounting procedures.

Our concern in shaping the legislation is that the railroad industry today is in a deeply troubled state. Large parts of the rail plant have deteriorated to a dangerous level, with some Northeastern and Midwestern railroads already in bankruptcy, joined just recently by the Rock Island. Inaction on remedial legislation has helped to bring the industry's condition to the stage of desperation. Even those railroads which remain solvent often earn so little that they are unable to adequately maintain their track or replace badly needed equipment.

About 50% of rail track is restricted to below-normal speeds because of poor track maintenance. Some 15-to-20% of mainline track is restricted to speeds of 10 miles per hour. And, the rate of return on investment for the industry as a whole is less than 4%. Excluding the bankrupts, the rate of return rises to only 5%.

The response for revitalization of the railroad industry must not be delayed. If it is -- if we cannot promptly attack some of the root causes of the industry's difficulties -- then we are inviting a national disaster of immense proportions. None of us want nationalization of the railroad industry; we can act decisively now to prevent that drastic step in the future. Our proposed rail bill can be a major step forward in preserving our rail system to meet the needs of modern America.

As our work proceeds on rail regulatory reform legislation, we are also addressing the problems presented by the Northeast-Midwest bankrupt roads. The President has established under the chairmanship of our new Secretary of Transportation--William T. Coleman, Jr. --a task force of the Economic Policy Board to review and assess the Preliminary System Plan produced by the U.S. Railway Association for the restructuring of the railroad system in that region. And, we have underway in the Department an extensive effort directed to other national rail restructuring issues and rail economic viability questions.

In striving to improve our national transportation network, the Department has also been involved in a major motor carrier regulatory research program which will lead to legislative proposals for transmittal to Congress in a few weeks. This program, too, underscores the Administration's commitment to wipe out regulatory controls that stifle competition, to eliminate operating inefficiencies and to permit a fuller interplay of free enterprise principles.

The motor carrier industry includes over 15,000 firms regulated by the ICC. But regulation of this basically competitive industry has resulted in a number of inefficient and wasteful practices. For example, loadometer studies by the Federal Highway Administration indicate that van-type trailers operated by ICC-regulated carriers have empty backhauls almost 40% of the time.

While our bill is still in the drafting stage, I can tell you that we are looking hard at the backhaul problem, and such issues as pricing flexibility, entry limitations, the alleged threat of market chaos absent regulation, commercial zones and restrictions on private carriage.

Another area of concern to the Administration and the Department is our current aviation regulatory system. We believe the system hampers industry performance and economic efficiency, and is unresponsive to public needs. Current policies administered by the Civil Aeronautics Board freeze carrier entry, control price, force wasteful service competition and suppress free market forces.

Such an uneconomic regulatory system affects not only air transportation but the entire economy. We are seriously concerned that there appears to be a move to increase air regulation and even less competition -- at a time when there is growing evidence that increased reliance on competitive forces best allocate airline industry resources.

Regulatory requirements in aviation closely parallel those in the rail and motor carrier industries. Air carriers, shippers and passengers face the same regulatory complexities as their surface counterparts.

The three most pressing problems in the airline regulatory field are in these broad areas: Ratemaking and pricing flexibility, market entry and exit, and anti-competitive agreements. Each area is in need of reform.

For example, a major difficulty with CAB policy has been ratemaking and carrier inability to raise and lower rates in response to the demands of the marketplace. This, in turn, forces carriers into costly and uneconomic service competition, deprives the traveling public of the range of price/service options which would otherwise be available, and results in substantial economic waste and inefficiency.

The results are clearly detrimental and often irrational. A few examples will suffice. California and Texas intra-state fares (which are not regulated by the CAB) have historically been far lower than fares on comparable segments where the carriers are controlled by the CAB. Not a single new trunk carrier has emerged since the Board was established in 1938, and the number of trunks has steadily dwindled. A number of airlines are just now in the process of concluding a "liquor war" -- the provision of free drinks to attract customers. Had all carriers participated, in one carrier official's opinion, the "war" could have cost the industry up to $100 million annually.

We are also focusing on the Board's restrictive entry and exit policies. These policies have inhibited competition and increased costs to consumers. The present system does not recognize the importance of potential competition as an economic force.

Legislation apears to be required to rationalize these restrictive aviation regulatory practices, and we plan to submit to Congress in the near future a proposal that will get to the heart of the difficulties we have identified.

Overall, the Department's program for regulatory reform is based on responsible change to meet changing economic conditions. The regulatory tenor of the nineteen-seventies must be to remove from our economy the unneeded regulatory remnants of the 1880's and 1930's.

I am optimistic that an orderly transition can be accomplished in the regulatory arena. Let me state clearly, though, that the Department is not attempting to completely eliminate regulation nor substitute its statutory responsibilities for those of the regulatory agencies.

There are some who assert that the Department's programs for regulatory reform are really veiled attempts to annihilate the regulatory process. That's ridiculous. Clearly, the regulatory process should be in question. That's a healthy situation. The time has come when we must rationally assess regulatory conditions in transportation. At the same time, we must evade the cling-ism that typifies some responses to proposed regulatory change and keep pace with changing economic conditions.

Of necessity, I have limited my remarks today to an overview of the principal challenges and opportunities that lie ahead in the areas of energy, economics and regulatory reform. My remarks would not be complete without extending to you an invitation to participate in the national dialogue that will continue to occur on these extraordinarily important issues during the balance of 1975. We welcome your views on our programs, as well as your support of them.

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