The original documents are located in Box 1, folder "Aircraft Noise (2)" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

[1976]

Long-Run Growth and Prosperity for the Airlines

The outlook for longer-term investment in this industry is widely agreed to be somewhat discouraging. The equipment expansion required to meet all of the demands for more service will most likely require doubling the number of airplanes purchased ~~for expansion~~. With increased costs for expanded service, this investment in new equipment will not, however, be forthcoming because regulated prices will not be high enough to cover these increased costs. The CAB by equating regulated prices with past costs holds down the expansion of revenues to levels too low to cover the increased costs of much more service.

Passage of the Administration's airline regulatory reform bill this session would have eliminated these artificially-low limits on revenues. Where individual airlines would make the higher cost investments to meet expanded demands, then fares would increase. The limits on the increases would not be regulatory constraints, but those inherent in competition from other airlines in the market place. Predictions of both private and government analysts reveal sufficient internal and market sources of funds to finance full expansion if rates of return rise to 10%-12%, which are levels fully in keeping with competitive market conditions but twice as high as is being realized [redacted] for regulation.

In the absence of regulatory reform, the "way out" of a capital shortage is to subsidize investment in the regulated firms. This has been done in the railroads, and is beginning to occur under the price freeze in regulated natural gas. The effects on the industry are usually to carry it through a year or two of crises, but to make it dependent on Federal funds in the long-run. The firms obtain funds based on past sales or past investment, so that market shares are frozen. Only proven technology is purchased, so that innovation as well as new competition are dampened. Finally, political considerations enter the investment decisions so that service is expanded to advance regional or pressure group interests.

Although the use of the sales tax for equipment expansion is not the last step in industry dependency on government, it clearly is the second step. Now the industries' revenues are controlled to the disadvantage of service expansion. As a consequence, costs are to be reduced by the use of the pool of tax funds for equipment expansion. But then both revenues and costs are controlled and thereby are politicized. If railroads and natural gas are earlier examples, then the results by the early 1980's will be government participation in all of the important decisions on production, sales and distribution by private firms.

The alternative to regulation and subsidization is to reduce the regulatory controls so that changes in costs and demands for service can work through the system. This reduction has been proposed in the Administration's air bill, as well as in bills offered by the CAB or by a number of congressmen. If greater uncertainty results from reduced controls, or if there are costs of transition, these might be dealt with by a selective policy of assistance designed to ease these costs while holding up investment. But the direction of policy inherent in a reform act next year would be towards less control for this industry, not the increased control inherent in the proposed pool of tax funds.

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

[1976]

MEMORANDUM FOR THE PRESIDENT:

Because of the concern among some members of your senior staff about my proposed aviation noise reduction and aircraft replacement program, I would like to propose a compromise solution, which, although less satisfactory from my point of view, would enable you to resolve this continuing disagreement and would enable us to proceed with our statutorily mandated requirements to address the aircraft noise problem.

Under my proposed compromise, the Department of Transportation would issue a noise policy in September without any specific provision for financing. The policy would include noise requirements for existing aircraft to be phased in over a six to ten year period, a timeframe substantially longer than the four years proposed by EPA or the five years proposed in pending legislation. Without this action it is my conviction that either we will be ordered by a court to establish a shorter time period or the Congress will pass such a requirement. The policy would also clarify the respective responsibilities of airport operators, air carriers, aeronautical manufacturers, federal, state, and local governments, and airport neighbors. By making clear the Federal action plan and timetable, we would enable the other parties to take the complementary actions called for in the policy statement, including compatible land use planning, zoning, and airport management measures. The policy also would include important but non-controversial elements such as the implementation of new airport development funding authorities, which you signed into law last July., to enable the acquisition of land around the airports and the purchase of noise suppressant equipment. We would also set forth proposed Federal actions to adopt new noise abatement takeoff and landing procedures and a general policy on local-federal relationships in the establishment of curfews and other airport use restrictions. Such a policy statement would reduce substantially the immediate pressure for federal action and be viewed as federal leadership in resolving a controversial problem where all the parties -- the carriers, the airport proprietors, the airport neighbors and public officials -- agree that the federal government has been unresponsive in doing its part.

In addition the policy statement would include the following:

1. The Administration would propose a 2% reduction in the domestic ticket tax, thus capturing the initiative on this issue which otherwise inevitably will be taken by members of Congress or other parties.

2. We would indicate that additional financing may be required to enable carriers to purchase replacement aircraft by the deadlines imposed by FAA regulation and that such financing will be incorporated in the Administration's proposed Aviation Bill before the new Congress begins. The final financing proposal would be designed to meet the following criteria: consistency with regulatory reform, the user should pay, equity among the carriers, and minimum government involvement in private sector investment decision making.

3. We would make clear that the U.S. noise requirements will not apply to international air carriers for a four year period to enable the negotiation of an international solution through international organizations, thus alleviating the substantial concern of our European allies that the United States will act unilaterally.

4. We would schedule a public hearing for either October or November to enable carriers and others to comment on how the financing proposal should be formulated.

5. We would send a new Aviation Bill, including a financing proposal, to the Hill in January.

The advantages of this compromise proposal are as follows:

1. You will resolve a long standing intra-governmental controversy that has been widely publicized, and you will establish the clear blueprint for combined federal-local action that the Congress, carriers, airport operators and environmentalists are all calling for. Many of the elements in the plan are technical but necessary to clarify the respective responsibilities of each party.

2. Although EPA and the FAA have conducted numerous hearings on all the noise requirements and positions to be included in the policy statement, there has not yet been an opportunity for public comment on the financing proposals. Moreover, when the parties are able to see the proposed federal action plan and timetable, they will be in a better position to make their own plans and to comment upon what financial arrangements will be necessary. Thus, it is entirely appropriate for you to seek public comment and take this additional time to resolve the financing issue after a public hearing.

3. You can reaffirm support for aviation regulatory reform as the best long term solution to the problem and -- by designing a financing formula as a part of the new bill -- can help to broaden the base of support for regulatory reform in the next session of Congress.

4. Although the Secretary of DOT would conduct the public hearing, you could set up an inter-agency task force to develop a financing proposal after the hearing.

This compromise approach would represent decisive leadership in aviation noise reduction while diffusing any liabilities that may accrue from the financing formula. By providing for the public hearing, however, there would be an opportunity to raise all the Administration's concerns about the development of new aerospace technology, the promotion of employment opportunities in the industry, and improved fuel efficiency.

William T. Coleman, Jr.

THE FUTURE OF FREEDOM

Vice President Nelson A. Rockefeller Speaks out on Issues Confronting Americans In Bicentennial 1976

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CHAPTER 1

"What This Country Needs is a Good Loud Alarm Clock"

AT THE NATIONAL PRESS CLUB,
WASHINGTON, D.C.
FEBRUARY 19, 1976

It is a pleasure always to meet with representatives of the Fourth Estate, and especially with members of the National Press Corps who contribute so much to the spice of political life.

Thank you for your many kindnesses and courtesies. And like other public officials, I appreciate your analyses, interpretations and diagnoses of my actions, motivations and state of mind.

According to your current reporting, this 41st Vice President is relaxed. I agree—if you mean physically, and if you mean I am not running a temperature because of Potomac Fever. Indeed, I enjoy an immunity to that malady after several bouts with the virus itself.

You are not correct, however, if you mean that I am relaxed about the condition of the Nation and the problems that confront us. I am not. This is the principal reason I welcome today's session.

A distinguished predecessor in this high office I hold, Thomas R. Marshall, said "What this Country Needs is a Good Five Cent Cigar." I think that what this country needs today is a good loud alarm clock—that will wake it from its lethargy and get it going on time to meet its problems.

Unfortunately, we're again witnessing that national election year practice of putting off until tomorrow what we should be doing today. Hence, our energy situation deteriorates daily as we become more dependent on OPEC oil. The moratorium on facing up to the energy crisis enacted by the Congress in the compromise bill is as symptomatic as it is unfortunate. Detroit now reports the public isn't buying sub-compact cars and, believe it or not, they are going to have to build more gas guzzlers to meet demand.

We are not having an informed debate on the grave issues that face present day America—energy, employment, inflation, transportation, crime, national defense, foreign policy, food and agriculture, health protections, reform of social welfare programs, the problems of our cities, and other areas. We are not really examining the strengths of our society and discussing how to maximize them and utilize them to bridge our shortcomings.

In the plethora of primaries, we witness mostly personality contests—candidacies based not on party programs or issues but on personalities and promises. "With malice toward none and charity to all," they do not evoke the image of the Lincoln-Douglas debates.

This is, of course, not surprising, but it is disappointing. It is a matter of concern, not in itself so much, but as it evidences the much greater and more serious question of the fractionization of our governmental and political system.

Superficial reforms to meet special problems have been chipping away at the fundamental concepts and structure of our political system. There is need for an overall review of their impact on the system as a whole.

Concern is being expressed, and with merit, over the ability of democratic government to really govern here at home and function effectively abroad if the splintering trends continue. It is becoming more and more difficult to identify authority and to focus responsibility in our government and in our political party structure.

In a world that requires adaptation to rapid change, decisive action is becoming increasingly difficult to achieve and certainty of policies already enumerated more hazardous to assure.

It is time we as a Nation give major attention to the basic problems. We should seek ways to shape and strengthen our governmental and political structures so as to promote the kind of political consensus upon which democracy depends, and to insure governmental capacity to perform upon which our national survival depends.

This is no mean task. We have had piecemeal government and piecemeal politics for a long time now. I should like briefly to look at the problem in three interlocking areas: Our concept of the role of government; our federal government; our political parties.

This being our Bicentennial, a reference is appropriate to the concept of government held by the Founding Fathers. They generally subscribed to a role for government that would establish a rule of order and a framework of policies in which individual and private activity would have wide freedom to pursue their own interests. They looked to "a government of law and not of men."

The role of government, however, was not just negative—nor passive. The Founding Fathers looked to government from the early days of the republic to encourage economic growth through positive government action—national roads, postal services, granting homesteads on government lands and other public works and services. They expected government to provide a climate for development, and to set the basic legal guidelines for economic activity. But they did not expect that individuals' lives would be subject to detailed regulation by government. Quite the reverse—and hence there was real appeal in that phrase of Thomas Jefferson's, "That government governs best which governs least." Or as Abraham Lincoln put it 100 years later: "In all that the people can do as well for themselves, government ought not to interfere."

By contrast, for some considerable time now there has been a looking to government for the answers to most of our social and economic problems. This has taken the form of requests for more and more detailed and restrictive regulations. In addition, there has been an insistent and rising demand for government to provide more and more services—traditionally the province of private, voluntary and individual effort.

Government is being looked at not just as the source of the rules of law and the umpire to assure their fair application but more and more as a provider of goods, services and money. Indeed, we are living in a period when groups organize to get "theirs," so to speak, and governmental processes resemble a contest among these groups for who gets what and

when. It is as though the old slogan "Uncle Sam Needs You" was reversed to "You Need Uncle Sam."

In this process, the pressures of special interest groups make it increasingly difficult to achieve the kind of compromise and consensus necessary to operate democratic government.

This is demonstrated in the field of domestic legislation—witness the stalemate on energy to which we have already referred. It is demonstrated in the field of foreign policy, where the Congress, in response to such pressures, is seriously limiting the ability of the President to deal with key areas of international relations. It is dramatically illustrated in the difficulty of holding down federal spending, controlling federal deficits, and having a rational federal fiscal policy.

President Ford's fight to keep down inflation has run smack into this basic difficulty with special group pressures on and within the Congress and indeed the Executive and the Administration, as well.

We know from the experience of other democracies what failure to recognize this basic problem and to deal with it can mean, not only in personal economic hardship but in the demise of democracy itself. Our concept of the role of government is involved and needs to be faced squarely.

The Founding Fathers established a representative government and they looked to the members of the legislative body to represent the national interest as well as their own constituencies. They depended upon the ability of reasonable men to come to a consensus by compromising their respective positions or views.

But today, pressure group activity has made compromise more difficult. The power of such groups is exerted not only directly in the halls of Congress, but also by using highly sophisticated computer techniques to mobilize a flood of communications from key constituents back home—particularly at election times. Under these circumstances, premature commitments on issues are difficult to avoid.

Some of our changing concepts of government add to the difficulty of compromise. The progressive elimination of and refusal to recognize confidentiality impede decision making. The drive for openness in government, however well-intentioned—sunshine laws and the like, the insistence that all deliberations be open to the public—stifles expression of thought and makes the achievement of compromise more difficult.

We need to examine in a more systematic way the whole concept of openness as it relates to the abilty to govern. The public interest is surely served by the people being informed. But this does not mean that the public interest is served by every public servant, legislator or administrator speaking, acting and writing always as though he were in the lecture hall or on a TV show coming into everyone's living room.

The sad saga of illegal acts, secrecy and deception of Watergate is understandably in the minds of all of us. But the fact remains that, for democracy to work, trust and confidence must be placed by the people in their representatives. These representatives must act for the people in ways that are worthy of that trust.

Another factor in our changing concepts of government that needs mention is the development of local vetoes of projects or programs already decided upon. Again, in an understandable concern for local communities (that were ridden over roughshod by highway departments, or ignored in programs that otherwise threatened them), we have built into our laws and procedures unprecedented ability by a few—and not necessarily an elected few—to stymie essential programs and projects for the many.

The role of the courts in this respect is also significant. Accordingly, achieving majority support and fostering the common good or majority interest has become difficult. Unless we find a way to consider local interests early in the planning process, and to expedite decisions and action, we face severe economic constraints ahead. How and why we have reached this situation is understandable but a democracy must really depend upon a majority consensus and vital national concerns must prevail over individual or special group interests.

This brings us back to the federal government of today. First, let's consider the relationship of the Congress and the Presidency as it affects the conduct of our foreign policy. Five hundred and thirty-five persons can't be at the wheel of the Ship of State. Before they framed our Constitution, the Founding Fathers, out of their experience with the Continental Congress, learned that Congress couldn't conduct foreign policy, serve as Commander-in-Chief of the Armed Forces or provide executive direction to the administrative departments of the federal government. I trust the Nation will not have to learn this simple truth out of bitter experience again.

It is one thing—and a very appropriate and essential one—for the Congress to review foreign policy. It is another to try to conduct it.

It is also surely appropriate for the Congress to inquire into the conduct of agencies engaged in the gathering of intelligence information and that shadow area of clandestine operations. But again, if it needed to be demonstrated, we have now proved that Congressional committees are not vehicles for the handling of confidential intelligence information relating to national security—and are hardly in a position to direct intelligence activity.

As one who looked at domestic aspects of our international intelligence agency activities and who pointed out defects, irregularities and violations of the law, I must tell you again that the overwhelming mass of the intelligence work was conducted legally and that the American intelligence effort has been and is an essential arm of foreign policy—including clandestine operations.

