

STATEMENT OF SECRETARY OF TRANSPORTATION BROCK ADAMS, BEFORE THE HOUSE APPROPRIATIONS COMMITTEE, SUBCOMMITTEE ON TRANSPORTATION, CONCERNING NATIONAL TRANSPORTATION DEVELOPMENTS, FEBRUARY 7, 1979

Mr. Chairman and Members of the Committee:

I am very pleased to be here today to discuss the implementation of the statement of national transportation policy that I made almost exactly one year ago. A great deal has happened since then. I believe my Department has seen some significant achievements and I want to give you a report on them. We are also experiencing some shifting emphasis in our priorities and we have some new challenges before us as we look to the future. I want to talk with you about the coming year taking all of these into account.

In my policy statement of February 1978 I emphasized the point that we are going through a transition from a time of building, developing and expanding our transportation facilities to accommodate a growing nation to a time in which there will be major emphasis on prudent management and use of our transportation systems. We must get the most that we can out of our existing physical transportation plant while we pay closer attention to the side effects of our actions in terms of human needs of our cities, of our resources and of our environment.

Since I issued my policy statement last year one concern has clearly risen above all others. Inflation, always a problem, has now been recognized as the most severe challenge confronting the Administration and its effective containment is now the President's number one domestic priority. I believe that this decision of the President's is absolutely necessary and absolutely correct.

Last year, I stressed five dominant themes or concerns which I then felt merited very high priority. These were:

- energy conservation
- environmental protection
- safety
- quality of life
- improved resource allocation

All of these continue to deserve the high place I gave them last year. If anything, energy conservation is even more important today than it was then. These goals do not need to be sacrificed in the fight against inflation. Indeed, our efforts to achieve these policies will help to bring inflation under control.

My senior staff and I have spent a good deal of time recently thinking about ways in which the Department of Transportation can make an effective contribution to the effort to contain inflation. We believe that the most useful thing we can do is to concentrate on increasing productivity in transportation, including the efficiency with which energy is used, thereby restraining the consumption of petroleum in this sector of the economy. Increased productivity will mean more result for each dollar spent and thus relieve the pressure of inflation.

In addition, of course, we will continue to press as hard as we can to reduce or eliminate unnecessary spending in the Department's programs. In support of the President's policy, we have prepared a budget for Fiscal Year 1980 that will make the Department's programs austere, but still effective. This budget will not wholly please every constituency that we have, but I cannot see that I, or any other responsible official of the Executive Branch, has any other choice.

And finally, as we seek improved productivity for transportation, we will also seek to refine our regulatory procedures so that excessive regulatory burdens are avoided while regulatory protections necessary in the public interest are strengthened.

Productivity improvements make a very important contribution to the anti-inflationary effort. When we can increase the output we get from a given amount of labor and capital, we can meet increased demand without having to bid up the cost of production. In this way, real income increases and the American standard of living has a chance to rise.

I would like to go over the areas of my responsibility where I have taken, or plan to take, significant actions against inflation. Some of the common elements of these actions are deregulation, imposition of equitable user charges and the improvement of labor-management relations, as well as improved use of the Department's own personnel and program resources. In all of these areas we are trying to break down institutional barriers to productivity gains. Public policies and ways of doing things that were adopted in the past, for good reasons, can outlive their usefulness, and we cannot shrink from the difficult political task of identifying those which need changes and adopting new methods and policies.

#### Railroads

The greatest potential for gain in productivity, as well as the greatest threat to efficiency in the transportation sector, lies in the railroad industry. Right now, it is an industry plagued by a regulatory

framework which forces it to underprice and oversupply a number of services. It is also saddled with extremely inefficient operating practices which are the consequence of years of resistance to change on the part of both management and labor. Events in the next few years will decide whether we will have an efficient, private sector, rail freight industry or a partly, or wholly, nationalized rail system, supported by public funds, with present inefficiencies locked in place for decades to come. In determining what happens over the next several years, the next several months may be crucial.

As you know, we will be presenting major rail deregulation proposals to the Congress very soon. You are going to be hearing a lot from me in this regard, because I cannot overemphasize its importance.

