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# SAM SKINNER'S SENSIBLE NATIONAL TRANSPORTATION STRATEGY

## INTRODUCTION

Secretary of Transportation Samuel Skinner's highest priority has been to design a "national transportation strategy" that would be a comprehensive statement of federal transportation policy. This has generated much understandable apprehension among supporters of market-oriented transportation policies, evoking images of centralized industrial planning and national industrial policy. By contrast, many opponents of market approaches eagerly have awaited Skinner's plan, expecting it to signal the beginning of greater federal involvement in transportation.

Though the Skinner strategy is not to be unveiled formally until mid-February, the Secretary offered a sneak preview of it earlier this month. It surprised both camps. Far from calling for centralized planning, Skinner indicated that the policy document would be a strong statement of market principles. A U.S. transportation policy, Skinner said, should "increase our reliance on the private sector and state and local governments...stimulate competition and allow the magic of the marketplace to work."[1]

**Market Core.** Skinner should be applauded for this strong reaffirmation of the market's potential contribution to improving America's transportation system. By placing this at the core of his transportation strategy, he indicates clearly that deregulation and privatization are not transitory phenomena, but instead are permanent parts of the transportation landscape.

1 Samuel K. Skinner, Remarks before the Transportation Research Board, Washington, D.C., January 10, 1990.

Skinner's preview and even his formal strategy, of course, are just the start. Skinner and his staff now will have to fill in the details. This means crafting specific policy reform proposals in accordance with the strategy and following through to see that these proposals are enacted.

The specific reforms needed could be grouped according to four main goals, roughly similar to those outlined in Skinner's speech. These include:

♦ ♦ **Reliance on the private sector**. To make better use of the financial capabilities and economic incentives of the private sector, Skinner should not only lend support to efforts to privatize enterprises such as airports and Amtrak, but should encourage a greater private role in operating other parts of the transportation network, such as transit systems and even highways.

♦ ♦ **Use of market processes**. Increased use of market mechanisms resulting from deregulation in the airline, trucking, and railroad industries has helped the American consumer immensely. Skinner should not only urge further deregulation, but propose ways to extend market principles to such areas as airport fees.

♦ ♦ **Application of user fees.** The U.S. transportation system traditionally has relied on the principle that users should pay their own way. Skinner should urge extension of this principle to areas where it is incompletely or imperfectly applied, such as maritime shipping and highway pricing.

♦ ♦ **Maximizing local flexibility.** Local officials are in a much better position than the federal government to know what local transportation needs are. The Secretary should urge that, where possible, they should be given greater flexibility and independence to make those decisions in such areas as interstate highway and transit funding.

Skinner has made an excellent start in outlining a beneficial transportation strategy for the federal government. By following through with specific recommendations in accord with the concepts he has outlined, and taking steps to carry out such recommendations, he could deliver real benefits to U.S. travellers and consumers.

## DEVELOPMENT OF THE TRANSPORTATION STRATEGY

Development of a comprehensive strategy for transportation was designated as one of the Department of Transportation's first priorities when Skinner took over as Secretary in February 1989. Although transportation is one of the most important sectors of the U.S. economy, Skinner felt little was being done to develop long-term transportation policy goals for the federal government. Important challenges for transportation, like the need to expand and maintain such infrastructure as roads and airports, were not being recognized. The Secretary felt, moreover, that policies for the various modes of transportation, such as rails, highways, aviation, and urban transit, were not being coordinated and were often in conflict.

In light of this, Skinner ordered a top-to-bottom review of America's transportation policies and called for a formal, written strategy. This idea stemmed from his experience as chairman of the Chicago-area Regional Transportation Authority, which formulated a comprehensive "strategic plan" under his direction.[2] Development of a such a policy at the federal level has been much more complicated, involving massive amounts of information and public comment on what has been going right and wrong with federal transportation policy.

To collect this information and examine the issues raised, Skinner created working groups within the Transportation Department to examine intercity passenger travel, intercity freight shipping, international transportation, urban/suburban mobility, rural transportation, and what he called "innovation and human factors."

**Gathering Comments.** The transportation strategy study officially began last July, with a day-long seminar chaired by Skinner at the National Academy of Sciences in Washington. Since then, the six working groups have held some 117 public hearings, "focus group" meetings, and other events in 43 cities across the country, gathering comments from over 1,100 organizations and individuals.