The relationship of the Presidency and the Congress in foreign affairs must be one of mutual understanding. But it must not tie the President's hands in the difficult tasks of world affairs today. And this requires also a recognition by the people and the Congress that not all members will necessarily approve, condone or support the foreign policy of the United States as any President may conduct it.

The Congress has a formidable task to organize itself for both foreign and domestic affairs to carry out its grave and far-reaching responsibilities in the national interest.

Here, too, power has been dispersed and special interests or the interests of a minority of the people have thereby been given far greater weight. To find focal points of authority and responsibility within the Congress is more difficult now than heretofore. The competition, overlap and duplication of Congressional committees adds to the confusion. If seniority and the old traditions are not to be hallmarks of authority, some other means must be found.

This brings us to consideration of the Executive Establishment and the huge administrative machinery of the federal government. In the Town Meetings I conducted around the country for President Ford, I found a universal outcry against federal government bureaucracy and red tape. Frankly, both Congress and the Executive had better begin to do something

about it. The number of forms people have to fill out, the number of permissions they have to obtain, the difficulties they have in getting answers to their questions are building up a resentment that will be felt at the polls.

And the people are right. Why should our federal tax laws be so complicated that the average taxpayer can't fill out his own return? Why should he have to pay someone to do it for him out of its complexity or fear he may make a mistake and get into serious trouble.

Why has the number of lawyers in the federal government increased 180 per cent since 1970? Why has the number of federal government accountants gone from 47,000 to 75,000 in these same five years?

As a society, are we getting so paranoid, so fearful of entrusting power to act to anyone, that we face paralysis? This may be what has happened to our political parties. Our major parties served a real purpose over the years by uniting different groups, encompassing different regions of the Nation and helping bring about compromise on difficult issues.

But they have been seriously weakened as effective instruments, once again by well-meaning, piecemeal governmental interventions—direct primaries, initiatives and referenda, recalls, financial constraints on political giving, conflict of interest rules and the like. They have been eroded by special interests and by candidacies that owe their being not to party affiliation or activity but to individual special interest identification.

It is time to look at our party machinery as a whole and to ask ourselves: How are we going to attract the leadership potential for the future into political activity? How are we going to get sufficient consensus to avoid a multiplicity of parties and give the voters meaningful, understandable choices?

We face a real challenge in providing the political means of developing leadership, developing the consensus and avoiding political paralysis. We can meet all these problems. But first we need to wake up and realize time may not run in our favor—wake up and eliminate the thought that somehow, someway we'll make it—with someone else doing the heavy lifting.

Let's face the facts. We've been on a national negative kick for four years. We've been looking backward and we've been rehashing the past. It's time we face the future. It's time to determine our enlightened national self-interest. It's time we all devote our energies to positive efforts for this Third Century.

That's what I'm going to talk about in the weeks ahead: I sure hope others will, too.

CHAPTER 2

"Science, Progress and Freedom"

BEFORE THE AMERICAN ASSOCIATION
FOR THE ADVANCEMENT OF SCIENCE
BOSTON, MASSACHUSETTS
FEBRUARY 23, 1976

I readily accepted your invitation to speak at this Bicentennial meeting of the American Association for the Advancement of Science because I profoundly believe that America's science, America's material progress and America's freedom are closely intertwined. I am convinced that too little attention is given today to these basic interrelationships which have helped to produce the world's greatest standard of living for ordinary men, the greatest individual liberty for people in all walks of life and the greatest economic feedom men and women have ever enjoyed.

Scientific advancement, economic progress and the quest for freedom have marched together in America for over two centuries. It was 1752 when Benjamin Franklin with his son, William, flew the kite into the storm and proved electricity and lightning were one and the same. This same brilliant Philadelphian brought America's economic promise to sharp attention in 1755 when his paper criticizing the British Parliament's restriction on iron manufacture in Pennsylvania was presented to the American Philosophical Society, printed that year and circulated abroad. Franklin, foreseeing the great growth of the colonies and the immense market they would provide, boldly called for a reversal of this shortsighted policy. This was the same Benjamin Franklin who persuaded the Pennsylvania delegation, the only group still in opposition on July 2, 1776, to vote for the Declaration of Independence.

Franklin exemplified the spirit of scientific inquiry, applied technology, economic freedom and political liberty that has characterized this nation during most of its history. He and those of you who followed him over the several generations, have contributed to the great industrial, scientific and technological strength of these United States.

It is appropriate that we give thanks to the men and women of science—to Franklin and his successors—at this Bicentennial. But mere thanks are not enough to discharge our obligation. It is far more fitting to honor them by carrying on the task they set with the same virile spirit they exemplified.

But before we congratulate ourselves, let us stop for a few moments and review our present position. I wonder if we can say that we are moving with the same kind of thrust, the same contagious confidence, and the same conviction of the rightfulness of our cause as they did. Certainly we have achieved marvels in man's history. We have fractured the atom and brought in the nuclear age; we have leaped from electricity to electronics

and left footprints on the moon; we have developed memory machines, calculators, and automatic devices with fantastic capabilities—and even more fabulous potentialities.

But all of this has been accompanied, one might observe, with a certain questioning of these accomplishments and a growing cynicism respecting their value. This is unfortunate. For these very attainments are what has made it possible for more and more people to have the benefits of science and technology—and individual freedom—than ever before. If we but have the wits and the courage to continue to utilize them properly, we can increasingly enhance the quality of life for all Americans.

There is always risk in life. There is always risk in invention—in discovery. When the first man made the first man-made fire, he probably struck terror in his neighbors. But man's ability to contain, to channel and to master his discoveries and inventions are what has made civilization. We must not forget this. And yet, listening to the debates and reading the emotional arguments about energy sources and energy technology, one wonders at times whether we are dealing with a world of science and fact or a world of superstition and fear.

To make possible a decent standard of living for all Americans, to provide for the kind of economic growth that will offer employment to all who can work, to meet our national security needs, it is clear we must develop additional energy sources from the extraordinary range of choices we have within our own borders. Both our immediate dependence on imported OPEC petroleum and the limited quantity of that resource world wide, dictate such a course. But two and a quarter years after the Arab embargo exposed our weakness, we have yet to take major steps toward achieving greater energy self-reliance.

The reasons for the stalemate are several. They run the gamut from pure politics to lack of political courage to concerns that exploitation of new energy sources will degrade the environment, misuse our resources, or imperil human life. Concerns for the environment, for use of resources and for human life are vital and necessary, but science and technology can provide the necessary safeguards in energy development and transmission. Nuclear power has been with us for two decades and is making increasingly significant contributions to the generation of electricity both here and abroad: Indeed, the nuclear plants in the U.S. have established an enviable record for safety. In the 18-year history of commercial nuclear plant operation, no accidents have occurred involving public injury. In this same period in the United States alone, 848,544 people have been killed by motor vehicles and more than 74 million have been injured by this highly popular invention. Yet to my knowledge there is no popular movement to "ban the auto."

Nuclear power is not going to go away. Once a scientific discovery sweeps the world and a new technology is widely disseminated, it will not disappear. Nor can it be suppressed by any one group or nation. As with any other technology, it behooves us to push forward to realize its full benefits while we provide essential safety, improve efficiency and handle the problem of nuclear waste.

The environmental problems of increased oil and coal energy development can be met by science and technology as well. Leaks from offshore drilling rigs are not a demonstrated hazard anywhere near the emotional opposition they arouse. In fact, they are less of a risk to coastal areas than spillage from tankers, and can be handled by technological and

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security procedures. I am confident that scientists and engineers can also develop more economical and environmentally sound methods for burning high sulfur content coal and oil to produce power.

The hard fact of today is that America's independence and our very freedom depend on our achieving energy self-reliance. It will take an all-out effort by science, our enterprise system and government to accomplish this. It can be done—and it's time we get started.

To provide a salutary environment for our own and the world's growing population will require more energy—not less. My own work on the water pollution control problem clearly indicates the need for energy to help clean up our waters and to keep them that way. The expansion of our energy supply and the provision of a healthful environment for people are not only compatible objectives—they are both essential for the future of mankind. Unless we provide for more energy, for a continuing supply of food and basic raw materials, and for a healthful environment, we cannot achieve a satisfactory level of living for all Americans—much less play a significant role for the rest of the world.

Without economic growth, we cannot have opportunity for all groups in our society, for all individuals to employ their talents, dedication, ambition and energies looking to better their status. Citizens of a free society like our own will not only seek but will demand opportunity for improving their lot. The challenge to science and technology is to provide the basis for this growth and progress—thereby continuing the climate for individual freedom and personal liberty. These three forces: economic freedom, political liberty, and progress fostered by science and technology, have marched inextricably together since the Declaration of Independence 200 years ago.

The stake of science and of scientists in economic freedom to choose the areas of their inquiry and their stake in political liberty—freely to proclaim their findings and opinions—is crucial. America has fostered free inquiry. Our government has sponsored a vast spectrum of scientific and technical activity. Our laws of patent and copyright have protected discovery and invention. Our system has sought to reward those who have so benefited our society. Our government, through the encouragement of our tax laws, has produced our philanthropic foundations whose sponsorship of research and experimentation has also encouraged science, expanded the horizons of mankind, and brought health and better living to tens of millions on this earth.

But freedom and liberty are constantly and increasingly threatened in this world. Not only is the threat direct, but it can be indirect and can even be so subtle as to be insidious. This free society, this America, faces such dangers today. A free science requires a free society. Our system of free interchange stands in stark contrast to those totalitarian societies where the free exchange of knowledge, opinion and information by scientists or others can lead to prison or incarceration in mental hospitals. Our own science community is aware of the stake we all have in keeping America strong, that the hope for freedom throughout the world depends upon America's strength.

A crucial part of this strength is military power. The free world's military power—which is principally that of the United States—depends on accelerating progress of our science and technology. Scientific and technological progress are no monopoly of the free world. We know today the impressive military inventory produced by regimented and directed scientists and engineers in present-day totalitarian societies. We are in serious danger now of losing our lead time in the development of military science and technology. This can be disastrous unless we significantly increase our support for scientific research and technological development in the defense area. The President has recommended an increase of nearly $2 billion for research and development expenditures in his 1977 budget for defense.

As a democracy, we run a real danger if we allow ourselves to be deluded that defense expenditures are necessarily unproductive and wasteful. Such neglect by the democracies in the 1930's brought them perilously close to extinction under the Nazi totalitarian attack. Defense research and development have played a major role here in America, not only in buttressing our national security, but in the significant by-products for civilian use and hence for our own trade and economic growth. The strength of our aviation industry from the time of the Wright Brothers has stemmed largely from military support and military prototypes in large measure. This is but one example of the many collateral results that have benefitted Americans from military research and development. In the kind of world we live in, Defense Department support for research and development must be continued.

It is equally important that we expand our support of scientific and technological development outside defense as well. President Ford's increase of close to $1 billion for this purpose in his proposed budget is certainly a positive step, particularly in this year of financial problems.

American leadership in science and technology provides a basis for our social and economic strength essential to our trade, social and cultural relations with other nations. Indeed, the export of our "know-how" has been and can continue to be a significant element in our balance of trade and balance of payments. But if this happy circumstance is to continue, it will require more specific attention to education for science and technology, greater recognition of their role in our society and greater support generally. It will also require of the scientific community and of the science-reporting media that more attention and more care be exercised in putting forth information—claims, promises or warnings. The public esteem and confidence is shaken if a product like the cyclamates is peremptorily removed from the market because of its alleged cancer causation danger—only later to have it be shown to be harmless and perhaps superior to its substitute.

Public confidence is shaken if a small minority of scientists, without adequate basis for their claims, spread unfounded fear and retard or prevent progress. In a free society, however, there must be a better method for bringing into focus for the people the facts and the informed, mature, objective judgments of the scientific community. Whether it be an impartial "science court" or a series of duly-constituted panels in various areas of science, or some other vehicle, there is obviously a need. However, any such vehicle, no matter how well constituted, will not be fully effective unless the scientists, the media, the Congress and the Executive give it the weight to which it should be entitled. An important step in this direction is the Administration's proposal for the establishment of the Office of Science and Technology Policy in the White House. Legislation creating this Office is now before the Congress and it is expected to pass in the very near future.

In America, we have demonstrated for two centuries how a virile, adventurous people of many backgrounds and many views can achieve a consensus for liberty, freedom and progress. It has not come automatically. It has come through sacrifice, compromise, and compassion. It has come from creativity, from perseverence and from dedication. By so pursuing our enlightened national self-interest as free human beings, we have not only given greater meaning to our own lives and improved our own lot but given help and hope to people everywhere. In this Third Century of our national life, we dare do no less.

CHAPTER 3

"To Make Our Federal System Work Better"

AT THE NATIONAL GOVERNORS' CONFERENCE
WASHINGTON, D.C.
FEBRUARY 24, 1976

It is a pleasure to be with you. I bring you alumni greetings—at least from the gubernatorial classes from 1959 to date. I appreciate the opportunity to have a place in your yearbook in this Bicentennial year.

This is an appropriate time to look at where we are in our Federal-state system of government and where we are headed.

Throughout our history, there has been a certain ebb and flow of attention, of programs and of policies between the Federal government and the states. In the past 40 years or so, the flow has been heavily and constantly toward the Federal government with few exceptions.

The process began with the urgent social reforms of the New Deal, which required Federal action to meet human need and to bring the United States into the company of modern industrial states so far as social insurance, welfare, civil rights and labor benefits were concerned. In this period, the Federal Government entered upon areas which had hitherto been the province of state and local government, or the private and voluntary sector of our society.

These Federal programs were essential to provide basic security and opportunity for the American people. With the enactment of these efforts, it became evident that the Federal government's enormous financial abilities—based principally on the income taxes—could fund more and larger social and regulatory programs. Consequently, the respective Congresses and Administrations, particularly after the steep Federal income tax increases during World War II, became the focal points of pressure for meeting all kinds of demands. These ranged all the way from health and welfare to house paint components to environmental clean-ups.

The more detailed the legislation and the more new functions that were added, the more the demands increased. Federal action and Federal money became the goal of pressure groups and politicians alike. Federal funds appeared to be inexhaustible and Federal power to achieve desired social change looked limitless.

We thought an expression of legislative intent would change lifelong habit patterns and abolish human frailty. It was being said that the Federal government could even fight a major war in Vietnam and abolish poverty at the same time.

We now know differently. We know that Federal expenditures and all government expenditures have increased so rapidly that they vastly exceed the growth in our economy—that is, in our ability to pay for them.