In all candor, however, I must make plain to you that the short term result of rail deregulation will be higher rail rates in a number of instances. Rates will be lower in some markets, and the quality of service should start to increase across the board. Nonetheless, higher rates may seem inconsistent with an anti-inflationary drive. However, the provision of underpriced services means that what the public is not paying for through fair rail rates will have to be paid for through subsidies, higher taxes, lost efficiency and poor service. If, in the end, we are forced to nationalize a rail industry that cannot support itself, the burden on the taxpayer will be heavy.

The problem of inefficient operating practices can only be resolved by breaking through the tangle of tradition and mistrust that surrounds this issue. We have made a very important beginning in this respect with the Federal Railroad Administration's demonstration projects in the St. Louis terminals and in some other key yards that are providing immediate and convincing evidence of the gains that can be achieved. The average time spent by a freight car in the St. Louis terminal area has dropped from 18 hours to 12. FRA is also supporting innovative intermodal (i.e., piggy-back) service between the Twin Cities and Chicago, showing the quality of service that can be provided with short, fast trains, with small crews, that keep to their promised schedules.

Through these Federally supported experiments, both management and labor are coming to see the advantages of improved ways of doing things. If we can cut the Gordian knot of rail operating practices, the benefits will far exceed any cost to the government.

It is no secret that there are areas of the country where we have too much rail plant and too many railway firms competing for a limited market. We are making efforts to get the railroad companies together, under my authority in section 401 of the Railroad Revitalization and Regulatory Reform Act of 1976. This authority allows me to give the railroads anti-trust immunity to discuss arrangements among themselves that could lead to a positive restructuring of service. We have already had some concrete accomplishments. For example, an agreement between the Chicago and Northwestern and the Milwaukee in which each has withdrawn from certain over-served markets, has led to major cost reductions for both railroads, with no significant diminution in service.

Let me also mention two on-going rail programs which have become serious budgetary concerns to us. Conrail has become a very major problem. It is far from the original projections which showed it reaching break-even in five years from start-up, and it is becoming an ever greater burden on the taxpayer. We need rail service in the Northeast, but ever increasing subsidies are not the way to do it. Deregulation and efficiency gains are going to help, but they may not be enough. We may have to come to the Congress later this year with proposals for major changes in the structure of Conrail.

Amtrak is another severe budget problem. Annual operating deficits for the current system will run in excess of seven hundred million dollars per year with passengers contributing only about one-third of the money required to meet operating costs. Unless we take action, this already unacceptable level of deficit will continue to grow at a rapid rate. I continue to support prudent investment in a sensible intercity rail passenger service system, and I am recommending significant reductions of the current system that will substantially reduce the burden on the taxpayer and still preserve a national system that produces more service per dollar for our Federal investment. I know that Amtrak reduction will be unpopular in a lot of quarters, but this is the kind of change we have to make if we are going to make any progress against inflation.

### Trucking

In trucking, as in contrast to the rail industry, we have an industry which is doing very well financially for itself. The question remains, however, whether the industry could better serve the public interest if the current regulatory system were changed. We think change is needed. From the point of view of inflation, there is evidence that trucking rates are higher than they need to be. Truck rates are not made in the market place; they are made collectively in the rate bureaus. Traditionally, entry has also be limited, and both the limitations on entry and the ability to make rates collectively result in less competition and higher rates. Trucking costs are also needlessly inflated by detailed route and commodity restrictions that the ICC attaches to certificates when it does grant them. These are areas that we are currently studying very closely. We have not yet determined what specific proposals to make, but, as the President said in his State of the Union Address, we must begin the effort to reform the regulatory process for this industry this year.

### Aviation

We have made great gains in aviation in the last year in terms of bringing prices down and increasing efficiency. This was accomplished through the far-sighted action of the Congress in adopting the Administration's air deregulation proposals and by the rapid and effective implementation of new policy directions by the Civil Aeronautics Board. We already have abundant concrete evidence of the success of these measures.

In the international area as well, we have seen substantial progress. The Administration's new international aviation negotiating policy, which I announced for the President last August, stresses the importance of competition, and we have negotiated pro-competitive bilateral agreements with several nations. This process, with its benefits to the aviation industry and to the public, will continue this year.

On a more somber note, the tragic crash at San Diego was a shocking reminder to all of us that, good as our airway system is, there is still room for improvement. The Department has already moved forcefully to meet this need.