This effort will produce at least four Department of Transportation publications. Two already have been issued: *Building the National Transportation Policy*, summarizing the goals of this effort, and *Moving America: A Look Ahead to the 21st Century*, containing the proceedings of the July seminar. A third publication, *America Speaks Out on Transportation*, summarizing the comments received from the public, is expected soon.

The final report, scheduled for a February release, will be the most important, detailing the federal government's transportation strategy and making specific policy recommendations.

## PLAN VS. STRATEGY: THE CRITICAL DISTINCTION

This transportation strategy project understandably caused concern that it would become a blueprint for a federal "industrial policy" for transportation. Thomas Gale Moore, a member of Ronald Reagan's Council of Economic Advisors, for example, wrote that "no one knows what the secretary intends to propose, but the signs are ominous." Moore pointed out that "the last time the government came up with a plan for a major industry, the country got an industrial policy for energy that resulted in fraud, foul-ups, and fuel lines."[3] Fred Smith, President of the Competitive Enterprise Institute, a Washington-

2 See Regional Transportation Authority, *Strategic Plan*, January 1989.

3 Thomas Gale Moore, "A Jimmy Carter for Transportation?" *The Wall Street Journal*, September 22, 1989.

based think tank, was even more direct, writing that with the pressure for centralized planning, "consumers don't stand a chance."[4]

**Inviting Misleading Comparisons.** Skinner himself appeared to fuel such speculation. First, by referring to this project initially as a transportation "plan" or a transportation "policy," he seemed to invite comparisons to national industrial policy. More generally, in describing why such a policy document was needed, Skinner often compared his role to that of a manager of a private firm. Just as a manager would not conduct business without a strategic plan, neither should the federal Transportation Department, Skinner would explain.[5]

The problem, however, is that private managers require plans because they must decide where, how much, and in what to invest the firm's resources. Except in the few areas under its direct control, like air traffic control, the Transportation Department does not allocate resources, but merely establishes the rules under which the private sector or local agencies do so. Therefore Transportation has little need for a business plan.

A national transportation "strategy," however, is something quite different from a "plan." While the word "plan" connotes centralized allocation of resources, and while even the word "policy" connotes "industrial policy," "strategy" merely indicates a set of guidelines to assist Transportation in day-to-day decision-making.

Such a strategy is a useful, if not necessary, endeavor. Transportation is one of the federal government's largest and least manageable bureaucracies. Its component agencies long have been known for their independence. This has meant that the overall strategy indicated by a Transportation Secretary has not always been the one eventually pursued, for instance, by the Federal Aviation Administration or the Coast Guard.

**Important Distinction.** Apparently sensitive to the important distinction between a "plan"and a "strategy," Skinner in recent months has emphasized that his forthcoming document is not a transportation "plan," or even a "policy," but rather a "strategy." The degree to which the final written document fits this description will be a major test of the transportation strategy project. If the document is not a "plan" it will avoid substantive conclusions concerning the allocation of transportation resources. It will not call for federal efforts to develop particular new technologies, promote particular changes in traffic patterns, or support particular favored transport modes.

Instead, if the report is a transportation strategy, as Skinner suggests, it will outline the regulatory framework needed to allow transportation services

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4 Fred L. Smith, Jr., " 'Calamity' Sam Skinner: Secretary of Re-Regulation," *CEI Update* No. 11, November 1989.

5 See Samuel K. Skinner, "Remarks by the U.S. Secretary of Transportation," *Moving America: A Look Ahead to the 21st Century* (Department of Transportation, 1989), p. 2.

to be provided most efficiently. It will not dictate any particular results, but will establish good rules for the transportation game without dictating who wins the game.

## FILLING IN THE DETAILS OF THE TRANSPORTATION STRATEGY

In his January 10 speech, Skinner outlined five basic goals that will be at the heart of his final strategy statement. These are:

1) **Stimulating** private investment in transportation;

2) **Removing** unnecessary regulations;

3) **Applying** the user fee principle;

4) **Strengthening** local flexibility; and,

5) **Promoting** research and development.

These principles provide an excellent start toward defining an effective transportation strategy. They make clear that the federal government's role in transportation is not to dictate results, but to create an environment in which the private sector and markets can work. To be even more effective, however, some of the criteria could be modified or expanded.