Indeed, the enterprise sector of America—which furnishes our basic employment, produces our goods and through taxes on its earnings supports our government—has not been growing at anywhere near the pace required for current expenditures, much less increasing rates of government expenditures.

In our zeal for regulations, for programs, we have gone far from the basic reforms of the 1930's and early post-World War II years. We have entered upon far more detailed regulation of the citizens' day-to-day living and intruded upon his discretionary spending.

In our enthusiasm, we have ignored the fact that the productivity of our enterprise system is the base of our economic vitality—our ability to provide jobs and income for our people and the money necessary for governmental operations. Only now are we beginning to take stock and endeavoring to do something about this fundamental truth—that all our social and economic gains—employment, equal opportunity, quality of life, private, voluntary and governmental activity—depend upon the continued vitality, growth, and increasing productivity of American enterprise.

In this the beginning of our Third Century as a Nation, as we did 200 years ago, we must again give serious attention to the way in which the tax systems and the government spending programs, together with governmental regulatory activities, either encourage or discourage our economic growth and the productivity of our system.

Also, at this time, we must again give equally serious attention to the enormous concentration of authority, the immensity of the bureaucracy, and huge morass of red tape that developed out of the recent 40 years of burgeoning Federal programs. These were enacted largely on a piecemeal basis, with scant attention to their achievability, their interrelationships, their true costs to the economy, or their impact on our Federal-State system of government.

We can now more realistically deal with these matters as the era of limitless Federal spending clearly is at an end.

In the series of town meetings I conducted around the country for President Ford, there was an almost universal complaint against the complexity of Federal regulations, the mountains of perplexing forms, the insensitivity of Federal regulations to actual conditions and circumstances, and the difficulty of getting decisions and knowing they will stick when they are given. There were widespread complaints about the layering of local, state and Federal regulations and the bureaucracies and the duplication and costs involved. All of these matters are familiar to you and you have contended with them in the day-to-day administration of state government.

But I sense a new impatience, bordering on exasperation, by many of the people, and it is clear something must be done about it and soon. As one of the first orders of business, we should sort out our respective Federal and State responsibilities. In this connection, I would like to make five recommendations. These reflect my experience and studies during 15 years as a member of the National Governors' Conference. They do not purport to be Ford Administration policy.

First, I recommend that we put our present revenue sharing program on a sound, permanent basis and tie it to a fixed percentage of Federal income tax revenues. With its overwhelming access to the highly productive income tax and other national levies, the Federal government must share a fixed portion of this growth revenue with the states and local governments. If we want to preserve the vitality of the Federal system, it cannot be left to the annual whims of the Congress.

Our present revenue sharing program is the most efficient means of Federal assistance that has been devised so far. At present, the $6 billion revenue sharing program costs only $3 million to administer with less than 100 Federal employees involved. In contrast, with almost $6 billion now being spent on the Food Stamp program, over $600 million goes for administration and close to 2,000 Federally-supported employees are involved.

Second, I recommend that we consolidate the 210 categorical Federal aid grants to State and local governments into seven streamlined block grants. Last year, at President Ford's direction, I took a hard look at the 1,006 domestic grant programs to try to make sense out of this chaos. Last year, these programs amounted to approximately $265 billion.

Of the amount, some $210 billion went to Social Security, Medicare, Federal commissions and regulatory bodies, for loan guarantees, mortgage insurance and the like and for medicaid and energy research, and $55 billion was in the form of Federal assistance to state and local governments.

Of the $55 billion, $19 billion is already consolidated and represents essentially block grants to state and local governments or direct aid to individuals. The remaining $36 billion involves more than 200 categorical grant programs. These should be consolidated, simplified, and redesigned to eliminate matching requirements and excessive regulations.

President Ford has taken a major step toward this goal. In his new budget, he has proposed a human services consolidation package which combines and simplifies programs in four major areas—health, elementary and secondary education, social services, and child nutrition.

This package accounts for about $14 billion of the $36 billion target. It represents a dramatic first step toward making some sense out of these programs and toward allowing state and local governments the flexibility they need to be effective.

Following this lead, I think we should move to the consolidation of the remaining programs into seven broad areas: (1) Human services; (2) Transportation; (3) Post-secondary education; (4) State planning; (5) Research, demonstration, and evaluation; (6) Rural assistance; and (7) Welfare cash assistance.

Third, I recommend that we move as rapidly as possible toward a program of 100 percent Federal financing of public assistance on the basis of cash payments within the framework of Federally-established standards. Such a nationwide standard for Federal cash assistance would be adjusted for regional variations as determined by the Federal government. On the grounds of equity for both the recipient and the taxpayer, extreme diversity in the level of welfare payments should be eliminated and progressive steps taken toward uniformity within the nation.

Today, annual benefits under Aid for Families with Dependent Children, for a family of four, range from $720 to $4,800 in different parts of the country.

As the Federal Income Tax sets uniform rates to take from people nationally according to their income, so the time has come when there should be uniform national rates to assist needy people.

Something is wrong with our system when people migrate for welfare need rather than employment opportunities. Something is wrong with our system when the freedom of a state *not* to do becomes the responsibility of another state *to* do.

Moreover, with need for mobility in our society today, with the interdependence of our national economy, and with the competition among the states for job producing industries, assistance to the needy has become inherently a national problem and must be dealt with on that basis.

It is interesting to note that last year's tax bill set a precedent for using the Federal income tax structure to transfer Federal funds to the low-income population. We should build on this precedent.

By using the Federal tax machinery for welfare payments to the needy, we would drastically reduce administrative costs, red tape, and the opportunity for fraud. This would better serve both the person in need and the taxpayer. Such a proposal should consolidate many of the present Federal cash and in-kind assistance programs and include a carefully thought out work incentive and work requirement. As an initial step, we should urge the Congress to adopt the President's proposal to give him the authority to standardize eligibility and regulations among the various Federal programs.

Fourth, I recommend the elimination of those requirements in Federal grant-in-aid programs that force the States to further enrich and improve their existing programs as a condition of receiving Federal funds. A progressive state should not be penalized or forced to increase its level of benefits in order to receive federal aid. This only leads to unnecessary expenditures and to further distortion of benefit levels.

Fifth, I recommend we use Federally certified state plans as the basis for Federal regulatory programs and the channeling of financial assistance as an alternative to the elaborately detailed Federal requirements currently imposed on a project-by-project basis. A start in this direction already exists with regard to social services and a similar approach is being considered by the National Commission on Water Quality.

Such State plans would be subject to Federal approval. However, the criteria for the development of such plans should be spelled out clearly in Federal law. Once certified, Federal funds would flow to the States on a regular basis as provided under Federal law. An audit of a State's performance under the plan would be conducted on a regular basis and adjustments would be made in the payments as required. This procedure should eliminate the current interminable delay, the need for an elaborate bureaucracy to process mountains of paper, would eliminate red-tape and would place administrative responsibilities on the States.

To summarize, these five recommendations are designed to simplify today's complicated and inefficient Federal-state-local maze. They would place direct and identifiable responsibility for the administration of these programs, which under the current system is difficult—if not impossible—to determine.

These recommendations I have outlined would maximize the potential and flexibility of our unique Federal system. They would go far toward restoring the vitality of state and local government.

The Federal system has served us well for nearly 200 years. Let's use it with the same imagination and foresight that created it.

CHAPTER 4

"Religion in American Life"

AT THE ANNUAL DINNER OF
"RELIGION IN AMERICAN LIFE"
NEW YORK, NEW YORK
MARCH 9, 1976

In 1835, one of the shrewdest observers of the American scene ever to reflect on the meaning of American democracy, Alexis de Tocqueville, wrote: "Upon my arrival in the United States, the religious aspect of the country was the first thing that struck my attention; and the longer I stayed there the more did I perceive the great political consequences resulting from this state of things, to which I was unaccustomed. In France I had almost always seen the spirit of religion and the spirit of freedom pursuing courses diametrically opposed to each other; but in America I found that they were intimately united, and they reigned in common over the same country."

This vital relationship observed by de Tocqueville was no accident. It was the product of deep spiritual convictions held by those who settled this land and the unique forces that combined to create the Nation. It is an essential element in the understanding of America and the true meaning of the American Revolution that began two hundred years ago.

The Declaration of Independence was far more than a proclamation serving notice that the American colonies were severing their ties to the Mother Country. It was a manifesto inspired by "the Laws of Nature and of Nature's God" calling for individual freedom and human rights. It stands today, as it did 200 years ago, as the most eloquent and forthright challenge ever to tyranny, totalitarianism, dictatorship or despotism of whatever stripe or purpose.

There is no quibbling, no reservation, no "yes—but" in the words: "We hold these Truths to be self-evident, that all Men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the Pursuit of Happiness . . ."

The American Revolution was a struggle therefore not only for national independence but for individual freedom—political liberty, economic freedom and freedom of conscience and religious belief.

I

People had left Europe for the American colonies to escape political repression. They had left to escape economic bondage. They had left to escape from religions imposed by government—in order to worship as they themselves believed.

The thrust of the American Revolution was individual rights and freedom and practical steps to achieve them—not an ideology based on doctrinaire assumptions and demanding obedience for the promise of some vague never-to-be obtained utopia. The spiritual and religious forces

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that shaped life in America in its very beginnings were the inspiration for the Declaration of Independence and the Constitution of the United States. And, most important, these spiritual and religious forces have continued vitally to shape the American character—a character dominated by such qualities and beliefs as: respect for the dignity of the individual; kindness, generosity, neighborliness; equality of opportunity, equality before the law; restlessness, energy, willingness to take risks; and faith, hope and love.

II

The contributions of America to religious freedom are as monumental as its contributions to political liberty and to economic freedom. Settled by people of many faiths—Church of England, Catholics, Presbyterians, Baptists, Jews, Huguenots, Quakers and many others—Americans through trial and experience developed not alone a tolerance but a mutual respect of one faith for another.

There were struggles over the attempted establishment of religions. There were struggles over intolerance. There were struggles over legislating standards of individual behavior. There were struggles to believe or not believe as one chose. But the following combination of factors prevailed: the need for community in the face of the rugged life of the frontier; the ever-present memory of the European past; the immediate benefit from working together; and the deep commitment both of the leadership and of ordinary men and women to freedom.

Indeed, there developed a general belief not alone in individual rights but an equally firm conviction of individual responsibility. Life on the American frontier was rugged. Survival depended upon individuals shouldering their responsibilities fully as much as asserting their ambitions and employing their energies in their own ways. The individual was held responsible for his actions. He was expected to contribute to the community. On the frontier and in the struggling communities behind it, a man's moral and religious assertions were judged by his performance. For his acts, he was deemed answerable to himself, to his God and to his community. He could take no refuge in blaming others or in blaming society for his actions. He expected to suffer the consequences of his own behavior. This is the unique essence of American life and character. It is the underlying force of our society. It is the concept that has brought your organization into being. It is the theme I would like to develop here tonight.

III

Both the role of government and the role of the individual are indispensable to making democracy and freedom work.

A. In this context, let us look first to the role of government.

The Founding Fathers had no exalted view of human nature nor human behavior—but they preferred to trust the responsible citizenry above any narrow oligarchy or singular party or person. It was for this reason they created a government that had to stand the test of regular elections. For this purpose, they devised our system of shared powers between the states and the federal government. With this in mind, they separated the roles and powers of the Executive, the Legislative and the Judical branches of our government.

But today, in a period of accelerating change, we face an assault on our institutions from within as well as without. In the aftermath of Watergate, of revelations respecting covert activities, of irresponsible leaks of national

security information, of a series of impulsive, disastrous Congressional reverses of Executive initiatives in world affairs, there are strong pressures threatening the tra litional balance of the separation of powers—legislative, executive and judicial.

True, our Constitutional system had always surmounted crises in the past. Exceptional situations should not be magnified out of perspective. The strength and soundness of our basic system should be reaffirmed. But restraint and a return to fundamental values and basic roles is necessary to assure the preservation of democracy and freedom. Legislators should not attempt to administer domestic or foreign policy; executive departments should not legislate in the guise of regulation; and the judiciary should exercise restraint in substituting its judgment for executive or legislative wisdom.

Our task today should be one of strengthening the basic structure of our federal-state system and reinforcing the separation of powers among the legislative, executive and judicial branches of government. Essential to this process is the reappraisal and delineation of our objectives and of the functions to be performed by government. Essential equally is to do this in a comprehensive, understandable and workable way.

We cannot have a free society if people don't know the rules. We cannot have a law-abiding society if people don't understand the laws. And we cannot have a moral society if the laws are not enforced.

Since ours is a society built upon individual citizen responsibility it follows that the laws must be certain, clear and as uncomplicated as practicable—and that our laws should be enforced and individuals held accountable for their acts. For free people to honor the law, they must first know and understand it. Unclear law, varying interpretations, a sense of unfairness and the like undermine confidence in the integrity and certainty of the law.

When a premium is put on "beating the system," it generates more bureaucracy to enforce the law, which in turn encourages greater avoidance of the law. Our personal income tax laws, for example, are now so complex and confusing that they defy the ordinary person's understanding. It should not be so. Much of our regulatory legislation is so complicated that it deters economic growth and job opportunities. It should not be so.

Our guiding principle in all our legislation—social, criminal and regulatory—must be to encourage and enhance individual freedom, individual responsibility and individual self-reliance. And we must take a hard look at much of our existing law and surely apply this test for future legislation.

The fact is that in our effort to meet specific problems in our society, we have engaged increasingly, in recent decades, in piecemeal legislation designed to remedy a vast number of particular situations. Well-intentioned though most of this has been, the cumulative effect of much of it has been to substitute bureaucratic determinations for individuals' decisions; to assign to government areas of service in such a manner that individual responsibility is eroded. And despite all of the effort and money we have committed in all these areas, we have not only failed to achieve our objectives but we have run out of funds at all levels of government.

But with our compassion for the handicapped and the sick; with our understanding for the aged and infirm, for example, surely we can devise a better system than the present unsatisfactory social welfare establishment of today. The objective in our welfare programs, our educational endeavors, our rehabilitative services, our criminal law enforcement and other such activities should be one of buttressing the individual's capacity to shoulder his responsibility and make his contribution to our society. And the same is true for all those government activities relating to enhancement of individual opportunity.

B. Now let us turn to the role of the individual in making our system work better.

The Founding Fathers fully recognized that democracy and the fledgling republic they proclaimed 200 years ago could function and develop only through responsible citizenship. They counted on the drive, the energy and the creativity of free people—and their willingness to shoulder responsibility—to carry the Nation forward. Thus they created that special combination of individual rights balanced by individual responsibilities which was so uniquely American.

There was no special caste, no favored religious group, no hereditary privilege in our infant Republic. Each man was equal before the law to work, to build, to create, to produce. And the price of his individual freedom and his individual opportunity was his personal individual accountability.