Federal Aviation Administrator Langhorne Bond and I have proposed significant changes in our regulations governing air traffic. Briefly, these changes would increase the number of terminals in which a strict discipline is imposed on air traffic. They would reduce the extent to which aircraft without certain equipment to aid radar detection can be in the same crowded air space with commercial traffic. We are also expanding radar service at 80 airports and installing instrument landing systems at 24 additional general aviation airports to accommodate practice instrument approaches, reducing the extent to which this activity has to be carried on at airports with heavy commercial traffic.

We will be sending proposed new airport and airway legislation to Congress in this session. Despite the rapid traffic growth following deregulation, we are asking for only modest increases in spending. Here, as in other areas, my purpose is to maximize the capacity of existing facilities, before we consider costly expansion of physical plant. In particular, we will place greater emphasis on encouraging increased use of reliever airports in order to reduce the extent to which general

aviation traffic uses airports already heavily congested with commercial traffic. This, in conjunction with the significant changes in our regulations governing air traffic, will have the effect of increasing both safety and capacity at the larger airports.

Our airport and airway legislation will also extend the trust fund for five years and the current passenger ticket tax while proposing a 10 percent ad valorem fuel tax on aviation gasoline and a 6 percent excise tax on new aircraft and aircraft equipment. The aim of these proposals is to provide a better balance between the sources of revenue for the trust fund and the major aviation groups that benefit from the programs financed by the trust fund.

#### Automobile Efficiency and Fuel Availability

In the range of facilities and services that make up the transportation sector, the private automobile is still dominant, and will continue to be so for the foreseeable future. Here, the productivity issue is the amount of transportation provided per barrel of petroleum consumed. I do not believe this country can have a strong economy so long as the price and availability of our key transportation service are so precariously dependent on events beyond our control in foreign nations.

In the short term, we are dealing with this issue through encouragement of alternatives -- mass transit and ridesharing -- and through continuing pursuit of fuel economy in our auto and truck fleet. These measures are likely to offset travel growth sufficiently to hold down our gasoline consumption to current levels over the next several years. Moreover, our fuel efficiency standards will provide several hundred dollars in fuel savings over the lifetime of a mid-80's passenger car.

But further measures are necessary, ranging from new fuel sources to the development of new engines to power our vehicle fleet.

I believe that this latter alternative, the development of an improved automobile, is one of the most pressing imperatives before us as we deal with the energy crisis. The most important way that this country can free itself from dependence on foreign oil is by drastically reducing the petroleum we use per mile of automobile travel. I have broached this idea with the leaders of the automotive industry. It is no secret that I have not received the warmest possible response, but I am not discouraged. I am not discouraged because I simply see no viable alternative if we are to have a healthy economy free of foreign control over the price and availability of a key commodity.

I have called for a major conference on the automobile this year. I have invited representatives of the manufacturers, academia, and other interested parties to meet in Washington and begin planning a basic research program to provide the technological basis from which manufacturers can produce a "socially responsible" automobile.

This may seem like a difficult goal, but I think we should put it in the same context of national priority and commitment as the one in which President Kennedy placed the moon shot. If we organize and motivate our people and resources, I know we can get the job done.

Highways and Transit

One of my greatest concerns has been the rapid escalation of highway construction costs. Last November I announced a program designed to bring this unceasing upward price movement under control. I ordered that in contracts where bids received exceed Federal Highway Administration cost estimates by 7 percent or more, such projects should be reexamined to see if they could be modified in any way to lower costs or obtain more competitive bidding. I want to emphasize that this new policy is not mere posturing for public relations effect. We have rejected proposals for construction of a bridge on I-75 at Zilwaukee, Michigan, because it exceeded the 7 percent rule. I assure you that there will be other rejections.

Additionally, FHWA has urged the States to take a number of ancillary steps to cut costs of highway projects. Some of the more important of these steps are: limiting size and duration of contracts, increasing use of alternative designs to ensure lower costs, adopting policies to facilitate quick progress payments (thus holding down contractor's borrowing costs), and encouraging states to incorporate voluntary wage price guidelines in their highway construction programs.

UMTA is taking similar steps to control inflation in the mass transit program. UMTA will extend its program management review to include all major transit construction programs and will work with its grantees to ensure that effective design reviews are a part of preliminary engineering activities. UMTA has also advised its grantees that it will be looking for such things as attention to the President's wage and price standards and efforts to maximize transit productivity and improve cost effectiveness through low capital intensive projects. A series of transit conferences are planned around the nation to encourage local transit authorities and union members to focus their attention on increasing productivity through improved labor management relationships and more efficient operating methods.