For instance, the phrase "stimulating private investment" focuses on the private sector's role as an investor in projects. It is not clear that the phrase envisions, as it should, the private sector's more comprehensive role as an operator or owner. Private investment is just the first step; there can be even greater gains in efficiency from increased private involvement. The phrase "stimulating private investment" thus should be expanded to "reliance on the private sector." Similarly, "removing unnecessary regulations" could be expanded to the more inclusive principle "using market processes." And Skinner's fifth principle, "promoting research and development," actually could be dropped, since its purpose could be fulfilled through application of the other four. Research and development, for instance, usually is best spurred by the incentives present in an unhindered market system.

The four core principles of national transportation strategy thus would be:

### 1) Reliance on the Private Sector.

In contrast to those in many other countries, most American transportation carriers always have been primarily privately owned, including airlines, trucking firms, and shipping firms. Since the sale of Conrail by the federal government in 1987, all freight railroads have been privately owned. Large portions of the American transportation network, however, are still government owned. The air traffic control system and Amtrak, for instance, are owned by the federal government, while local governments own most airports, roads, and urban transit systems.

While there are varying justifications for public ownership of each of these systems, the lack of private sector involvement imposes costs. The most obvious is monetary. Transit studies have shown, for instance, that private operators can cut costs of transit systems 30 percent on average while maintaining or even improving service.[6]

A less obvious, but perhaps even more important advantage of private ownership is increased innovation. Competition and the profit motive lead private organizations to look constantly for efficient ways to deliver goods and services to the consumer. By contrast, public organizations have little reason to innovate – and often face political disincentives to do so. They usually have neither competition nor shareholders to whom they are accountable. Innovations that would decrease the number of employees or reduce spending, moreover, often generate political resistance.

While innovation is difficult to quantify, an overwhelming share of the major transportation innovations seem to have been developed by the private portion of the system. Overnight package delivery, airline hub-and-spoke routing systems, computerized airline ticket reservation systems, just-in-time freight delivery systems (through which goods can be ordered just hours before they are needed), and containerized shipping have been all developed in the private sector.[7] A list of innovations stemming from the public sector, meanwhile, would be relatively short. In fact, most public systems, such as air traffic control, long have been criticized as being unable to keep up with advancing technology.

Because of this, the Skinner strategy should state clearly that his department supports extension of private sector involvement, ownership, and operation in transportation systems possible. This should include:

**Airports.** Although all major U.S. airports are now owned by government, mostly by units of local governments, they can be turned over to the private sector and efficiently operated.[8] Several localities in the U.S. recently have expressed an interest in airport privatization, including Albany and Los Angeles. One impediment, however, has been an uncertainty concerning the federal policy toward privatization of airports that receive federal funds. The Transportation Department should state clearly its support of private involvement, and should work to eliminate federal barriers to airport privatization.

**Air traffic control.** The air traffic control system long has suffered from inflexibility, obsolete technology, and even inadequate funding. These problems could be eased through increased private involvement. Possible ac-

6 Wendell Cox and Jean Love, *A Public Purpose For Public Transit*, Reason Foundation Local Government Center Policy Study No. 207, January 1990, p. 22.

7 See, William B. Johnston, "Transportation for the Next Century," in *Moving America, op.cit.*, p. 28.

8 In Britain, for example, the major London airports are already privately owned. See James L. Gattuso, "Privatization of Britain's Airports: A Model for the U.S.," Heritage Foundation *International Briefing* No. 17, January 23, 1989.

tion ranges from contracting with private firms to run discrete parts of the system to creating a new private company to operate the entire system.[9]

**Highways.** Despite the need to improve the highway system, federal and state governments are hard-pressed to find the funds for doing so. The private sector can help toward a solution by providing financing for roads, or building needed roads itself. For instance, a major private toll road, the first in Virginia this century soon will be built near Washington, D.C. The Transportation Department should encourage such endeavors.

**Urban mass transit.** An increasing number of local governments are lowering mass transit operating costs – and improving service – by letting private firms, chosen through competitive contracting, operate transit systems.[10] Federal policies have, and should continue to, encourage this approach.