This concept is imbedded in our law and is a basic moral-religious concept—that individuals are free but that free men are responsible to God and their fellow man for their actions. The pervasiveness of this concept in the daily practice of American life is the basis for the paradox noted by de Tocqueville.

America, without any state-established religion, conducted its affairs in a moral climate; indeed, a more truly religious climate than nations openly professing and supporting a particular religion. In this environment, the several religious faiths not only existed but flourished. They added to the diversity and richness of American life. But in this special American setting, with its emphasis on the individual and his responsibilities, they added as well to the unity of the Nation. For though differently expressed, and indeed not always even articulated, there was a general and abiding faith in a Divine ordering of the universe and the special nature of man.

This unity with diversity has characterized the broad spectrum of American society—its ethnic make-up, its enterprise system, its social patterns, its religious and cultural institutions. With the widest of options open to more people than any society had ever offered, America encouraged pluralism but maintained an essential and basic unity.

Our system of government has been based on the same basic premise—that freedom of choice, individual freedom and individual responsibility will produce both a more bounteous society and a more secure one and, therefore, the opportunity for a higher quality of life.

At this Bicentennial, it is appropriate to ask ourselves whether we continue to subscribe to these precepts. Or are they being eroded through failure to practice or appreciate them?

There is no doubt that ours is a far more complex society than that of 1776. Industrialization, technology, urbanization, population growth, changes in life expectancy and health levels, high mobility, television and other pressures on traditional family and other social patterns—all these have made ours a vastly different world. So, too, has the problem become vastly more difficult for the American enterprise system, competing in a world of economies increasingly controlled by central governments. All these factors have created unprecedented problems and stresses which called for, and continue to call for, positive actions to resolve them.

Today, the basic principles of America's founding and its growth—its dedication to human dignity and the spiritual nature of man, its trust in free individuals taking responsibility for their actions—are being seriously challenged. Totalitarian socialist societies have developed that ignore the concept of man as a spiritual human being. They deny individual economic freedom. They repress personal liberty and they forbid religious freedom.

In the present world, centrally-controlled, Marxist totalitarian power is gaining ground, not losing it, supported by subversion, sabotage, and so-called wars of liberation. The Soviet Union in some 60 years has become one of the world's major industrial, political and military superpowers. The Soviet leadership has decried our system as bound to fail—while predicting world supremacy for their own doctrinaire regimentation of human life supported by their growing military-economic power. In China, we witness the most populous nation ever to be regimented according to preconceived plans—with no individual freedom.

We have faced no comparable challenges to our way of life—our very existence—in all our history. From within as well as without, we witness a lack of appreciation, if not at times a derision, of the values, accomplishments and promise of our way of life. Furthermore, we see some striking failures of moral example among our leaders in public and private life. This is unfortunate. It is dangerous. Uncorrected, it can weaken the moral fiber of our society.

There is, for one example, a growing tendency in our times to excuse the criminal by blaming society, or to excuse immoral conduct because we think we understand the forces that produced it. One suspects there is a connection between this kind of thinking and the movement away from the basic American tenet of individual responsibility for one's life and actions.

Every society in the history of man has had its strengths and its weaknesses. But no society can endure for long by allowing criminals to escape the penalty for their crimes by reference to some vague theory or concept of a collective guilt, or personal stress, or because it is alleged that "everyone does it."

Last week,* John J. McCloy, that distinguished American, made a telling point in commenting on the illegal political contributions from corporations. Mr.McCloy said that it is ". . . just as improper" for politicians to accept illegal corporate money as it was for companies to give it. "There's a double standard here. It's the hypocrisy that bothers me," he added. To which I say, Amen!

Basically, it comes back to each one of us here in America. Do we continue to accept the challenge to be free, to have economic freedom, to have political liberty, to worship as we choose? If we do, we must be prepared to accept the individual responsibility and accountability which are essential for individual freedom.

Therefore, it seems to me that it is time for all of us, as individual American citizens, each in the discharge of our several responsibilities, to reaffirm the basic concepts that a man's moral and religious assertions are judged by his performance; that he is answerable for his acts to himself, to his God and to his community. For only in this way are we going to preserve our free society, its values, its opportunities, its blessings.

Each of us, as an individual American, must return to the basic concepts of individual responsibility for our own acts upon which this society was founded. For this commitment to secure and enhance human dignity, the men of 1776 declared: "With a firm reliance on the Protection of divine Providence we mutually pledge to each other our lives, our fortunes and our sacred honor." Dare we do less today? I think not.

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*Week of March 1, 1976.

CHAPTER 5

"Food, Farmers and The American Future"

BEFORE THE NATIONAL-AMERICAN
WHOLESALE GROCERS' ASSOCIATION
CHICAGO, ILLINOIS
MARCH 16, 1976

It is indeed a pleasure for me to be here with the National-American Wholesale Grocers' Association at your Bicentennial convention. I am particularly honored to be this year's recipient of your Herbert Hoover Award, which recognizes contributions to improved food distribution.

The distribution of food is as important as its production. For example, when I was on a Presidential Mission to Latin America in 1969, I saw the problem they were having in one country in the storage of rice. Their production had increased very rapidly, but the losses in storage from insects, mold, and rodents were so great they offset the increase in production. In another country, approximately one-third of the food produced on farms was brought to market in trucks, one-third on horseback and one-third on foot because of the lack of farm-to-market roads.

We've known these problems in the United States, but our distribution system today dramatizes and brings into sharp focus the progress we have made. The American food industry has come a long way. In our First Century, the typical American family produced for itself most of what went into the cooking pot—by farming, fishing, and hunting. Two hundred years ago, we had no major distribution system—no warehouses, no wholesale grocers. Even in larger towns and cities, many families kept a cow, a flock of hens, a pig or two, and cultivated a garden. Ninety-five percent of Americans made their living from the land. Today this figure is reversed, with only 4 percent living on farms.

Presently, one million farms produce about 90 percent of all our food. This impressive production has been achieved through the aggressive application of science, technology, modern transport and industrial production. But it is interesting to note that due to the evolution in processing and distribution of food in America, nearly one of every four of the workers in this Nation is involved in the food industry. The complexity of this industry, upon which every individual is dependent, is illustrated by the fact that the Federal Government itself now has tens of thousands of employees working as food inspectors, graders, economists, research scientists and teachers.

In 1776, it took 10 farmers to feed one person in the city. By 1930, one farmer fed 10 people. Today, one farmer produces enough food and fiber for 44 persons in this country and, in addition, 12 more overseas. In sharp contrast, 30 percent of the people in the Soviet Union are still on the land—yet the Soviets cannot feed their own people. After 60 years of glowing Marxist promises, the Soviets find themselves dependent upon the capitalist initiative of the American farm family to help feed their people.

This contrasting and phenomenal progress in American agriculture has been brought about by the application of science and technology which created the "green revolution." And it was all made possible through individual freedom, the responsibility and initiative of our farm families, their willingness to take risks, their hard work, the incentives and rewards of the American enterprise system, and supportive actions by government.

The American food processing and distribution system has been revolutionized by all of these same forces—just as has the American farm. This sector of the industry employs some 5,000,000 persons. It processes and distributes an unprecedented array of food to the consumer and contributes over $100 billion annually to the American economy, with a loss of less than 3 percent through spoilage from the farmer to the consumer—in sharp contrast to some countries where losses range to 50 percent or more.

Typical supermarkets handle some 7,800 items. Our food industry is providing the American consumer with a wide variety of choices at competitive prices. Even though food prices have increased nearly 40 percent since 1973, the average American family today spends a lower proportion of its income on food than anywhere else in the world. Since 1950, when the average U.S. family spent nearly 23 percent of its income for food, that proportion has dropped to 17 percent today. In India, by contrast, 55 percent of the cost of living goes for food. The recent spiral of inflation has created a significant amount of unrest among consumers. But in reality, the American farmer and the American food industry generally have been victims of inflation rather than the basic cause.

While the most recent survey by the Agriculture Department showed that consumers were generally satisfied with food products and food stores, they were most concerned about prices. They also expressed concern over the nutritional content of food, food additives, the reliability of food advertising, and labeling information. Your industry is under intense scrutiny from both public interest groups and the government—but I know that's no news to you. Today, I would like to discuss several issues affecting your industry and to make a series of recommendations.

I

One of the major contributions of the food industry, which is often overlooked, is your significant role in maintaining our international balance of payments

The people of this country are spending $30 billion annually for imported oil. We couldn't pay that bill without our farm families. Within the past 25 years, we have seen a 70 percent increase in the yield per acre of our cropland. In the last year alone, nearly 60 million additional acres of farmland were brought into production.

Had it not been for the extraordinary increase in the production of farm products in recent years that has made it possible to increase agricultural exports from $3 billion in 1972 to more than $22 billion in 1975, we could not pay for the OPEC countries' increased price of our imported oil, which will cost approximately $30 billion this year.

On the other hand, no industry or segment of our society is more dependent on energy than the food industry and America's farm families.

Your industry relies on an expanding supply of energy in every phase of production, processing and distribution. We are increasingly dependent upon imported oil for our energy needs—from 23 percent of our annual consumption in 1970 to 40 percent today. And this growing dependence leaves us dangerously vulnerable to another oil boycott which, next time, would result in economic and social chaos for our country.

To avoid this danger of economic and social chaos, not to mention our national security, President Ford has proposed an Energy Independence Authority to get us off dead center as a Nation in achieving energy independence by further developing our own energy resources.

The Authority would provide risk capital for those essential projects which can't get the necessary private financing. Hearings will be held in Congress on this proposal next month.* I urge you to study the Energy Independence Authority legislation from the perspective of the enlightened self-interest of the farmers, the food industry, and the rest of our Nation.

Therefore, *I urgently recommend that the Congress pass the Energy Independence Authority legislation at this session.* It is essential to our national security and well-being.

II

Now, turning to another area: Government regulation. The government has a responsibility to establish standards to assure that foods are of a high quality, that products live up to the advertising claims, to protect health and safety, to protect the environment, and to assure that the competition in our American enterprise system is fairly conducted.

The market must have certain rules of fair play. But government also has a responsibility of assuring the public that its rules do not go beyond what is necessary; that its rules do not simply result in unnecessary added costs to the consumer.

There are widespread inconsistencies among the regulations of such agencies as: The Food and Drug Administration, The Occupational Safety and Health Administration, The Department of Agriculture, The Environmental Protection Agency, The Federal Trade Commission, and The Department of Justice.

Last month,** for example, the Acting Chairman of the Federal Trade Commission testified in favor of legislation which would require food firms to supply anti-trust agencies with certain detailed information. At the same Congressional hearings, the Department of Justice opposed the legislation. The failure of these agencies to coordinate their policies simply adds to confusion and unnecessary costs. Laws must be enforced and business must act responsibly but government must avoid costly and unnecessary harassment of business.

Therefore, *I recommend a case by case review of government regulations to reconcile conflicting objectives and to clarify the regulatory purpose.*

There should be involved in such review representatives of the Congress, the relevant regulatory agency, labor and industry groups, and representatives of the public. The purpose of this review would be to simplify the framework of regulation and thus reduce bureaucratic red tape and confusion which are at present stifling business initiatives and increasing costs to the consumer.

*April, 1976.

**February, 1976.

III

Another area in which government intervention impedes efficiency is transportation. The $7 billion transportation bill for food products is unduly inflated by inefficient regulatory and industry requirements; back-haul regulations cause as much as 40 percent of the Nation's trucks to run empty, or so it is claimed. It's true that some empty truck movement is inevitable but there seems to be a lot more today than there should be. It's in your best interests as wholesale grocers to see food transportation costs kept down and it's certainly in the best interests of the American consumer.

Therefore, *I recommend greater flexibility in government regulations and action by labor and management within the industry to put food and other cargo on those empty trucks, so far as is practicable.*

IV

Now let's talk about the other part of this equation, the steps that can be taken in the food industry to increase efficiency and productivity, and to lower prices to the consumer.

A. Labor-Management Relations

The largest component in the marketing bill is labor. At $45 billion a year, it is nearly half of the total. We might as well realistically face the hard facts and tell it like it is. In order to maintain and improve the level of performance, neither labor nor management should adopt policies or work rules which impede productivity.

For example, there are those who claim it is more efficient to move beef to market by cutting it into sections and putting it into boxes instead of shipping the carcasses. But in more than a dozen large cities in the United States, including Chicago, it is virtually impossible for packers from outside these cities to sell boxed beef because of an agreement between the unions and retailers. If this is costing producers or consumers more than it should, if it is impeding progress toward lower costs, then it is a practice that should be examined.

Therefore, *I recommend that government encourage management and labor to review and reform outdated practices among unions, processors, wholesalers, and retailers.*

B. New Technologies

There are many new technologies which have the potential for labor efficiency. Centralized meat cutting, the universal product code, automated warehousing, and automated checkout equipment are current examples.

Unfortunately, outdated practices frequently prevent the utilization of improved technology. There is also need for greater standardization of package sizes and shapes. Direct packaging costs currently are a $12 billion item in the food marketing bill. Uniform wholesale carton sizes could make tremendous savings for your industry. There are problems here, too, but far fewer carton sizes are needed than are common today.

Therefore, *I recommend that management and labor in the food industry come up with greater utilization of new technologies and methods of reducing packaging costs.*

It is far better for members of the industry to do this, rather than to have the solution imposed by government in the name of consumer protection.

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V

When all is said and done, the American system depends on the growing productivity of the American farmer. Its unique quality is family ownership and individual enterprise—which from the beginning of our country has been the seed corn of the American enterprise system.

President Ford has recognized this key element in the future vitality of our system by proposing to Congress that the estate tax exemption be increased to $150,000. The present exemption, set in 1942, is $60,000. In today's dollars, because of the inflation, the comparable exemption should be $220,000.

Our inheritance tax structure at present is threatening the future of the American farm family and the whole concept of family-owned small business. Every year, it is forcing the sale of many farms and small businesses that have been in families for years.

Increasingly, it is going to be difficult, if not impossible, for the young Americans growing up on the family farm to take over the farm through inheritance when the time comes. Increasingly, also, it precludes owners of small businesses from passing their enterprises on to their children. President Ford's proposal is an important step toward correcting this situation.

I recommend that the Federal estate tax exemption not only be increased substantially but also be adjusted for inflation every three years.

This would allow for sound financial planning by American families and would help prevent the forced sale of family farms or small businesses.

VI

In conclusion: Each of your firms is constantly searching for a better way, a newer way, a lower cost way. You know that your competition is doing the same. That's how the American enterprise system works—and that's why it works so well.

Government has a responsibility for the quality of foods, to see that consumers are protected, and that competition is fair. But government must strive to limit its involvement to those activities essential to protect the public's best interest—and leave the rest to the imagination and creative genius of the American enterprise system.

