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OFFICE OF THE WHITE HOUSE PRESS SECRETARY

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THE WHITE HOUSE

PRESS CONFERENCE  
OF  
WILLIAM T. COLEMAN, JR.  
SECRETARY OF THE  
DEPARTMENT OF TRANSPORTATION  
AND  
PAUL W. MACAVOY  
MEMBER OF THE  
COUNCIL OF ECONOMIC ADVISERS

THE BRIEFING ROOM

11:02 A.M. EDT

MR. NESSEN: The President is transmitting to Congress today the Aviation Act of 1975. This is the second legislative initiative the President has sent up there to reform transportation regulations, the first one being the railroad reorganization.

Now we have already given out a fact sheet, Presidential Message, a copy of the legislation and a section-by-section analysis. On the paper it says a 2 o'clock embargo. That was put on there at a time we were not certain at what time the President would sign it. He will sign it in time for you to use it at noon so you should change the embargo to noon.

Now, to go over the legislation with you and to answer your questions we have, first of all, Paul MacAvoy who is a member of the President's Council of Economic Advisers. He has been the Co-Chairman with Rod Hills in the White House on the Regulatory Reform Task Force which is, as you know, working throughout the Government to implement the President's desire to reform the regulatory agencies, and in this case specifically, airline regulations for the benefit of the people who use the airlines.

And second as your briefer we have Secretary Coleman from the Department of Transportation. So I will turn you over to them.

I might say that Secretary Coleman needs to be at the Cabinet meeting at 11:30 so we probably should move along.

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MR. MACAVOY: This morning I noticed that on October 8 of last year President Ford made a major address to Congress on the economic situation and in that address he called for a significant change in the direction of regulatory activities in the Federal Government. In the last year, that change has been put into effect.

We have required inflation impact statements of the regulatory agencies in the organizations within the Executive Office. We have moved along on the Railroad Revitalization Act that is now before both houses of Congress and making good progress. We have sponsored and furthered regulation to repeal fair trade; the Financial Institutions Act is well along. We also have activities going in all of the dependent regulatory commissions to reform regulatory procedures.

Most of the work of the regulatory reform group of the last three months, however, has been for the purpose of putting forward a comprehensive set of bills which will reform transportation regulation. The first of these was the Railroad Act, the second, perhaps the most important of the three, is the Airline Act which is being proposed this morning. The reform group has responded to the initiatives of the Department of Transportation. Secretary Coleman and Under Secretary Barnum Deputy Under Secretary Snow have put hundreds, if perhaps thousands, of hours in on this.

Secretary Coleman will make a short statement on the bill and then perhaps he and I could answer questions from there.

SECRETARY COLEMAN: I just want to make two points: One, that the Aviation Act of 1975 has a three-fold purpose. First, to serve better the needs of the airline industry under today's economic conditions; second, to serve better consumer demands for efficient, reasonably-priced air transportation; and, third, to permit well managed carriers to earn a fair return on their invested capital.

We have sent up the rail bill. Today we are sending up the aviation bill and we hope within the next two weeks to send up a bill with respect to the trucking industry. The only other point I would like to make is that we are suggesting significant changes in such things as pricing, rules for mergers, abandonment of lines and other things which we think have to be done if the airline industry is going to serve the American public today. But because this is an established industry, you will note throughout the bill that on many of these provisions we have phased them in so that the airlines will have some time to make adjustments.

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For example, on the merger provision the law remains the same for thirty months and after that we have a new proposal for mergers that take place thirty months hence. Also, with respect to provisions for entry of it is phased in over a five-year period. I do think these are significant ways of attacking very difficult problems.

At this time, Paul and I will answer any questions that you would like to direct to us.

Q What will this do to fares, Mr. Secretary -- air fares? Do you expect air fares to go up or down if this is enacted?