**Passenger rail.** While Amtrak, the federally owned passenger rail system, loses money, certain portions of the system, such as the Northeast Corridor between Washington and New York, possibly could become self-supporting in private hands.[11] The Transportation Department should take steps to explore this option.

### 2) Use of Market Processes.

Since the late 1970s, reliance on the market processes of supply and demand to determine the prices, volume, and quality of services, has been a cornerstone of federal transportation policy. Before that time, many major modes of transportation, such as trucking, railroads, and airlines, were heavily regulated by the federal government. The result: they were forced to respond to the dictates of regulators rather than to the demands of consumers. With passage of the Airline Deregulation Act in 1978, and the Motor Carrier Act and Staggers (railroad deregulation) Act of 1980, this began to change.

The results have been remarkable. Air fares fell about 20 percent to 30 percent after deregulation, making travel affordable for millions more Americans. In 1978, U.S. airlines carried only about 275 million passengers. Next year, due to deregulation, this figure will approach 500 million. At one time a luxury affordable only by the wealthy, air travel now is an option for almost all Americans.

9 See, James L. Gattuso, "Creating A Private Air Traffic Control System," in Stephen Moore and Stuart M. Butler, eds., *Privatization: A Strategy for Taming the Federal Budget* (Heritage Foundation, 1987), pp. 51-58.
10 See Cox and Love, *op. cit.*
11 See, Stephen Moore, "Privatizing Amtrak's Northeast Corridor,"in Moore and Butler *op. cit.*, pp. 83-94.

Rail and truck shipping also have improved tremendously with shipping costs dropping by about 17 percent for rail and 12 percent to 25 percent for truck shipping in the years after deregulation. Even more important, safety has continued to improve: the airline accident rate is down by about a third, and rail accidents by about two-thirds, since deregulation.[12]

It is crucial that Transportation continue to defend these deregulation successes against any possible rollback. Over the past twelve years, the Department has done this well, successfully protecting these reforms from numerous assaults. Skinner must now make it clear that he will do the same. Then he should declare that his Department wants to extend market processes to new areas or to where they are only partially applied. This should include:

**Airport landing fees.** At most U.S. airports, landing fees are set without reference to the demand for or availability of a particular landing slot. Example: Planes taking off or landing during times of peak customer demand pay the same fee as planes at non-peak hours. This contributes to the difficulty that airports have handling increased traffic loads. The Transportation Department should encourage use of market-oriented systems, such as peak-hour surcharges or periodic auctions of available landing slots. By more closely tying cost to supply and demand, such procedures would encourage better use of airport capacity.[13]

**Trucking.** While interstate trucking mostly has been deregulated, some cumbersome regulation remains. Many states, moreover, still impose comprehensive trucking regulation. Skinner should urge repeal of both state and remaining federal regulation.[14]

**Railroad costs.** A variety of federal laws restrict the ability of railroads to lower their costs of doing business. Rail labor protection rules, for instance, require payment of up to six years' salary for employees laid off due to mergers or track abandonments. The 1926 Railway Labor Act and the 1908 Federal Employers' Liability Act restrict the ability of railroads to negotiate new employment contracts and establish efficient compensation systems. Each of these statutes should be reformed, and rail management and labor allowed to establish their own terms of employment with a minimum amount of federal intervention.

12 See generally, Ralph L. Stanley, "The Department of Transportation," in Charles L. Heatherly and Burton Yale Pines, eds., *Mandate for Leadership III: Policy Strategies for the 1990s* (The Heritage Foundation, 1989) pp. 419-437; see also Matthew B. Kibbe, *Putting Consumers on the Fast Track* (Transportation Reform Alliance, 1989).

13 See James L. Gattuso, "A Proposal to Untangle America's Air Travel," Heritage Foundation *Backgrounder* No. 600, August 27, 1987.

14 See James L. Gattuso, "Time to Complete Trucking Deregulation," Heritage Foundation *Backgrounder* No. 481, January 16, 1986.

### 3) User Fees

To a great extent, the U.S. transportation system correctly operates on the assumption that users should pay the cost of the services they use. This not only encourages efficient use of transportation services by sending signals to consumers and suppliers concerning the relative value of those services, but also protects non-users from bearing undue costs.