In your own particular field, I predict we will see startling and innovative new developments that will continue to benefit all Americans. We in America are singularly fortunate people. We have the resources—both the human resources and the natural resources—to achieve whatever goals we set our minds to.

I am optimistic about the future—optimistic about America. Let's renew our faith in ourselves. For there is nothing wrong with America that Americans cannot right.

CHAPTER 6

"Economic Freedom in Bicentennial America"

BEFORE THE
EXECUTIVES' CLUB OF CHICAGO,
CHICAGO, ILLINOIS
MARCH 17, 1976

This year we celebrate the Bicentennial of the Declaration of Independence. Two hundred years ago, brave men signed a landmark manifesto not only for civil liberty but also for economic freedom. Important as it is to commemorate the Declaration of Independence as a landmark for civil rights, it is equally important to recognize it as a charter for economic freedom and opportunity.

The Founding Fathers recognized that individual liberty required economic freedom; that these two were wholly inter-related, and that one could not exist truly without the other. They knew that human dignity is destroyed not alone by suppression of civil rights but also by economic bondage.

They learned this basic truth through long and bitter experience. They endured the hardships wrought by efforts of the British Crown to monopolize and control the trade of the American colonies. They suffered under Crown-imposed taxes that not only were unfair but hurt the economic growth of the colonies. And they lived through the frustrations and carried the burdens created by a central bureaucracy in London, a bureaucracy that laid down rules and regulations which stymied colonial growth and frequently bore little, if any, relevance to the American scene.

Our forefathers struggled against a system that sought to constrain their industry and commerce to a design set in London for the benefit of the British. They fought efforts to subject the vast American domain and its people to plans that subordinated America's growth and American aspirations to the service of an oligarchy in far-off England.

I

The American Declaration of Independence, and the American Constitution that followed 13 years later, were not only historic milestones of a political revolution. They signified a major economic revolution as well, one that challenged government domination of trade, that broke the bonds of British mercantilism, that wiped out the remnants of feudal land laws imposed upon this country, and set loose the forces that ended indentured labor services and ultimately ended human slavery.

This economic revolution opened the vast heart of this Nation to settlement and development by free men and women seeking individual opportunity for a better life. At that time, the Founding Fathers had only a belief, a fervent faith, that free men in a free economy could revolutionize the condition of ordinary men in this new world. They had only conviction and hope, but we know now that they were right.

Two hundred years of human liberty and economic freedom produced an American enterprise and social system that has given ordinary individuals the widest possible opportunity under which their drive and productivity have achieved the highest standard of living in the history of man.

In these accomplishments, the United States developed a pragmatic balance between personal freedom and the common good. It also achieved a productive balance between autonomy in enterprise and governmental direction and restraints in economic activity. These relationships between government and the public have been dynamic—not static—a continuing evolution politically and economically.

Focusing on the economic scene, a realistic examination of the history of the American enterprise system reveals that it was by no means a totally private enterprise endeavor. Government has always played not only a significant but a crucial part in American economic life. The role involved not alone the negatives of restraints but the positives of promotion as well.

This interplay of government action and private initiative has been a key to our phenomenal national growth. A few examples will illustrate the significance:

A. Agriculture

The extraordinary agricultural production of America's farm families was made possible and stimulated by: (1) Federal land grants for homesteads; (2) Government construction of roads and canals; (3) The Federal land-grant college system; (4) Federal agricultural extension and other services; (5) Federal farm credit and rural electrification programs; and (6) Federal and state agricultural research programs.

B. The Railroads

The transcontinental railroad system which opened up this nation was made possible by federal grants of land and rights-of-way to the railroads.

C. The Automobile Industry

The automobile industry—so important to our economy—owes its existence not only to American industrial ingenuity and private capital investment, but also to the billions of dollars invested by governments at all levels in our national highway system.

D. The Aviation Industry

The world-wide preeminence of the United States aviation industry grew largely out of: (1) Government research and development of military aircraft; and (2) Federal government financial contributions to airports, airline operations, weather systems and maintenance of the airways themselves.

These and other public spurs to economic activity were paralleled by government actions to protect the public interest: anti-trust and business conduct laws; regulatory measures for safety, health, environment and the like.

But the basic concept is to encourage the individual and private or voluntary enterprise—within a framework of law that sets the basic rules and seeks to protect the public interest.

III

How do we stand today? Are the basic concepts set forth by the Declaration of Independence as sound today as they were 200 years ago?

Despite the extraordinarily constructive and essential role played by the Federal government throughout our history, despite the tremendous dedication of loyal civil servants who have made government work, and, despite the continuing need for federal leadership and creative initiative, there are growing and legitimate claims that a dominant central government in Washington is already placing impediments and nonproductive restraints upon individual activity, voluntary association and economic enterprise.

There are those who see a danger that this central government and its bureaucracy, remote from the great productive regions of industry and commerce, remote from the farms, factories, mines and markets, remote from communities and their governments, is enacting laws and laying down edicts that unnecessarily stifle growth and bear little relevance to the actual scene.

There are those who warn that designs set in Washington are stifling individual and corporate initiative, thereby constraining growth, productivity, and the necessary increase in job opportunities. And so we must ask ourselves: Is there a threat to human liberties today because economic freedoms are being restricted, initiative discouraged and individual creativity thwarted?

Here in our land, we do run the risk of falling into the trap of thinking that human liberties and economic freedoms can exist one without the other. They never have. They never will.

Throughout the world, the thrust for individual liberty has been challenged and blunted by doctrinaire assertions that economic security must be the prime object of society. It is held by some that only centrally-adopted and centrally-directed planning and programming, and implementation by an all-powerful government, can achieve economic security.

Suppression of human rights and civil liberties, to guarantee obedience to the dictates of an all-powerful state, is now the rule over much of the globe, and the rationale is economic necessity or security. Human liberties are not possible under the Statism that now exists in most of today's world.

The risk here in America, however, is not so much that we will take up the worship of the false gods of totalitarian ideologies. It is more that we may drift into Statism as a reaction to corruption, and by government's progressively legislating such overwhelming and detailed responsibilities for the ordering of society that liberty will be surrendered in the process.

IV

This Bicentennial is an appropriate time to pause, to appraise, and to determine what we should do about the regulation of individual lives, of business, of labor, and of voluntary association.

It was clear in the hearings on domestic policy, that I held on behalf of President Ford around the country, that there is a growing concern on the part of people in all walks of life that, due to a great deal of well-intentioned but hastily-enacted legislation, enormous authority has already been delegated, to a proliferating governmental bureaucracy, under myriads of statutes, administrative rules and regulations, resulting in a maze of red tape.

To comply with this ever-changing complex of laws, rules, regulations and orders has already become an ever-growing burden. It perplexes and inhibits individuals. It stymies small business. It stifles initiative and compounds the costs of large and small enterprises alike.

Even determining the proper legal mode of conduct is becoming so complex as to be unintelligible. More and more, the citizen, or his lawyer, or both, must go to the bureaucracy for the answers, and hope that the answers are not contradictory when more than one agency or one level of government is involved.

We run the danger of reaching that stage, at which too many other nations have already arrived, where one must go to the offices of the particular ministries to find out what the law is and how it is being interpreted, and to do this periodically to be sure that the interpretations are still the same!

The genius of the American system lay in the fact that government established a broad framework of policy and law within which individuals, groups and enterprises could operate with great flexibility.

The system also provided a reasonable continuity of policy that gave certainty as to the risks of investment, that sparked initiative and spurred competition, that provided reward for success and penalties for failure, that encouraged efficiency and economy, and gave assurance against confiscation of the product of one's labor.

It is time to reemphasize this essential concept—to foster a climate within which enterprise, individual and voluntary group endeavors are stimulated for the productive benefit of all Americans. This does not mean a retreat into the past, a scrapping of social progress, nor abandonment of goals of equity, fairness and progress.

It means the development of a framework of law and enlightened regulation geared to today's needs and tomorrow's challenges, that will call into play the energies of the American enterprise system, the dynamism of our industry, the creativity of our labor, the ingenuity of our science and technology.

The most fundamental challenge is revitalizing and strengthening the American economy to meet our needs at home and our responsibilities abroad. The key to this is increased productivity of the American enterprise system, and this depends on a sound working relationship between government and the private and voluntary sectors of our society.

The increase in U.S. industrial productivity has lagged behind every western nation except Great Britain. Alone among the western industrial powers, the United States has no general policy of supporting basic technology for civilian industrial development.

The National Center for Productivity and Quality of Working Life—an organization that represents leadership in government, the trade unions and business—in its recent report called for increased productivity through action in four areas:

I. Morale of workers and relations with management.
II. Accelerated development in science and technology.
III. Increasing capital formation and investment.
IV. Simplification of government regulations.

Following are my recommendations in each of these categories:

I. Morale of Workers and Relations With Management

The freedom, mobility and responsibility of the American worker contribute in a major way to our productive society. Free collective bargaining within the framework of law and policy is a significant factor in both our economic stability and productivity. This may be seen with particular clarity when our society is compared with others.

In this connection, *I recommend that government encourage labor and management to develop specific productivity programs in industry, encourage upgrading of skills, and facilitate adoption by labor and management of new and improved work rules and industrial processes.*

II. Accelerated Development in Science and Technology

American strength in the world and America's own productivity and standard of living depend vitally on our leadership in science and technology. The economic and military pre-eminence of the United States at the end of World War II is a thing of the past. A major area in which we can, however, maintain pre-eminence is in the field of science and technology.

I recommend a conscious national commitment to retaining our leadership in science and technology through education, training and a greater capital investment, public and private.

Our economic growth, our expanding job opportunities, our national security, our very national survival depend upon it.

III. Increasing Capital Formation and Investment

The percentage of the Gross National Product devoted to capital formation and industrial investment in the United States has been steadily declining. The reasons for this are complicated but the time is overdue for action necessary to reverse this trend.

A. CAPITAL FORMATION

I recommend that our tax policy be reevaluated and that new legislation be enacted to lessen the impact of those provisions which deter capital formation and to provide new incentives for capital formation and an accelerated rate of investment.

For example, double taxation of corporate dividends should be eliminated.

B. AREAS FOR CAPITAL INVESTMENT

There are three major areas of our economy in which it is essential that capital investment be increased: (1) Modernization of Industrial Plants and Equipment, (2) Development of Energy Independence; and, (3) Revitalization of the Housing Industry.

1. Modernization of industrial plants and equipment

The productivity of American business and labor is directly related to the efficiency of plant and equipment. With modern plants and systems, American products can gain a competitive advantage which is essential for the health of our economy.

I recommend that government and industry give top priority to plant modernization in their tax and investment policies.

2. Development of energy independence

America's strength and national security depend upon its ability to count on a reliable and adequate supply of energy. But today we are devastatingly vulnerable to another oil boycott—and it gets worse every day.

To overcome dependence on the OPEC countries and to meet the President's goal of energy independence by 1985, government must play a positive role in helping to mobilize the private capital and initiative needed to get us off dead center in achieving energy independence.

To help accomplish this, President Ford has urged the Congress to create an Energy Independence Authority. The Authority would assist, not supplant, private financing in this critical area—where some $600 to to $800 billion of capital will be needed by 1985 if our energy needs are to be met.

As I pointed out earlier, government has played a crucial role in promoting various areas of our economy throughout our history—as in agriculture and transportation.

I recommend enactment at this session of Congress of the Energy Independence Authority to get our economy rolling again, by stimulating the investment needed to assure that this country will have an adequate and dependable supply of energy.

3. Revitalization of the housing industry

Housing is another area that desperately needs large amounts of additional capital. We must look to private capital to be the major source of financing for housing construction. We have learned the hard way that government cannot do the job directly. Its role should be one of facilitating private activity.

In many countries, accumulated pension funds are a major source of capital for housing.

I recommend that the federal government act to stimulate and protect the investment of a substantial portion of public and private pension funds in housing.

This could well form the basis for a major new private effort in housing construction.

IV. Simplification of Government Regulations

Government regulations should not only achieve national social goals but should also promote rather than hinder productivity.

I recommend that:

1. *The executive and legislative branches of government (a) Establish clear objectives and criteria for regulation; (b) Examine the present regulatory process; and, (c) Determine the effects of regulation, both intended and unintended.*

2. *We change where necessary existing laws, rules and procedures to assure that they are promoting, not hindering, the attainment of our overall national objectives.*

In the future, any proposed new changes in laws or regulations should be made in light of our broad objectives, instead of the piecemeal, ever changing process of the past which has hindered productivity and progress.

In all of these areas—productivity of labor; science and technology; capital formation, and government regulation—the question is not, and should not be, whether government should play a role. The question is how government should be creatively involved in promoting the freedom, well-being and opportunity of American citizens as individuals as well as assuring national security.

Much of the present democratic world is embarked on a course toward government-centralized controls over the economy, with all of the hazard to personal liberty and individual freedom that such a direction may entail.

In the Declaration of Independence, the Founding Fathers proclaimed the revolutionary truth that human liberty and economic freedom are inseparable. They saw that expanding economic opportunity in a boundless America would not only provide better living but would be a principal guarantee of human freedom. They saw an America that would not mandate the life style of its people, but encourage them to develop their own. They saw an America that looked to dynamic economic growth for the future wellbeing of all. At this Bicentennial, let us rediscover this America.

We have all been through a difficult period—especially in terms of the political turmoil within the United States. But I am optimistic about the future.

With the creativity and imagination of our free people, their scientific and technological abilities, the managerial skills of the great American enterprise system, and the abundant resources within our borders, we can develop the needed new sources of energy, the needed raw materials or substitutes. And the same is true for food.

As time goes by, the opportunities are unlimited, for cooperation to help other Nations achieve comparable goals, in a world that grows smaller and more interdependent all the time.

This can well prove to be the most exciting moment, with the greatest opportunities, in the history of civilized man. Confident of our heritage, with faith in the future, let us rise to this great occasion.

CHAPTER 7

"Our Dangerous and Growing Energy Crisis and How to Meet it"

BEFORE THE NATIONAL ENERGY LEADERSHIP CONFERENCE OF AMERICANS FOR ENERGY INDEPENDENCE, RESTON, VIRGINIA
APRIL 7, 1976

I am going to talk tonight about the energy problems of this Nation. And what I will have to say will not be reassuring or optimistic—unless there's a radical change in the way things are going.

This year, the United States will import more than 40 percent of its oil from foreign sources. A few weeks ago, for the first time in our history, we imported more than 50 percent of the oil we consumed.

Despite the clear lesson of the embargo, the United States is more dependent on imported oil today than it was before our supplies were abruptly cut off in 1973. There are steps we can take to break this dependence, but we must take them now. Unfortunately, despite a worsening energy situation, the American people—and, frankly, their Representatives in Congress—do not yet share this sense of urgency.

