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STATEMENT OF ROBERT H. BINDER, DEPUTY ASSISTANT SECRETARY FOR POLICY, PLANS AND INTERNATIONAL AFFAIRS, BEFORE THE SUBCOMMITTEE ON AVIATION OF THE SENATE COMMITTEE ON COMMERCE ON FREE OR REDUCED-RATE TRANSPORTATION FOR CERTAIN GROUPS, TUESDAY, MAY 8, 1973

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to appear before you today to discuss the various bills before the Committee authorizing free or reduced-rate transportation for selected groups (S. 181, S. 295, S. 1429, S. 1432, and S. 1705). The bills would generally provide free or reduced-rate transportation for the youth, the elderly, the handicapped and their attendants, and families of deceased airline employees.

S. 1432 would amend the Federal Aviation Act to authorize reduced rates for widows, widowers, and minor children of employees who have died while employed by an air carrier or foreign air carrier after 20 or more years of such employment. We believe that the question as to whether the Act should be amended to authorize reduced-rate transportation for this group is more appropriately a labor management question which the carriers and the employee groups are in the best position to address.

S. 181 would amend the Federal Aviation Act to authorize reduced-rate transportation for individuals under 21 years of age or over 65 on a space-available basis. S. 1429 would amend the Federal Aviation Act to authorize free or reduced-rate transportation for handicapped persons

and persons attending such handicapped persons. S. 295 would amend the Federal Aviation Act to authorize free or reduced-rate transportation for persons 65 years of age or older and handicapped persons and persons traveling with and attending such handicapped persons. In addition, S. 295 would amend the Interstate Commerce Act to authorize reduced rates for persons who are 65 years of age or older. S. 1705 would amend the Federal Aviation Act to authorize reduced-rate transportation for handicapped persons and reduced-rate transportation on a space-available basis to persons under 21 or over 65. The bill would also amend the Interstate Commerce Act to authorize reduced-rate transportation for the handicapped and for persons under 21 or over 65.

The Department understands the concerns of those who support the bills now before the Committee. The availability of low cost transportation is of crucial importance to all members of the public. As the Board's recent investigation of discount fares has shown, however, reduced rates for special groups of the general population have serious drawbacks. The Board's investigation showed that the present youth and family fares are below the cost of the transportation provided and burden normal fare-paying passengers. Normal fare passengers pay higher rates over time as a result of having such fares. The result is a cross subsidy from normal fare passengers to the select groups. Such a system is economically inefficient and is unfair to the normal fare passengers who must support the below cost travel of the select groups.

Reduced rates for select groups also unjustly discriminate against segments of the general population who have the same needs for low cost transportation but are not eligible for the fares. The Department believes that there are better alternatives available that are not discriminatory and that would be beneficial to all members of the general public, not just the special groups identified in the proposed legislation.

In the CAB's Domestic Passenger Fare Investigation, the Department urged the adoption of a system of such fares in which the reduction in price is equivalent to the costs saved by the carrier as a result of better utilization of equipment and facilities. Thus, for example, the Department has supported reduced fares during off-peak hours or on lightly traveled days of the week and during lightly traveled periods of the year, provided this transportation is available to all travelers. These fares would be based on the cost of service provided. Such off-peak discount fares --

1. would not be limited to select groups;
2. would enable many persons otherwise unable or unwilling to pay normal fares to use air transportation; and
3. would not burden normal fare passengers.

The development of a fare structure offering a range of fare levels based on cost difference is already taking place in international air transportation with the addition of "shoulder" fares to "peak" and "off-peak" seasonal offerings. Carriers are also differentiating between "midweek" and "weekend" excursion fares. Several domestic carriers offer

substantial reductions for travel late in the evening or early in the morning. Several carriers offer reduced rates for round trips originating and terminating on off-peak travel days. At least one carrier offers an economy service which is priced below normal coach service.

From the standpoint of the elderly, who can adjust their travel time, reduced fares during off-peak times should be of real benefit. Such fares should also meet the needs of young people and handicapped persons who can adjust travel to off-peak periods. The newly authorized Travel Group Charters should also be of substantial benefit to travelers who can plan their trips well in advance. For example, student groups who desire to return home for vacations should be able to use Travel Group Charters. Similarly, elderly passengers for whom the day or time of departure is not crucial should be able to use such charter flights. TWA has instituted a new demand scheduling concept which will permit passengers in many important markets to obtain substantial fare reductions by scheduling their trips well in advance. Each of these fares is cost-based, should be profitable to the carriers, and should promote an efficient low cost air transportation system available to all members of the public.