SECRETARY COLEMAN: Well, under the provisions of the bill there are provisions for adjustments. The airlines in the first year can adjust downward their fares by as much as 20 percent without suspension, the second year another 20 percent, and on the other hand, they can go up within 10 percent the first year. We do feel that having much more freedom in pricing that you will get fares which are much more reflective of a truly competitive situation.

Q Mr. MacAvoy, you said you thought this was the most significant, perhaps, of the three bills. Would you tell us why you think that?

MR. MACAVOY: This is the first new piece of legislation in airlines regulation since the Civil Aeronautics Board was founded in 1938. The technology of transportation has strongly favored the growth of this mode. This is the fastest growing transportation industry, certainly, as far as passenger traffic is concerned. We are working under regulations which applied to, essentially, post World War II service. The growth of much larger airplanes, faster service, large terminals strongly emphasizes an approach which gives us mass transportation by air and we feel that the regulatory reforms proposed here, which essentially are designed to bring rates in line with costs will allow low cost service to build large volume or mass transportation for American passengers so that we are trying to keep up with the technical progress in this area -- the wide bodied airplanes, the new round of investments we expect to occur in the coming five to ten years.

Q Mr. Secretary, in your policy statement recently you mentioned you had some dismay about Amtrak and the cost of subsidies to Amtrak, and you specified some definitions for subsidy standards. To bring up in this legislation the possibility of more Federal subsidies for, perhaps, air abandonments -- how do you square those two?

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SECRETARY COLEMAN: We say we have an abandonment procedure in this bill which I think is a very reasonable one. We make a distinction between those communities that are served by more than one airline as against those served only by one airline. We do indicate that where the community is served by more than one airline that the other airline within 90 days has the right to get out of the business of the area if it wishes to.

On the other hand, we have standards of airlines being able to abandon service if they are losing money over a period of time. With that type of provisions you still have to look to those communities that rely heavily on air service so, therefore, we say in that limited instance if an airline is losing money and if normally it could abandon its service, if the local community is willing to subsidize the difference so that the airline would recover its costs plus a fair return, then the airline would continue to serve.

There is nothing in that provision which is at all inconsistent with any statement I have made with respect to the general policies on subsidies.

Q Do you have any estimate as to how much the cost is in more Federal subsidies?

SECRETARY COLEMAN: We don't think it will be a significant sum at all. As you know, we feel that the air taxi service can serve some of these communities. We feel that there are other methods to serve them. We do think, as you make new suggestions, you have to recognize the fact that there are communities that are dependent upon air service and, therefore, if there is an abandonment we do think that the community should have the opportunity to make the judgment that is better for it to have the service and, therefore, will subsidize it.

Q Mr. Coleman, could you be more specific in estimating what you think prices will do? A minute ago you said they could go up or down by ten or twenty percent, depending on the airlines. What do you expect?

SECRETARY COLEMAN: I would say on the whole we would think that with the normal growth of the business and having the more competitive market that prices should remain the same or go down. Of course, you have to weigh that against what new labor costs would be, what the fuel costs would be. I would certainly say without any, I hope, fear of contradiction that if Congress will adopt this legislation, that prices will be different and on the lower side than they would be if you didn't adopt this regulation. I think that is crystal clear.

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Once you get past that, you depend upon the marketplace. I emphasized in my opening statement that as long as you are going to commit yourself to keep the aviation industry in the private sector you have to have low, efficient fares, but at the same time you have to permit those people that invest their capital to earn a reasonable rate of return. I think this legislation will permit that and I would say that if the airline remains efficient, as I expect them to do, if they get to be more competitive than they are now, I think that that should be reflected in the fare.

Q Mr. Secretary, do you have any --

MR. MACAVOY: Perhaps I could add a bit to that as well.

The bill has to be put in the framework of the growth and development of the airline industry in the next ten years. There is a great deal of phasing over the first five years in entry; price flexibility goes into effect over that period as well.