Indeed, the renewed trend toward larger automobiles suggests that public understanding of the energy problem is declining rather than increasing. This paradox—a lack of public awareness and concern in the face of a growing crisis—may in the long run be as dangerous for our economy and our democratic system as the energy crisis itself.

This situation requires all of us to redouble our efforts to make three key points entirely clear to the American people: *First*, continued reliance on foreign sources and insecure sea routes for nearly one-half of our oil places this Nation in a perilous position of vulnerability to economic, political and military pressure. *Second*, if we don't take any effective action now, we'll be importing 50 to 60 percent of our oil by 1985, and things will get still worse rapidly after that. *Third*, there are solutions to this problem.

We are in a unique position to become self-sufficient in energy before the end of this century. But these solutions require a clear understanding of our options, some hard choices, a national commitment of resources, and a sense of urgency.

Over the next decade, these solutions require deregulation of oil and gas, strong conservation measures, and \$600 to \$800 billion of private sector investment in domestic energy production.

Beyond 1985, we will need domestic sources of fuel other than oil and natural gas. But lead times and development delays are such that we must start the demonstration and emplacement of these facilities now, in order to have productive capacity ready when our oil and natural gas supplies begin to dwindle rapidly after 1985.

Above all, we must recognize that we no longer have the luxury of time. We have already lost the opportunity—even if we as a Nation take all the actions I have described—to cut our imports of oil substantially below 30 percent by 1985.

The question now is whether we will continue to allow our imports to climb well above 30 percent of consumption in 1985 and beyond, or whether we now will take the steps required to limit our vulnerability by 1985 and achieve energy independence by the end of this century.

Let us turn to the question of needs and supplies. Before the 1973 embargo and the five-fold rise in oil prices, our use of energy was increasing at the rate of 3.6 percent each year. The Federal Energy Administration now projects that higher prices and conservation will reduce our energy growth rate over the next decade to 2.8 percent per year. This is a significant decrease, but it still means that this Nation's demand for energy will increase by nearly 36 percent through 1985.

How will we satisfy this rising demand, to heat our homes, transport people and goods, and maintain economic growth? For only growth of the economy will enable us to provide the jobs and the promise of a better life for a growing population in the future.

Realistically, there are only four principal means to meet our needs between now and 1985—conservation; oil and gas; coal; and nuclear power. Other sources, although offering some promise over the long term, will not contribute much to our energy independence by 1985.

According to FEA projections, however, the best we can expect from these major sources will still leave us short of the goal of complete self-sufficiency. FEA estimates that the following goals can be achieved:

First, *conservation* can save approximately five percent of our energy needs in the coming decade. But this will mean high prices, it will require deregulation of oil and natural gas, substantial capital investments by individuals and businesses in thermal insulation, and more efficient machines, appliances, and automobiles.

Second, *domestic oil production* can be increased by 50 percent—from 8.4 million barrels per day in 1975 to 12.3 million barrels per day in 1985. But since production from existing fields will fall by 75 percent between now and 1985, much of this increased supply must come from offshore and other reserves which have not yet been proved to exist. Natural gas production can be increased by 10 percent through deregulation of prices, but new reserves, still undiscovered, will have to be found to replace dwindling supplies from currently producing sources.

Third, *coal production* can be doubled to over 1 billion tons by 1985—from 640 million tons today. But this can occur only if we find a formula which protects the environment while permitting surface mining and the use of coal as a boiler fuel; and if necessary railroad facilities are rehabilitated or built from scratch.

Fourth, *nuclear power* can be increased from nine percent of total electric power generation in 1975 to 26 percent in 1985. But this must be achieved in the face of growing attacks on nuclear power as an energy source, regulatory delays of all kinds, and rapidly inflating construction costs.

Each of these elements is a massive program in itself, and in all candor it is unlikely that all these things will happen as we hope. But it is important to emphasize that even if they do—even if the estimated \$600 to \$800 billion required to do these things is forthcoming from the private capital markets, even if the necessary regulatory changes occur at the Federal and State levels, and even if the oil and gas reserves we haven't yet proved are actually brought in—we are still going to be importing nearly one-third of our oil in 1985.

The question, therefore, is not *whether* but *how* dependent on foreign oil we will be in 1985. The picture after 1985 is even bleaker. Demand will continue to rise, but projected domestic supplies will begin to dwindle as our oil and gas reserves are depleted.

The only conceivable replacements for oil and gas in this century are coal, nuclear power, shale oil, and, to a lesser but important extent, the recovery of electrical energy from solar, geothermal, urban waste, wind power and other advanced technology sources.

Coal gasification and liquefaction, and the recovery of oil from western shale are promising prospects. But to make any effective use of these sources in this century, we must begin now to bring about their commercialization.

Quite bluntly, then, our situation is this: (1) Because of long lead times in constructing new facilities, we have already missed the chance to cut our imports of oil below 30 percent of estimated U.S. oil consumption by 1985; (2) if everything goes exactly right—and it won't—we can keep our imports in 1985 to approximately 30 percent of our oil needs; (3) unless we act quickly to get the country moving on the development and commercialization of domestic energy sources, long lead times and other delays will cost us the chance for energy independence in this century.

The significance and threat of continuing energy dependence cannot, in my view, be overstated. Devising the policies and programs which can bring this Nation to energy self-sufficiency as rapidly as possible is the most fundamental challenge of a challenging era. Yet it can and it must be done—because our future and the future of the free world depend on *both* our military strength and the strength and self-sufficiency of our economy.

Today, we have begun a great national debate over future defense policy. President Ford has proposed to Congress the first real increase in defense spending in the past decade. Quite clearly, the American people understand and support the President's desire to assure that the United States continues to have sufficient strength to assure the preservation of freedom in the world.

My concern is that, in this debate over weapons systems and military manpower, we may lose sight of an equally important element of our defense posture—our vulnerability to foreign, non-military, political pressures on our critical raw materials.

And of these raw materials, none is more critical than oil. This Nation cannot continue as a world power of the first rank, cannot maintain its position as the leader of the free world no matter how much it spends on arms and manpower, if it remains critically dependent on imported oil.

Because of our increasing reliance on imported oil, the next embargo will be worse; and in the Northeast, where imports comprise 75 percent of consumption, there will be chaos. But, the significance of our dependence on imported oil goes beyond the economic disruption we might expect from an embargo.

The Soviet Union is steadily acquiring influence down the East Coast of Africa and up the West Coast of that continent—the route followed by tankers from the Persian Gulf. The Soviet Navy is growing in strength and pervasiveness in the Mediterranean Sea and the Indian and Atlantic Oceans—all key routes for the international oil trade. Thirty-six percent of the world's oil flows through the Strait of Hormuz, at the mouth of the Persian Gulf.

What would happen if a sizeable ship should sink in that narrow strait? What would happen if two or three tankers should be delayed by Soviet Naval maneuvers in the Indian Ocean? Or should mysteriously sink in the open sea?

These questions emphasize that our vulnerability is twofold: Our supplies might be cut off by the unfriendly action of producing countries, as happened during the 1973 embargo, or our supplies might be halted by interdiction of straits and sea lanes.

Quite clearly, this adds a new dimension to our vulnerability and to the Soviets' challenge around the world. Moreover, the fact that the health of our economy is hostage to a continuing supply of oil from the Mideast has other consequences. Credibility is the coin of world leadership. If our vulnerability to embargo or to interruption of our supply lines is plain to us, it is plain to others. We cannot maintain our credibility—and thus our world leadership—without military strength coupled with a self-sufficient economy. And we cannot be economically self-sufficient if a basic constituent of our economy is under the control of others.

Looming always before us and before our allies is this key question: When the chips are down, will we have the military and economic strength to support our friends against the interests of those who control the production or transportation of our oil supplies? In the delicately balanced world of international politics, the mere fact that one can entertain doubt as to the answer to this question is significant in itself.

Quite apart from an embargo, there are tangible economic costs of continuing energy dependence. Before the OPEC price increases began in 1973, we were paying $4.3 billion as a Nation for the oil we imported from abroad. This year we will pay over $30 billion. We are only able to pay this staggering increase because of a massive rise in the value of our exports, particularly food and arms.

Despite these factors, increasing oil imports have resulted in a recent balance of trade deficit. We must seriously consider the effect on our economy of a continuous and rising year-to-year trade deficit running into many billions of dollars. If we had the capacity to meet our energy needs with domestic production, the $30 billion we will send abroad this year for oil could have produced 1,200,000 jobs here at home. The OPEC price increase was one of the basic causes of the recession and remains one of the most serious threats to a rapid and complete economic recovery.

Other economic consequences of energy dependence must also be considered. With adequate supplies of energy increasingly uncertain, it may become more attractive for certain kinds of industries to locate their productive facilities closer to their energy sources than to their customers. This could produce an accelerated flight of American productive capacity and capital investment to other areas of the world, areas which can assure the availability of energy, further reducing the jobs available at home and our productivity as a Nation.

Finally—while the causes of the severe inflation of the past several years are complicated—most economists would agree that the sudden rise in oil prices in 1973 was a principal cause. As long as the price of this basic commodity is set by a cartel, we will have to expect exorbitant price rises to continue. And in reaction we can expect government policies designed to limit inflation by reducing economic growth.

Thus, continued energy dependence has consequences which go beyond the constant threat of embargo or the interdiction of our supply lines. It threatens our credibility as the free world's leader, weakens our economy, and may reduce the rate of our economic growth over the long term.

We must not forget that we need a strong and growing economy to meet our needs at home and our responsibilities in the world. In this light, it is essential that we take immediately those short and long-term actions which will reduce our dependence on imported oil before 1985 and eliminate it entirely before the end of this century.

The President, as you know, has submitted to Congress a many-faceted energy program with three essential elements—actions to increase supply, actions to decrease demand, and standby measures for use in the event of an embargo. Only a few of these proposals have been passed by Congress, notably: The gradual phase-out of controls on oil prices; mandatory labeling of autos and appliances with respect to their energy efficiency; and the development of a strategic reserve system for oil.

But we must begin rapid development now of alternatives to oil and natural gas as our primary sources of energy. We must begin now to develop the first commercial-size plants for producing gas or oil from coal, oil from shale, and more electric power from nuclear processes, solar, geothermal and other advanced energy sources.

The difficulty is that there are many unknown factors—technological, regulatory, economic and political. And these unknowns create risks which have deterred private sector investment in alternative domestic energy sources—and will deter it in the crucial years ahead.

Since for reasons of national welfare and national security it is absolutely essential that this Nation achieve energy independence, and the private sector cannot take all the necessary risks, the Government—in the interests of the American people—must accept a share of these risks itself.

It is for this purpose that President Ford proposed the Energy Independence Authority last fall. Functioning like an investment bank, the Authority would have the power over a ten-year period to finance up to $100 billion in private sector energy projects which would contribute to energy independence—but which would not otherwise receive private sector financing.

The Authority would be managed by a five-member board appointed by the President with the advice and consent of the Senate. No more than three of the board could be members of any one political party.

Under the President's proposal, the Authority would be able to provide financing in a wide variety of ways, including direct loans, loan guarantees, guarantees of price, and the construction of facilities for lease-purchase.

Provisions of the proposed legislation specify that:

The Authority is forbidden to own and operate energy production facilities itself. It is solely a financing vehicle. It is directed to provide its resources in conjunction with private sector financing to the maximun extent possible, and only when the amount of private sector capital available is insufficient to make an otherwise promising venture viable.

The Energy Independence Authority is permitted to invest its funds only in projects which fall into one or more of the following five categories: Technologies for the production, transportation, transmission or conservation of energy which are not in widespread commercial use; nuclear technologies, conventional and unconventional; production of electricity from sources other than oil or natural gas; projects involving conventional technologies for the production, transportation or conservation of energy which are so large that private capital cannot be assembled to finance them, and projects which would advance environmental protection.

Thus, the Energy Independence Authority, by making available on a self-liquidating basis the essential financing for the commercialization of alternative energy sources, offers this Nation the only reasonable prospect for stimulating the achievement of energy independence in this century. In my view, no goal is more important to our national security and the well-being of the American people.

CHAPTER 8

"The Need for Growth— The Human Equation"

BEFORE THE CLUB OF ROME,
PHILADELPHIA, PENNSYLVANIA
APRIL 12, 1976,

Before beginning my remarks to the Club of Rome, I would like to take a minute or two for a very special privilege which has been extended to me in my capacity as Vice President of the United States.

We meet here this evening in the light—I will not say shadow—of the figure of Benjamin Franklin. This hall, with its fine statue of Franklin by James Earl Fraser, is the Benjamin Franklin National Memorial—so authorized by action of the Congress of the United States and signed into law by the President. This hall thus joins the other national memorials entrusted to the stewardship of the National Park Service of the Department of the Interior.

However, in accordance with the wishes of the Franklin Institute, the Benjamin Franklin National Memorial is unique in that it shall be owned and operated by the Franklin Institute for the public's benefit and education. Will you all please stand.

To the only man who signed all four documents on which our United States was founded: the Declaration of Independence, the Treaty of Alliance with France, the Treaty of Peace with Britain, and the Constitution. To the man who called himself Printer but served his country as diplomat, inventor, philanthropist, philosopher, and scientist; to Dr. Franklin, whose versatility and character stand as inspiration for all nations: I hereby formally dedicate the Benjamin Franklin National Memorial.

* * *

I welcomed your invitation to participate in this forum because I believe the resolution of the debate over growth versus no-growth is crucial for the future of America—and, indeed, for all mankind.

The Club of Rome has sparked a vigorous debate over growth, the availability of resources, the disparities of material well-being among peoples of the world, and the capacities of men and their institutions to deal intelligently with the future.

It has suggested that limits to growth are essential to avoid future catastrophe. It has indicated that human conflicts can make a shambles of the world even before the alleged limits of physical resources are reached. It has put forth what it says must be done against what people are likely to do or can be persuaded to do to meet the critical world situation envisaged.

The sheer magnitude of the concepts and the authoritative ring of the postulates of the Club of Rome studies are at first impression apt to be overwhelming. Their awesome dimensions alone persuaded some, intimidated others and challenged thinking people.

This original challenge was a major service. It was timely. It was welcomed. These studies therefore, I suggest, should be considered as provocation—not gospel. For like all studies and all computer projects, they are as valid as the assumptions upon which they are based and the nature and quality of the input they ingest.

The Club of Rome executive committee explicitly recognized this and considered its work but a first step toward coming to grips with the future state of the world. With respect to the future as it relates to the capability of men to provide for mankind, what can be done about it?