As a result of the extensive record regarding discount fares compiled in the CAB's Domestic Passenger Fare Investigation, a Board decision was issued on December 5, 1972 and reaffirmed on May 1, 1973. The Board found that the present discount fares provide essentially the same services as those that are provided full-fare passengers and that there are not any inherent cost savings which would justify the current differences in the fares.

Discount fares which are not based upon cost savings do not increase the air carrier's earnings over the long run. Rather, such fares debase the overall yield of the carriers without compensating cost savings and therefore must inevitably lead to higher normal fares in the long run. The Board's findings in this regard are entirely consistent with the economic evidence that the Department submitted in the CAB's proceedings. I would be happy to provide a copy of that evidence and our briefs in that proceeding for the record.

In addition to our concern with providing low cost transportation the Department is concerned about improving transportation facilities for the elderly and handicapped. The Federal Aviation Administration has been studying means to improve terminal accommodations, as well as accommodations for enplaning, en route comfort, and deplaning for these passengers. At many large airports, the level "jetways" which extend from the terminal to the aircraft have improved travel for the elderly and handicapped.

Since airport terminal buildings are not funded under the Airport Development Program, the FAA is not directly involved in their construction. They do, however, issue guidance material for the use of architects and engineers in the design of terminal buildings. Likewise, in regard to the enplaning, enroute comfort, and deplaning accommodations, they suggest means of making air travel more comfortable for the handicapped and have found that the industry shares their concern. In this regard, on November 27, 1968, the FAA issued an Advisory Circular entitled "Airport Terminals and the Physically Handicapped." In August of 1972, the FAA published an "Airport Medical Design Guide," which if used in conjunction with a previously published advisory circular on eliminating barriers in airport terminal design, provides

the airport operator with the necessary information for designing airports which are fully accessible to the handicapped.

The legislation proposed would apply to several groups that are not now eligible for reduced-rate transportation and would authorize the continuation of reduced rates for youth. As the Board has found, youth fares now burden normal fare passengers. The Board is in the process of phasing out these fares over time. To reinstitute these below cost fares might require upward adjustment in normal fares. Making several additional groups eligible for below cost fares will almost certainly result in higher rates for normal fare-paying passengers. According to Census data, the provisions of the legislation would permit over 50 percent of the American public to purchase air transportation at free or reduced rates. All of the eligible persons might not use these rates. If any significant percentage of the eligible persons used these rates, upward adjustments in normal fares would appear to be required.

We do not doubt the worthy nature of the groups involved. We believe that they can be accommodated by cost-based rates available to all members of the general public. Selection of these three worthy groups by enactment of this legislation would undoubtedly encourage numerous other worthy groups, such as veterans, retired military, retired police officers, and union members, as well as groups whose members have lower than average income to seek similar legislation. We do not believe the results would be conducive to a sound economic transportation system in

which rates are based on the relevant costs of service. This type of legislation would create an air transportation system where the rates paid would reflect not the cost of service but the age or status of the traveler. Few, if any, travelers would pay the relevant costs of transportation. Such a system would be economically inefficient and discriminatory. It could adversely affect the viability of the air carrier system.

The provisions of S. 181, S. 295, S. 1429, and S. 1705 appear to be permissive since they do not require that such fares be offered. But adoption of the legislation would indicate the congressional policy that such fares were desirable. The groups who would benefit from such fares would almost certainly be successful in convincing the air carriers and the Board to introduce the congressionally authorized special reduced rates.

S. 181 authorizes reduced-rate transportation only on a space-available basis. S. 1429 and S. 295 are not clear as to whether transportation is to be on a space-available or reservation basis. As to elderly and handicapped travelers, we question whether standby travel is desirable. These passengers are generally less able to cope with the inconvenience which can result if a flight is filled. It is likely to cause severe inconvenience for an elderly or handicapped person to stand by for a flight and then discover that it is filled, thus necessitating several hours' delay or, perhaps holding over until the next day. Also, in many cases, under current practice the air carriers, if notified in advance, now make special arrangements for handicapped persons. Frequently,

these passengers are boarded first. These arrangements cannot be made on a standby basis and the discomforts of travel could well be increased.