The strong elements of rate determination are changes in demands and costs which will occur at the same time. This is an industry which grows very rapidly on the demand side when there is substantial GNP growth. We expect that as the economy recovers from the downturn of last year and we go into sustained high level growth, there will be very rapid demand growth for airline passenger service.

Fuel costs are likely to go up over that period. I don't know any economist who has a forecast that fuel costs are going to decline significantly over the next five years.

Operating costs, labor costs, capital costs are going to go up. The charges for borrowing capital are likely to be much higher in the next five years than they were in the period when the 707 was installed as the basic piece of equipment ten years ago. Under those conditions the level of the charge the passenger will pay will be mostly cost and demand determined.

However, the difference that is likely to occur is basically that the rates will be brought in line with costs. Now, on some service rates are way out of line with cost, they are much higher; on other service they may actually be lower.

Now, what we expect is a reorientation of the rate structure towards cost determined prices. That may mean that on particularly some of the long distance service and the service in the areas where the passenger demand is growing the most rapidly, prices won't go up very much if costs go up but it is very difficult. It would take an econometric model with 500 equations to gestate a number for the average change in rate, and we have not done that.

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Q Mr. MacAvoy, do you think that airline travelers will now be able to shop for better prices on their air tickets?

MR. MACAVOY: More price quality option --

Q Would you put that into English? (Laughter)

MR. MACAVOY: That is perfect English. New England English.

There is likely to be a wider variety of prices because in the rate schedule there will be also noted a wide variety of services -- red eye service, no lunch service, no drink service. A large volume service that is packaged for groups is likely to be offered in a wider variety of times and places, and it would have likely been that those services which are distinctly lower cost--off peak, no frills--will have significantly lower rates than the other services. So, you would have a chance to decide for yourself whether you want to pack your own lunch and go at night at a significant cost saving over a first-class, peak load Friday afternoon trip.

Expanding the price quality options means that you have a wider variety of choice. We are not satisfied with the variety of choice that is now offered. It has been increasing in the last year, partly in response to this effort. Much of the Civil Aeronautics Board's new initiatives are parallel to the proposals that we make here. Maybe there is a cause-effect relationship. But they are opening up the markets much more than they used to be. We want to make sure that opening up becomes permanent.

Q On the abandonment situation, you are talking about community subsidies; that is, local, not any Federal, money to help where there is need for lines?

SECRETARY COLEMAN: Yes, there would be local and State subsidies.

Q Mr. Secretary, do you have any projected figures on how many communities from 50,000 to 100,000 will be faced with this, either coming up with some subsidies or losing their airline service?

SECRETARY COLEMAN: No, we don't. Really, I don't think it will be a significant number. We think that with the ease of entry provision there might be more carriers willing to go in to serve certain areas.

To get back to this pricing question -- and I will try to say it in as good as English as Paul said it -- the way the situation exists now, if you have a price fixed, the time it takes you to change the price, even though you think that from a marketing point of view if you reduce your price by two percent you probably get more of the business, you don't do it because if you made a mistake, it is going to take you so long to get back to where you were before, that the tendency is to keep your price where it is and only think in terms of adjusting it upwards whenever you may have an increased cost for labor or for fuel.

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If you have the pricing flexibility you have here, you will then finally be able to test in the marketplace whether it is true if you reduce your price by 5 percent there is such elasticity of demand that you will get more people flying your airplane and, therefore, you will make a total number of dollars more. That is what we are attempting to do, to give that type of flexibility so that we finally can determine whether by reducing the fare or being more competitive as far as the fare, that you end up with more net passengers.

If you do that, it certainly makes much more sense to fly an aircraft at 85 percent capacity, even though you charge each person less money than do what is happening today; namely, charge them more money, use more gas and yet fly them -- the planes -- only by 45 or 50 percent capacity.

Q Is there any impact on international air fares?