The Transportation Department should urge that this principle be extended to areas where users are not now charged in proportion to the services they receive, or are now receiving subsidies from the taxpayer or other users. Among the opportunities that Skinner's staff should explore are:

**Toll roads.** Although highway costs today are indirectly paid for by users through gasoline taxes, direct tolls would distribute costs much more precisely, creating incentives to reduce congestion. States, however, currently are barred by federal law from charging direct tolls for highway use. Skinner should seek repeal of this prohibition. Tolls should be permitted, at least where the revenues do not exceed the sum needed for highway purposes.

**Airport fees.** Some groups of aviation users, particularly small private aircraft, pay minimal fees for use of airports, sometimes as little as $25 per landing. These fees should be adjusted so that all users pay their share. While these fees are set by individual airports and not the federal government, Skinner should make clear that the federal government will not stand in the way of any needed adjustments.

**Amtrak.** The U.S. taxpayer now pays some $600 million per year to support Amtrak passenger rail service, although the typical Amtrak user has an income well above the national average. Transportation should seek elimination of this subsidy as part of a privatization plan for Amtrak.

**Maritime shipping.** The American maritime industry enjoys a variety of subsidies, ranging from direct operating funds to mandated cargo preference for U.S.-flag ships in shipments by the federal government. Skinner should order a thorough examination of these subsidies, and suggest eliminating those not needed for national defense. The cost of those subsidies that are found to be needed should be transferred to the Defense Department budget.

### 4) Local Flexibility.

Federal transportation policy has and should continue to give local governments the flexibility to determine and address their own transportation problems. Many areas of transportation policy, such as highway and urban mass transit questions, are primarily issues of local concern. Local officials, not those in Washington, know best where new roads are needed, or whether and what kind of mass transit system is needed. Local officials, much more so than Washington, can be held accountable by the voters when those needs are not met — or when tax money is being wasted. The federal government in recent years, however, has been encroaching increasingly upon the flexibility and responsibility localities need to properly do this job. Two major areas of concern are:

**Highways.** Under the interstate highway program, the federal government pays for the construction of, and additions to, interstate highways. The federal government increasingly has used this program to dictate transportation policy. The 1987 highway reauthorization bill, for example, mandates over 100 "demonstration projects" that typically are pork barrel, including an access ramp for an Ohio amusement park and a parking garage in Chicago. The federal government also imposes requirements that increase the cost of highway construction, such as the 1931 Davis-Bacon Act, which effectively requires payment of union wages in federally supported projects even when less costly labor is available.

As a first step toward giving localities greater flexibility in transportation policy, federal requirements such as these should be lifted. More generally, with the interstate highway system nearly complete, policy makers should consider returning highway funding completely to the states.[15]

**Urban mass transit.** The federal government now provides about $3.5 billion per year to states for construction and operation of transit systems. These subsidies can seriously distort the incentive of local officials to spend funds sensibly. For instance, since the federal government now pays up to 80 percent of the capital cost of a new rail or bus system, such systems may be built even if they are uneconomical or if another type of system is more suitable. Rather than requiring federal funds to be spent by local governments on specific kinds of projects, the Transportation Department should urge Congress to create a transportation "block grant" that localities could spend on whatever systems they find to be best for their urban transportation needs.[16]

## CONCLUSION

As outlined so far, Skinner's transportation strategy is a welcome statement of what the federal government can and should do to improve the nation's transportation. While Skinner's project has caused many understandable anxieties, his recent speech previewing the strategy indicates that it will be a strong reaffirmation of market principles, rather than a call for central planning. For this he should be congratulated.

**Real Benefit.** Skinner now needs to follow through on this excellent start by including in his final strategy statement, expected in mid-February, recommendations for specific actions and reforms to reach his general goals. Moreover, he and his department should apply these principles routinely in the decisions they make and the policy initiatives they propose, so that they become more than just words in a report. In this way, this policy statement,

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15 See Stephen Moore, "The Highway Authorization Bill: Inviting A Presidential Veto," Heritage Foundation *Issue Bulletin* No. 127, February 27, 1987.

16 See, Stephen Moore, "Rx for Ailing U.S. Mass Transit Policy: A Dose of Competition," Heritage Foundation *Backgrounder* No. 542, October 29, 1986.

unlike most such documents produced in Washington, could be of real benefit to U.S. travellers and consumers.

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