Although inconvenience to passengers is not necessarily as much of a problem with the youth standby fares, the record in the CAB discount fare proceeding shows that the carriers have experienced many complaints regarding such travel. Often, standby travelers cause as much expense as reservation passengers as a result of repeated calls to determine if a flight were likely to be available. Moreover, evidence in the discount fare proceeding suggests that standby passengers sometimes make a reservation in another name in order to improve the chances of obtaining a seat on the flight. These concerns caused several airlines to eliminate their youth standby fares and offer youth reservation fares.

It could be argued that standby passengers are less expensive and that these passengers cost the carriers less to transport. The Board did not identify any significant cost savings associated with standby traffic. The parties to the proceeding (which included at least one student group) did not show significantly lower costs. If savings exist for standby travelers, the Department does not object to a system of cost-based standby fares. There is not any reason, however, to limit these fares to select groups such as is proposed in the legislation. All members of the public should be eligible.

We believe that an economically sound air transportation system must be based on a fare structure which provides that each passenger pays the cost of his carriage. Thus, for example, we oppose a situation where a

person who is taking early retirement is called upon to subsidize the below cost transportation being provided a passenger who is gainfully employed but, for one reason or another, is eligible for one of the reduced rates in the proposed legislation.

If Congress were to authorize these rates, the effect could well be to undermine much of the valuable work completed by the Board in the Domestic Passenger Fare Investigation. In that proceeding, the Department has advocated basing rates on the cost of service. Fares set at the average cost of service enable passengers to purchase air transportation at the lowest cost consistent with the provision of the service. Cost-based fares also permit the carriers to earn sufficient revenue to cover the cost of the service and to earn a reasonable return on investment.

Setting such fares complies with the congressional mandate to the Board to encourage and promote civil aviation while considering the effect of fares on the movement of traffic, the public's need for adequate service, and the carriers' need for sufficient revenue.

If the below cost fares proposed here are introduced and normal fares are kept at the same level, carriers will either have to reduce service or accept less than a reasonable return on investment. Neither alternative is desirable from the standpoint of a balanced transportation system.

If the below cost fares are introduced and carriers are to be permitted a reasonable return on investment and are to retain the same level of service, normal fares must be increased. Increases in normal

fares will have an adverse effect on the movement of traffic. Certain passengers who now travel but would be ineligible for the reduced-rate transportation would be priced out of the market. Moreover, the remaining passengers would be denied air transportation at the lowest cost consistent with the furnishing of the service.

We therefore believe that the Congress should not encourage the introduction of these fares which would necessarily need to be priced below the relevant costs of service. There are cost-based alternatives which will provide low cost transportation for the groups covered by these bills as well as all other Americans.

S. 295 would amend the Interstate Commerce Act to authorize free or reduced-rate transportation for persons over 65. Such legislation could have an adverse impact on Amtrak. A significant percentage of passengers using Amtrak's service are 65 or older. As you know, Amtrak is operating at a substantial deficit. Authorizing free or reduced-rate transportation for a significant percentage of Amtrak's passengers could increase deficits. This might require additional Federal funding to keep Amtrak viable. Alternatively, Amtrak would be forced to increase rates for other travelers to make up for lost revenue, or curtail service. In many areas of the country, Amtrak has been experimenting with rate policies designed to expand usage of the system. These include fare reductions in selected markets applicable to all segments of the population. We believe that the general public benefits more from these experiments than from providing special rates to select groups.

Reduced rates for persons over 65 or under 21 in air travel could encourage the diversion of many travelers that now use buses and trains to air transportation. If the effect of the legislation were to divert passengers from Amtrak, increased Federal subsidy would be required or rates for the remaining passengers would need to be raised, or service might have to be curtailed. Reduced rates for special groups could also result in diversion of passengers from intercity buses. This loss of passengers could result in a reduction in the frequency of service for the remaining passengers or higher rates. We do not believe that a balanced transportation policy is furthered by the encouraging of diversion of traffic from Amtrak and bus companies through the use of below cost rates by air carriers.

For the foregoing reasons, the Department opposes the enactment of S. 181, S. 295, S. 1429, and S. 1705. This is not because we oppose making low cost air or surface transportation available to persons under 21 or over 65 or to the handicapped. We believe low cost transportation should be made available to all Americans on a nondiscriminatory basis. We oppose the approach taken by the bills because it is inappropriate and because, as I have discussed, there are other more appropriate means to make such transportation available.