SECRETARY COLEMAN: No, there is not, other than the fact that I am pretty sure that when the domestic situation becomes much more competitive and much more flexible and, therefore, people that are deciding whether to take a vacation from New York to LA, which is just about the same distance as going from New York to London -- and they are making that choice -- I hope that the international airlines will take that into consideration and, therefore, develop policies which are much more competitive.

Q Mr. Secretary, are you going to release the environmental impact statement on Concord, and have you discussed it with the President in the last couple of days?

SECRETARY COLEMAN: I have not discussed the environmental impact statement with the President.

Q When are you going to release the report?

SECRETARY COLEMAN: When am I going to release the report? We try to do things very fast in the Department of Transportation. If you don't hold me to it -- and maybe you ought to get the spirit someday when Congress goes off on all these recesses, maybe we should take one, but we don't -- I hope, therefore, to get it done in the next 20 days.

Q Mr. Coleman, will there be any policing or enforcing in here whereby airlines may add some service and say, maybe, just the airline going to a point and they both add some service and they up their prices. Maybe that is really not important to what service they have added, but in the meantime, they have added their prices and you take it out to the antitrust enforcement here. Would you have any enforcement at all?

SECRETARY COLEMAN: Done what? Don't you tell the Attorney General that. (Laughter)

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I think, if anything, he has put much more of it in this statute.

Q The way I read this here, what you put out is --

SECRETARY COLEMAN: Whoever wrote that didn't write it correctly because I assure you there is much more antitrust enforcement in this statute, which was first developed in our department. I have a very able General Counsel who certainly believes much more in the antitrust laws than other people and there are a lot of people in the White House that believe much more in the antitrust law, and I assure you the Attorney General of the United States believes in them.

If you read the statute, you will find where there has been a lot of antitrust here and the airlines are subject to much more antitrust supervision than they have ever been before in the history of regulation.

MR. MACAVOY: Maybe I could answer the first part of your question.

In a case where there is a single source of service, or even just two airlines, and these airlines were to increase their rates, then the bill says that if they increase them less than 10 percent they will not be suspended. But after the CAB goes into operation on those rate increases, the usual standards for determining monopoly profits still apply. There is still rate control in an upwards direction to prevent the charging of monopoly prices in single service cities.

The zone of flexibility is a suspension zone. It is not a free rate setting zone; that is, the rate cannot be suspended while it is in effect, but it can be rolled back by the CAB when they hear that case. So, we have not done away with maximum rate controls.

You were mistaken on the other part as well, that the new merger provisions apply that stronger antitrust provisions of the Bank Anti-Merger Act, compared to the weaker provisions that are already in the Civil Aeronautics Board, so this is a stronger provision in the Bank Merger Act.

SECRETARY COLEMAN: Also, you know we are now where the domestic airlines would have all types of capacity agreements which the CAB has approved and then had antitrust immunity. That has been prohibited under our proposed law. If you look on Page 2 of the fact sheet, at the top under 3, you will see it outlined there.

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Q Secretary Coleman, in the rate provisions I've got two questions: One, why are you allowing only a 10 percent upward flexibility when you are allowing them to lower them 20 to 40 percent, and, two, in the 10 percent increase do I understand that if there is only one airline serving a city, it would not be allowed to raise their fares 10 percent?

MR. MACAVOY: No.

SECRETARY COLEMAN: No, but when you are dealing with one city and you have monopolistic problems, obviously you look at that fare increase in a way different when you get to the final hearing than you would if you had two or three airlines there competing. As Paul did say, and attempted to convey to you so that you would understand, (Laughter) the 10 percent is the area in which there will be no suspension. Still, if the community feels that that 10 percent means that the airline is earning too much, then there would be a hearing and the CAB could order the fare reduced, which reduction would be prospective.

By the same token, when you get finished with all these adjustments, there is still authority in the CAB to say as a result of all these adjustments, the airline is making more than its fair return and so, therefore, there can be a general reduction.