A very major accomplishment in the last Congress was the enactment of the Surface Transportation Assistance Act. In general, that legislation will make highway and transit programs more efficient and more responsive to local needs in a number of ways. For example, several provisions will speed completion of the Interstate System. This allows us to make more productive use of the dollars we have today and thus avoid the inflationary effects of delay.

This is not the occasion for a full review of that new Act, but I do want to mention one provision which has implications for mass transit productivity. The maintenance of effort requirement in the program of

formula assistance to urban transit systems has been changed so that transit authorities that succeed in reducing operating costs without reducing service levels are not penalized by having their eligibility for Federal funds reduced. In the past, the Federal program had provided counter-incentives to productivity gains by requiring local authorities to keep up past spending levels.

Looking ahead, I am initiating a new policy on urban transportation investments to make sure that we get the most for our money and do not enter into very costly projects unless they are truly justified. We have published, as a proposed rulemaking, a policy which would require the same kind of rigorous analysis of highway alternatives that we now require for major urban mass transit investments. Through these analyses, we make sure that every possible way of getting more capacity out of existing facilities is thoroughly explored before the government makes a commitment to costly new investments. This is the first time that a formal economic test has been proposed for large urban highway investments, and should provide significant savings as well as better transportation decisions.

I am convinced that these efforts to improve our spending decisions will be far more effective if they are part of an integrated overall approach to highway and transit problems under which the old institutional separation between these vital transportation activities is broken down. That is why I think that the provisions of the Surface Transportation Assistance Act that increased flexibility of use for available funds among highway and transit programs, that made matching ratios for different programs more uniform and that strengthened planning are so terribly important.

Our proposal for the combination of FHWA and UMTA into a single Surface Transportation Administration (STA) is part and parcel of this same movement towards integrated, total management of our grant programs. If we can bring STA into being, then we will be able to simplify and streamline the delivery of two key Federal programs. By combining the skills, expertise and other resources of FHWA and UMTA, the STA will be able to administer the highway and transit programs far more effectively than is currently possible through two single focus organizations.

#### Regulatory Processes

We have moved forcefully during the last year, in accord with the President's program, to improve the process by which the Department develops regulations and to reduce unnecessary red tape connected with our programs. It is essential that our regulations be necessary, sensible and understandable. In this connection, the Department has implemented detailed regulatory review procedures in the past year. One of the key features of these procedures is the establishment of a Regulations Council, chaired by the Deputy Secretary, to assure that our regulations meet the highest standards. Those procedures also assure that we look, not only at newly proposed regulations, but also at those which are already on the books, so that we can weed out those that are no longer necessary and consolidate remaining ones where that is possible. For example, FRA has initiated a general Safety Inquiry which will include an in-depth evaluation of its existing safety regulations governing inspection, maintenance and repair of all of the principal components of

the rail transportation system. Special emphasis will be placed on modifying or eliminating requirements, such as reporting and record-keeping, that contribute to inflation by increasing costs but are not essential to maintaining safety standards.

Our efforts to reduce paperwork and red tape have already resulted in substantial savings. The FHWA, for instance, has developed a plan for simplifying and modernizing its management and fiscal information systems. These improvements will save over 105,000 work-hours each year. UMTA has revised its procedures for providing operating and capital assistance to transit systems. This has reduced paperwork up to 75 percent and allows applications for assistance to be prepared and processed more quickly. NHTSA has reduced its public use reporting by more than 24,000 hours by eliminating and merging a number of public use reports. Among those benefitting were business, contractors, and state governments. Other elements of the Department have undertaken similar efforts and achieved similar results.

#### Underlying Policy Themes

The major thrust of this statement has been concerned with our actions and plans for restraining inflation. Because of the importance of this challenge, this is entirely appropriate. Nonetheless, I do not want to leave the impression that I am no longer seriously concerned with the major policy themes that I set forth in my policy statement of last year. These concerns--energy, the environment, safety, the quality of life, and improved resource allocation -- are as important now as they were then. Some are closely interwoven with our anti-inflationary efforts. I assure you that all represent objectives that I will continue to press vigorously.

I would like to close this statement with a brief review of these themes and some of the major actions we are taking to carry them out.

As I have already stated, I consider our efforts to conserve energy as an integral part of the effort to control inflation and strengthen the economy. I have already described my major plans in this area.