I deliberately pose the problem as one of men—not of resources. Barring cataclysmic natural disasters, men can find the resources, provide the technology, and produce the material goods to meet human need. There is no real shortage of material resources. They can be developed. They can be managed. Indeed the shortage of raw materials is not due to a basic scarcity but to the limited amounts currently available for cheap and easy exploitation.

With work, with ingenuity and more expenditure of money and effort, most raw material shortages can be overcome and where the product is seriously limited, substitutes can be provided. But it takes not only intelligence and know-how to accomplish this result. It takes initiative and incentive.

There are nations of the world with limited material resources that have achieved phenomenal standards of living, which provide freedom of choice and high levels of culture for their inhabitants. There are nations of the world richly endowed with resources that have achieved even more spectacular results. But there are nations of the world amply supplied with resources that have yet to develop—or have actually retrogressed in—their contribution to human needs. And there are, of course, nations of the world lacking in resources, that neither have developed a dynamic for improvement nor scaled their claims and their ambitions accordingly.

What I am saying is that the world's capacity to provide for humankind is not a matter of physical resources. It is a matter of human will, human ingenuity, human determination and human organization.

On this score, certainly, there are serious difficulties—and the human condition in parts of this globe troubles our hearts, disturbs our conscience and calls forth compassion. But it must never be forgotten that far more people today in more parts of the world—both in numbers and percentages—live in greater health and comfort than ever before in history. This has been possible because of technology, economic growth and development of resources.

It has become possible because the basic concept that people count—not just as an hereditary oligarchy or a privileged few—has spread and continues to spread throughout the world. It has been possible because the science and art of production and management are being shared across the face of the earth. It is possible also because of the interchanges of people, for several decades now, through missionary efforts, education, business, cultural interchange, travel and transportation.

Certainly there are problems—difficult problems—but there has been enormous progress. And I for one believe there is great promise for the future. How can this promise be realized?

Obviously the dimensions of the question extend far beyond a single speech or any individual effort even to define—much less to provide—

comprehensive answers. But the longest flight always begins at takeoff and the time for takeoff is here and now.

For Americans the Bicentennial offers an added inducement to review the situation, consider what should be done here at home and by America in the world. It is my belief that the most meaningful thing America can do is to demonstrate that economic growth and the material well-being of individuals are not only compatible with but are essential to environmental health and human dignity.

More growth is essential if all of the millions of Americans are to have the opportunity to improve their quality of life. Indeed, in our democratic society, growth is demanded. The major key to healthful growth is energy. Energy is essential to the processing of raw materials, the production of food, and the provision of the other necessities and amenities for living.

Here in the United States, primarily through expansion of nuclear and coal facilities and through energy saving actions, the energy needs for the next several decades can be met with reduced dependence and ultimate elimination of the need for foreign petroleum imports. The technologies exist and the environmental impacts are known and controllable.

More energy is needed—both for growth and to enhance our environment—by cleaning up the air, purifying our waters, cutting down on noise and providing a wholesome milieu for both urban and rural living.

It should never be forgotten that the principal objective of environmental action should be man. He is the most precious and crucial species. It should also never be forgotten that civilization exists only through environmental control.

The United States has the resources within its borders to achieve energy self-reliance if it chooses to do so. This requires a major and immediate effort.

But we can develop the nuclear capacity, the coal facilities and the off-shore continental oil and gas potentialities to meet our needs before the end of this century. Such self-reliance can be achieved without imperilling a wholesome environment for living. Indeed, such self-reliance is essential to assure and enhance the opportunities for employment and for improved living standards for all Americans.

The net effect of the effort on the world scene would be to reduce America's claims on energy resources beyond its borders, and to augment America's strength as a bastion of economic and social, military and political strength—with the significance that holds for human freedom in the world. For without that strength, the United States cannot meet the needs of its people at home nor its responsibilities throughout the world. In this way, we can help others achieve their similar aspirations and strength through growth.

What about the institutional arrangements to make this growth possible? The Club of Rome appropriately has raised questions about the capability of present institutions within nations and in the world to deal effectively with these matters.

Here in the United States, one must express concern that the Congress has not moved to deal with the energy problem at the scope and level of action required, perhaps because the American people do not seem to be aware of the potentially devastating crisis that could cripple us without warning through another oil boycott or interdiction of our sea supply lines.

But we do have the institutional basis and a time-tested and experience-proven means of achieving major results. I refer to our unique American enterprise system.

Here government can establish the framework of law and general policy within which the private sector of the economy will have the incentive, can use its ingenuity, initiative and drive to accomplish results. It will take governmental action to set the framework for these efforts to produce environmentally compatible growth.

The prescription for action here in the United States will differ from that for other nations in its particulars. Unless peoples in other parts of the world, industrialized or not industrialized, are motivated to work and produce to meet their own needs and participate in world trade, it is obvious the world's problems will not be met.

The people of the United States can set an example for the future, as they have in the past, that a free people with a work ethic and a concern that the benefits of production be available to all, can achieve unprecedented results.

It is clear that the state-dominated collective regimes cannot provide that example, for they have not proven as effective in producing the wherewithal or providing the compassion for human needs as has our American enterprise system.

It is naive, indeed dangerous, to assert, as some do, that the industrialized nations of the world must support the underdeveloped nations of the globe through massive and long term foreign aid in goods and services and massive grants of capital. Such an institutionalized international dole would not only be unworkable, and impossible, but it would be counterproductive by failure to stimulate the local populace to actions on their own behalf.

In some of the Club of Rome studies there also is expressed the idea that some of the industrialized nations of the world—and particularly the so-called more "mature" industrial nations—should not press for growth but gradually ease into a more static status in which they would stress humanistic cultural contributions to mankind. This thought is also naive, because to have a really significant impact on the life of the billions of people in the world, a nation must have significance in the trade and commerce of the world, as well as in the flow of capital, technology, and managerial skills.

Western Europe and the British Isles would never have made their enormous contributions to the world in art, literature, music, science and technology, nor to the concept of human individuality and dignity throughout the globe, without their industrial productive power and their effectiveness in world trade and commerce. This lesson should not be lost. There should be no assumption that the values represented and the advancement in the condition of mankind that resulted, will continue automatically.

The loss to mankind can be disastrous if the nations that have sparked and carried forward the concepts of freedom and human dignity, and implemented them in law, in economic activity, in political life and social living, should fail to maintain their dynamism and growth. This has particular significance to the people of the United States.

Here the influence of "no-growth" thinking has already retarded some of the traditional dynamic thrust of the nation. It has taken various forms, such as: over-protective measures regarding environmental matters; excessive consent mechanisms before proceeding with vital public works, industrial plants, energy-producing facilities and the like; instability and insecurity, especially as concerns public and private investment, due to shifting the "rules of the game" by constantly changing governmental policies and regulations, resulting in ever-increasing complexity of bureaucratic red tape.

This thinking has been influenced by the overemphasis on services and consumer-oriented production, to the detriment of capital investment necessary to maintain, modernize and expand the nation's productive plant and to expand job opportunities. The world cannot gain by diminishing the vision, the confidence, the strength, the drive, and the capacity for leadership of the United States.

We, as a people, cannot play our full part on this planet unless we retain our dynamism and strength. Our history establishes our national commitment to the freedom and dignity of all people. What we face now is a practical problem of how to contribute effectively in the future to the quality of life for all people. That process starts at home.

The stakes involved in the Club of Rome debate are far greater than whether the productive capacities of the world can keep up with population. They involve whether people will be able to live with freedom and dignity or whether slavery in some disguised form will spread further to vast areas of this earth.

I return, therefore, to the proposition that one of the greatest contributions America can make, toward meeting the problems of the future in the world, is to develop its own capacities and strengths, to emphasize its concern for human freedom and to lend this strength, concern and cooperation to international efforts to improve the condition of mankind.

The development of international structures to carry forward the needed cooperative efforts to meet human needs will most surely take care, thought and ingenuity. One of the first tests—now before us—is whether there can be agreement on the utilization and implementation of the life-giving elements of the oceans and other great water resources and on mineral extraction from the ocean floors. Similar international arrangements must be made for the development of the potential resources in outer space and in the Arctic and Antarctic.

The world has yet to develop adequate structures whereby the state-controlled economies and the freer economies can devise methods of relating to each other that will preserve the benefits, strength and vitality of free societies. Beginnings have been made but much more solid thought and consideration need to be directed to this area.

And finally, underlying all of these matters that have been discussed, there is the basic problem of population growth versus the capacity of the world to support it. This was and remains a major concern of the Club of Rome. We know now that control of population growth relates to education, to improvement in the standard of living, to the enhancement of the status of women, to cultural changes, and to alteration of the mores and folkways of societies. Experience, therefore, would indicate that economic growth will assist and result in population control, rather than retard it.

Actually, the partial application of the products of the growth and development of the industrialized nations has resulted in the health measures that have reduced mortality rates so dramatically in the underdeveloped world. Without the export of that knowledge, technology, products and services, the population problem would not exist in the proportions of today.

The Club of Rome has rendered a great service in provoking the debate. It can render great service now and in the future in its search for viable solutions. I would, however, urge that in this pursuit, the Club of Rome consider mankind not as a vague generality, but as an assemblage of

persons—each a personality entitled to human dignity and individual freedom.

We can and we must add to the availability of resources, jobs, and income for people. We can and we must look not to dividing up a shrinking pie of goods and services, as envisaged by some of the Doomsday prophets, but to expanding the pie for all to share in increasing amounts. It can be done. I have every confidence that it will be done. I have total faith in the American people, utmost faith in the American future and in the future of mankind.

CHAPTER 9

"Proposals for a National Health Policy"

BEFORE THE NATIONAL LEADERSHIP CONFERENCE ON AMERICA'S HEALTH POLICY
WASHINGTON, D.C.
APRIL 29, 1976

I want to compliment Congressman Rogers, Congressman Rostenkowski, and the National Journal for sponsoring this invaluable conference on "America's Health Policy." And I personally appreciate this opportunity to participate. No subject is more vital to every man, woman and child in this Nation.

In our free society, two things are essential for every American to reach his or her fullest human potential, the opportunity for good education, and the opportunity for good health care. Given access to both these opportunities, our people can go just as far as their God-given talents will take them.

My concern with the health problems of the American people is the result of growing up in a family dedicated to the advancement of medical science, research and good health for all. Among the first of the family's major philanthropies was the Rockefeller Institute for Medical Research, which my grandfather founded in 1901. This institute focused its efforts on the cause and cure of major illnesses.

In 1913, the Rockefeller Foundation was founded and its International Health Division worked with governments at home and abroad in applying this research on a massive scale, which led to the virtual eradication of such widespread diseases as hookworm, yellow fever, and malaria. This was the beginning of private foundation support of medical research and international health programs.

My first opportunity for public service came in the health field. In 1933, I was asked to serve on the Westchester County (N.Y.) Board of Health, where I remained a member for over 20 years.

Then when President Roosevelt asked me to serve as Coordinator of Inter-American Affairs in the 1940's, we organized the Institute of Inter-American Affairs which undertook cooperative health programs in some 20 countries in the Western Hemisphere.

Later, President Eisenhower asked me to head a task force on government organization which led to the creation of the Department of Health, Education and Welfare. I was privileged to serve as the first Under Secretary of HEW, under Secretary Oveta Culp Hobby. Mrs. Hobby and I were appalled to learn at that time that catastrophic medical expenses were bankrupting about 3 per cent of all American families each year. To protect against this kind of tragedy, we agreed to establish a Federal pool to reinsure private insurance companies if they would write health coverage for

catastrophic illness. That was back in 1954—and, unfortunately, they failed to respond.

When I became Governor of New York in 1959, I immediately initiated a study on the feasibility of adopting a comprehensive State health care plan. We had to abandon the idea, for the study revealed that a State-financed health program was not feasible because of its high cost to employers, employees, and taxpayers in the State. Unless all other States took similar action, the additional cost to New Yorkers would have jeopardized the State's competitive position as a place to live, work and do business. Therefore in 1964, I recommended that a form of Universal Health Insurance be considered on a national basis.

The private sector and voluntary, philanthropic initiatives have made America the undisputed leader in training those who provide health care, in building the facilities where that care is provided, in developing health insurance to help cover the costs of that care, and in carrying out medical research.

In the past decade, Federal, State and local governments have accelerated their expenditures and are now investing over $50 billion annually in the health of Americans, with over 11 per cent of the total Federal budget currently going to health. Yet, the inescapable fact is that for all the progress, for all the concern, for all the expenditures, we find this Nation faced with serious and deepening problems in relation to the cost, delivery and financing of health care.

And even with all this expenditure, our medical care system does not assure adequate health protection for the 19 million Americans with no health insurance. We do not have comprehensive, total health care at all, nor do we have an overall, conceptual policy in this area of fundamental human necessity. What has been built up, through the best of intentions and efforts, is a piling of one program upon another on a piecemeal basis, by a multitude of private efforts and independent initiatives of all three levels of government—Federal, State and local.

Today, I would like to trace the roots of some of our health care problems and prescribe some hopefully effective medicine for their cure.

Medical care began simply enough in this country as a one-to-one relationship between the doctor and the patient. Government's involvement in the beginning was limited to public health programs and only later followed by institutional care for the indigent and aged.

Individuals, in order to protect themselves against the cost, and with the desire to extend health benefits, expanded this simple doctor-patient relationship to a relationship with a third party, the health insurer, which involved individual insurance plans, group plans, company plans, and union plans, with vastly differing coverage, premiums and forms of payment. Another change in the individual doctor-patient relationship took shape as doctors formed into professional groups.

And then in the early 1960's, the Federal government began to get into the act in a major way. After 20 years of controversy, Congress passed Medicare as a contributory medical program for older Americans, and also enacted Medicaid for the medically indigent, but not in a coordinated or carefully thought way; witness the following example from our experience in New York State.

Since 1929, during Al Smith's time as Governor, New York State had provided marginal health care to its needy citizens. Just before the enactment of Medicaid in 1965, there were 1.4 million persons eligible for the State medical assistance programs. When Medicaid was passed by the Federal Government, New York State expanded its program of eligibility to add an additional 4.6 million newly-qualified persons.

When the members of Congress realized that as a result of the new eligibility standards New York State would thus be entitled to virtually all of the money the Federal government had budgeted for Medicaid that year for the whole country, they were shocked. As a result, Congress changed Federal eligibility standards and New York State was forced to change its laws and drop some 1.2 million newly-eligible persons from its rolls. Obviously, this action created a deep feeling of disillusionment, bitterness and cynicism towards the government. This example is a perfect illustration of what happens when the Federal government passes piecemeal legislation without considering its far-reaching implications.