Why we talked in terms of 10 percent going up and 20 percent coming down, that is an economic judgment and you start with the assumption that based upon what is happening or what has happened that fares probably are nearer to the high side than they are to the low side, and that if you want to bring about competition, you give the flexibility down.

As we have tried to say several times, both to the Congress and to the reporters, that one reason why you don't have the flexibility down so far is because that once you went down you could not go back without a hearing which may last you two or three years.

Now, what are you trying to do to let them go down? If they guess wrong, then they can come back without the same delay. Also, as you know, in the bill we say that for these fare cases that they should be resolved in 180 days, which, once again, is trying to speed the process up.

Q Secretary Coleman, two questions, please. One, you mention that one of the purposes of the legislation is to make sure that the carriers, if they are well managed, get a fair return on their investment. If you are in fact trying to better serve the industry's needs, do you in fact anticipate support from the industry on your proposals?

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Secondly, what kind of reaction do you expect in Congress on this?

SECRETARY COLEMAN: We think Congress will work its will. We think that we have a case good enough and persuasive enough where when they listen we think they will accept our point of view.

With respect to the industry, you always start with inertia, and nobody likes to see any change if he has been used to living under a different system. It is my understanding that on certain of the provisions, everyone in the industry would agree with them. There are other provisions where some of the airlines will be very favorable, other airlines initially would not be favorable, but I would assure those that manage these great companies if they read the bill and if they would study it and look at the new economics, I think they all ought to support it.

Q Mr. Secretary, in the future, when you have hearings on these cases before the Civil Aeronautics Board, will you see that the hearings are open so reporters can cover them?

SECRETARY COLEMAN: Before the CAB?

Q Yes, sir.

SECRETARY COLEMAN: I can't imagine that the hearings --

Q There have been some instances where Chambers of Commerce and towns and competing airlines and others were not allowed to hear each other's testimony.

SECRETARY COLEMAN: I think that one of the very good things that President Ford did was to appoint a first-rate Chairman to the CAB. I have known John Robson for a long time, and I know -- without committing him one way or the other -- from my experience with John that he will, to the maximum extent possible and that permitted by the law, permit people that have an interest to present their view in an open hearing.

MR. ROBERTS: I would just like to say the Secretary has an 11:30 Cabinet meeting.

Maybe one more question, Mr. Secretary.

Q I would like to present two example and have either, or both of you, tell me what is likely to be the situation. Imagine it is two years from now and I want to fly from Washington to LA. What am I going to find when I go to buy an airline ticket?

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The second example, suppose I want to fly from Charleston, West Virginia, to Columbus, Ohio. What am I going to find there? Which is going to be down and which is going to be up?

SECRETARY COLEMAN: I think that will depend upon what it should, basically, the marketplace. Therefore, I could predict fairly competently that whatever you find -- and this is hypothetical -- we will find a fare which is much more responsive to the costs and the demand than you would find if this legislation is not enacted. I would say without a doubt that in each case your fare probably would be higher under the present system if there is no change than it would be under this system if it is adopted in the Congress.

If you want me to indicate to you and quote to you what two years from now your fare will be, if you will tell me what your wage costs will be two years from now, if you will tell me what your fuel costs will be, if you will tell me what the Congress will do as far as spending and that sort of thing, I might be able to come up with a prediction.

Other than that, I can't predict two years from now what it will be.

Q Haven't you been preparing this legislation? Have there not been economic studies along those lines?

MR. MACAVOY: Yes, there have been detailed studies based upon different cost and demand changes. From our economic research work I think it would be fair to say that we don't expect, given about the same cost and demand levels as now exist, any change in that Charleston rate. The Los Angeles rate might very well be lower.

MR. ROBERTS: Might I say that for those of you who have further questions, there will be a detailed briefing at noon at the Department of Transportation in the Secretary's Conference Room on the 10th Floor for those of you interested in pursuing this.

Thank you very much.

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(AT 11:32 A.M. EDT)