Much of the purpose of the Surface Transportation Assistance Act is to improve the quality of decisionmaking on transportation investments, especially in urban areas where the environment is so directly affected. Through improved planning and through the new integrated approach, the Surface Transportation Administration can make certain that environmental preservation and enhancement receive full and sensitive treatment in our urban transportation investment decisions.

As you all know, our coastal ecology and marine resources are constantly threatened with severe damage from oil spills. We made major progress last year, both domestically and internationally, in the development of measures that prevent oil spills. We still need, and the Administration will submit, legislation to establish a Superfund to deal with the financial aspects of these disasters. The Superfund would assure compensation for damage incurred in the U.S. from oil spills regardless of the location in which the spill actually took place, as well as covering expenses of cleaning up spills.

I've already mentioned major steps we are taking in the area of aviation safety. The Coast Guard will continue its essential role in protecting our resources and promoting maritime safety. I have also ordered that the Coast Guard's own training procedures be significantly strengthened.

In all our grant programs and regulatory activities, we continue to have safety in the forefront of our concerns. One example of a major investment designed to enhance highway safety is the over \$4 billion provided by the Surface Transportation Assistance Act over the next four years to rebuild our nation's highway bridges. We have had more than one catastrophe in recent memory involving bridge collapses, and the rebuilding of old and sometimes poorly maintained highway bridges is high on our agenda of actions to take to increase the safety of the travelling motorist.

Perhaps the major achievement that I can point to as a contribution to an improved quality of life is the provision of \$200 million in the Surface Transportation Assistance Act to support the President's urban program. We plan to use this money to support refreshing and imaginative approaches that use transportation projects to stimulate urban revitalization. I believe strongly that this urban initiative program, which combines public and private sector investment with a transportation project, can be a powerful tool to channel economic development to those areas where it is very badly needed. At the same time, the needs of rural America cannot be neglected, and the new Act establishes a comprehensive program of assistance for public transportation outside of the big cities.

To the extent that any of our citizens are excluded from fully participating in our transportation programs, including the financial opportunities made available by Federal assistance, the quality of our life is reduced and we are not making productive use of all of our resources. Assurance of access by all people to our programs, through activities such as our minority business enterprise efforts, will continue to be a vital part of my administration of the Department of Transportation.

Improvement in the allocation of resources is closely tied to any effort to increase productivity. A misdirection of investment can adversely affect the productivity of capital or labor. One important step that we can take to ensure better resource allocation is to make sure that we have appropriate levels of user charges in our programs.

We have recognized for some time that subsidizing passenger operations is justified because of the social gains from a high utilization of mass transportation. As far as the movement of freight is concerned, however, I see no reason why the firms that carry or ship freight should not meet their full transportation costs. Further, if some modes are meeting the full cost of their rights of way and some are not, the result has got to be that the rates charged by these modes cannot reflect the true relationship between their costs. As a consequence, there has to be a misallocation of resources and some loss of efficiency because investment in, and use of, these modes will not reflect their true economic strengths and weaknesses.

As you know, a major problem in user charges for many years has been the total lack of such levies on our waterways. One of my most important objectives as Secretary of Transportation was achieved when Congress passed, and the President signed, a law imposing fuel taxes on commercial users of the inland waterways. There is no question that these taxes are low compared to the government's costs. When the tax reaches 10 cents a gallon in 1985, it will recover only about a third of today's operating and maintenance expenditures. Nonetheless, the enactment of P.L. 95-502 was a precedent-shattering step and it has opened the way towards establishment of an appropriate set of taxes and charges which we will recommend after we complete the studies required by the Act.

Highway user charges are also an issue that will become increasingly important in the next two to three years. We have already begun work on a comprehensive study of the current highway excise tax structure and of possible alternatives, and we will be carefully exploring all of the issues involved.

#### Conclusion

Continuing to strive to make sure that our transportation system contributes effectively to American life, while not damaging us with its side effects, is not an easy task. But it is an exciting and a rewarding one. As we improve transportation productivity and the efficiency of our Federal programs, we effectively battle inflation, focus transportation investments where they are truly needed, and improve our transportation systems at the same time. This is the challenge that faces us today, and I know that we are equal to it. I am truly looking forward to the coming year.

I am very pleased to have had the opportunity to present this report on my implementation of national transportation policy. I will be happy to answer your questions.

1