When it came to financing the cost of health care, the Federal government largely addressed itself to the paying of medical bills for welfare families, the disabled, and the elderly. A great number of needy American families failed to qualify for this help. The tragic hardships these families faced when medical bills exceed their capacity to pay, or when life savings are wiped out by catastrophic illness, are still not being met by the Federal government.

In addition, it should be pointed out that preventive efforts, which could reduce the incidence of acute illness and lower the cost of medical care, have not been effectively addressed. In the absence of a coordinated national health policy, total expenditures keep rising at an intolerable rate, without a comparable increase in the quality or coverage of health care.

Health care costs are the most inflationary item in the Consumer Price Index, outpacing even the sharp increases in the cost of imported fuel due to price increases by the Organization of Petroleum Exporting Countries. Between 1965 and 1975, the cost of health care in America increased over 200 per cent. In just one year, between 1974 and 1975, total public and private spending for health care increased nearly 14 per cent.

With hospital rooms costing an average of $150 per day, the average stay in a hospital now costs almost $1,000, an increase of 16.6 per cent in the past year compared to a 6.8 per cent increase of the Consumer Price Index, exclusive of medical costs.

In addition, this Nation's health manpower is not evenly distributed. New York and California, for example, have over 140 physicians per 100,000 of population, while Mississippi and Idaho have less than 90.

Most important, we have scarcely tapped the area of greatest potential—disease prevention. The leading causes of death in this country, such as heart disease, cancer, and automobile accidents, can be significantly reduced through changes in our life style.

Consider how much medical and hospital care would *not* have been necessary had we been able to alter and control such living habits as smoking, alcohol, fast and reckless driving, violent crime, drug abuse, pollution, overeating, poor nutrition, and lack of exercise. All these have been shown in study after study to be related to our national death rate and the high level of expenditures for medical and hospital care.

The establishment of the 55 miles per hour speed limit is a dramatic example of how a change in habits can affect health costs. In 1973, before the new speed limit was imposed, there were 55,000 traffic fatalities. In 1975, although there were more cars on the road, this figure dropped to 46,000.

Over the same period, injuries declined by 200,000. This reduction in deaths and injuries saved $15 billion in accident-related expenses.

Changing all these living habits requires education, self-discipline, and legal sanctions. What then should we be doing as a Nation to lift our sights and perspectives on the complex problems we face, and to achieve an effective health care system at reasonable cost?

A National Health Policy

I recommend, as a first step, adoption of a comprehensive, two-phased National Health Policy: first, to control health care costs and broaden the health care delivery system; and secondly, to extend the availability of health insurance to those who are not now covered.

PHASE I

Initially, we must structure the delivery of health care in a way that will bring health costs under control, while assuring high quality medical care. Let me emphasize that without the first phase of getting quality health care costs under better control, the second phase of expanding coverage would be of little value. In the present absence of an effective cost control system, our health care system will just keep sopping up every dollar that it receives, without significantly improving the quality or delivery of health care.

Delivery Systems—The necessity to have something better than the current hodge-podge of private and government health care efforts does not mean that we have to move to a rigid, narrow, single system. Both in terms of improved quality and greater cost efficiency, the Nation will benefit from a healthy competition among medical care systems. This has traditionally been the pluralistic American way. And it can serve us in improving health care just as it has made America the leader in virtually every other field of human endeavor.

Pre-Paid Medical Care Plans—The recent development of pre-paid "Health Maintenance Organizations" has proven to be a promising method of stimulating competition. The number of these pre-paid plans has increased over the past five years from 30 to 180. Because of the pre-paid approach, they have an economic incentive to prevent illness instead of just focusing on treatment. In our brief experience with these pre-paid plans, the results in controlling costs are impressive.

For example, the cost to Federal employees covered by two conventional health insurance plans increased this year by 56 percent, while employees covered by pre-paid plans experienced an 18 percent increase in their payments. In other words, pre-paid plans cut the cost increase by two-thirds. At the same time, pre-paid plans usually provide more benefits, hence greater health protection.

Unfortunately, the 1974 Health Maintenance Organization Development Act mandated benefits which are more extensive than those normally offered under previous health insurance plans. This law has created a situation where certain Health Maintenance Organizations cannot be competitive in price, since they are required to include extraneous extra services.

I recommend that the Senate move rapidly to adopt amendments now under consideration which will correct this situation and improve the competitive position of Health Maintenance Organizations.

In order to expand and develop Health Maintenance Organizations, a massive influx of private investment capital will be required.

I therefore recommend special tax provisions for investments in the Health Maintenance Organizations which would allow a fast write-off of start-up costs. With proper fiscal control, Health Maintenance Organizations provide one of the best approaches for injecting competition into our delivery system. Their development should be encouraged by those who have the greatest stake in controlling health costs, business, labor and middle income families.

Medical Care Foundations—Another form of prepaid health plan is the Medical Care Foundation. These Foundations are private, non-profit organizations of physicians and are usually sanctioned by the local medical society. Persons enrolled have pre-paid coverage, while the providers are reimbursed on the conventional fee-for-service basis.

These non-profit foundations are run by physicians. Since the compensation of the managing physicians depends upon their efficiency and expertise, these foundations meet the goals of high quality and lower costs through physicians' review of the care provided.

A recent study indicated that Medical Care Foundations had an average length of stay in the hospital of about eight days for surgically-related cases, while health care provided for on a cost-reimbursement basis ranged up to 14 days. Foundations have found that as much as 15 per cent of the insurance premium rates can be saved through careful monitoring and cost controls. The expansion of Medical Care Foundations will provide one more element of competition in the delivery system.

I recommend, therefore, the non-profit Medical Care Foundations be granted tax incentives to stimulate capital investment, similar to the proposal I recommend for Health Maintenance Organizations.

Health Manpower—To make the competitive health care delivery system effective, we must remove many present obstacles to the more efficient use of health manpower. All too often, licensure laws have protected the professionals rather than the patient. Overly restrictive regulation in licensing has been a serious deterrent to the use of paraprofessionals, such as medical corpsmen, vocational nurses, or physicians' assistants.

Hospitals, clinics, and physician groups need more flexibility in the hiring and use of their personnel. Institutions themselves should be allowed to determine the most productive use of the various types of health personnel.

One approach would be to license an institution and permit it to establish the qualifications of their employees under general guidelines. Understandably, this approach may be unpopular with many doctors, registered nurses, and certain other licensed professionals. But it is essential if we are serious about trying to hold down costs. The armed services have proven, particularly during wartime, that paraprofessionals can relieve highly-trained specialists of many routine duties.

I recommend that the Federal government undertake an experimental program in this respect. If successful on a national basis, the law should be changed to permit licensing of individual health care institutions, instead of the present detailed establishment of credentials for individuals.

Cost Control—Ever since third-party insurers, private and public, began to pay medical bills, there has been little incentive for doctors, hospitals or patients to hold the line on rising health costs.

In fact, the incentives are in the opposite direction: The more often the patient sees a doctor, the more money the doctor receives; the longer the patient stays in the hospital, the more money the hospital receives. Under our cost-plus reimbursing system, there is no effective restraining force against unnecessary or excessive hospital stays, laboratory tests, the purchase of expensive equipment, and unneeded hospital construction.

There are two alternative primary approaches to controlling medical costs: (1) Government control, which could range from total Federalization of the health care system to the imposition of wage and price controls. However, total government control through a National Health Insurance Plan, under which government would pay all the health bills, would add at least $60 billion to $90 billion to the Federal budget, which already faces a $75 billion deficit.

And our recent experience with cost controls has demonstrated that while they may temporarily stabilize the average costs for services, they do not get at the root causes of medical cost inflation over the long run, for inefficient use of medical services and duplication of facilities continued to drive the overall cost of health care up during the period of price controls.

(2) Therefore, we must find an alternative to total Federalization, or excessive government control, and develop systems which respond to competitive forces and thus provide incentives to control costs.

Reimbursement—In developing systems that respond to these competitive forces, one of the biggest problems is overcoming cost-plus reimbursement of hospitals.

I recommend, therefore, that the government annually determine the appropriate hospital reimbursement rates in a particular area and use these rates as the maximum which hospitals in the area would be paid for services to Medicare and Medicaid patients. Under this reimbursement system, hospitals would have an incentive to operate below the established rate, in order to share in the savings they generate. Legislation, similar in concept, is now pending before the Congress and it deserves careful consideration.

I further recommend that we move toward a structure where consumers pay a portion of their health costs and health insurance premiums. Under this plan, a sliding payment schedule based upon income should be instituted. Otherwise, when the patient pays nothing out of pocket for medical care, there is little restraint against demanding unnecessary care and excessive hospitalization.

Planning—A major contributor to the rising cost of health care has been the construction of unnecessary facilities, and the purchase of expensive equipment which duplicates that already available in a community. During the late 1960's, we were able to get some control over this problem in New York State by instituting a prior-approval system over health facility construction or expansion.

There is no need for the government or third party insurer to pay for building and maintaining maternity units in four hospitals in a city when each of them averages only 25 percent occupancy during the year—as is the case in some communities. Such wasteful practices hit consumers, business, labor and government alike.

I recommend strict application of the provisions of the Health Planning Act, aimed at reducing the construction of unnecessary health facilities and the duplication of expensive equipment.

Quality Control—One cannot stress too strongly that cost control must *not* be achieved at the expense of quality medical care. Under current law, the quality and appropriateness of care provided in hospitals to Medicare and Medicaid patients must be evaluated by a Professional Standard Review Organization in the area.

I recommend that this important review be extended to include care provided outside the hospital as well.

Malpractice Insurance—Another factor in the cost and quality of medical care is malpractice insurance. The steep rise in the cost of malpractice insurance has had its effect on both health care delivery and rising cost. Physicians in certain specialties in some areas are now paying in excess of $30,000 a year in malpractice insurance premiums; and many hospitals have seen their rates increase 10 times—or 1,000 percent. Traditionally, States have dealt with malpractice matters. In my opinion, the problem has grown to a point where some form of Federal action is needed.

I recommend, therefore, that the Federal government establish a Federal reinsurance pool, to provide a financial backstop to insurers within a State when malpractice claims exceed $200,000.

Insurers would be eligible for this assistance only after the States: (1) set up a system for arbitrating claims similar to the Workmen's Compensation Appeals Board, thus reducing the load on the courts; and, (2) adopt regulations to limit fees which attorneys may collect from malpractice suits.

The Federal law should give the States two years to develop and enact their State plans. But Federal leadership is needed to halt the rising costs and unnecessary services traceable to the malpractice insurance problem.

These are my views of the things we need to do now to: (A) control health care costs, and (B) broaden the delivery system. Once the effects of these measures begin to take hold, then we can better deal with the problems of expanding health insurance coverage.

PHASE II—EXTENSION OF COVERAGE

About 19 million Americans have no health insurance coverage. The reasons vary from low income and unemployment, and prior illnesses which are uninsurable, to the difficulty which self-employed persons have in obtaining coverage available to groups. Many low income or unemployed persons are not covered by Medicaid because they do not fit the current description of welfare categories.

The benefits available under Medicaid vary widely between States, causing significant inequities and costly administration. These problems must be corrected.

I therefore recommend that: Medicaid be replaced with a nationwide, Federally-financed health insurance program for low income families and individuals. The program would be administered by the States and a national uniform level of benefits and eligibility would be established.

Eligible persons would share in the cost of their health care according to their means. This would assure protection to persons living on a low income and, as their income increases, they would transfer to a regular private insurance plan.

The self-employed and high risk individuals who cannot obtain adequate private coverage also need to have protection available. To assure an available source of health insurance for this group:

I recommend that the insurer who processes Medicare claims within a State be required to offer Federally-reinsured policies to individuals for whom group insurance is not available, and at rates and levels of coverage comparable to group policies. If these two proposals are instituted, I think we will have the most significant coverage problem solved, at a cost that would be manageable both in terms of the Federal budget and the private sector.

A major remaining area of health insurance that has been the subject of concern and discussion during recent years, is protection against catastrophic illness. Currently, several proposals are pending before Congress relating to such insurance.

In response to this debate, private insurance firms now provide catastrophic coverage for most working Americans who desire such insurance. Over 75 per cent of new policies being written provide insurance against medical expenses of $100,000 or more. Major underwriters are beginning to offer this coverage to individuals as well as groups. There is every reason to assume that this trend will continue, which reduces the need for an extensive Federal program.

Since the elderly are most vulnerable to costly medical care, catastrophic coverage should be included in the Medicare program. I urge the Congress to enact the amendments proposed this year by President Ford, which provide coverage against catastrophic illness for Medicare recipients.

Conclusion—If we continue to delay in getting started on these essential programs, the major health problems of the American people will become more severe, and short-sighted, government-dominated, policies will become more attractive. Unless we move vigorously to structure the delivery and economics of health care, we can only look forward to deteriorating quality at skyrocketing prices.

The Congress and the Administration must work together in developing a comprehensive health policy for this Nation. The many committees of Congress concerned with these issues should be pulled together into Select Committees on National Health Policy in the House and in the Senate. These Select Committees would develop an overall framework for dealing with this crucial issue.

Within the Executive branch, all health programs should be coordinated by one office at the Department of Health, Education and Welfare—to allow for the administration of a strong, consistent policy.

I have outlined the direction I think the National Health Policy should take: A two-phased approach which would, *first*, broaden the delivery system and get costs under control, and *second*, move toward comprehensive insurance coverage.

The problem will not go away. It must be confronted, and soon, for the health of our people, for the health of our economy and for the health of our country.

CHAPTER 10

"The Stake of Americans in Our Foreign Policy"

AT THE COMMONWEALTH CLUB OF CALIFORNIA,
SAN FRANCISCO, CALIFORNIA
MAY 4, 1976

This is a very critical time for the United States and the World. Recognition of the difficulties that confront us today is bringing American foreign policy into the Presidential primaries and the Presidential election.

Some people decry this development. They believe it unwise to parade the divisions in our councils before the world. Others call for debate to air the issues and seek through the Presidential contest to settle a course for foreign policy. Still others seize on the occasion of the election to drive hard bargains for their special interests, foreign clients or domestic constituents, by pressing Presidential and Congressional candidates for election year action and advance foreign policy commitments.

Intellectually, Americans like to think of their country as presenting a united posture to the rest of the world. "Politics should end at the water's edge" evokes a positive response here. Certainly, unity in our foreign policy position abroad is in our best, long-term, self-interest, but such unity can be achieved only if there is a generalized public understanding of and agreement on foreign policy. And that, in turn, must be rooted in a basic consensus on major domestic objectives and policies if our foreign policy is to be meaningful and effective.

Unless there is such a consensus, politics cannot and will not "stop at the water's edge." Indeed, today the politics of foreign nations are not stopping when they hit our shores. Foreign governments and their local agents mount lobbies and influence upon the Congress, the Executive Departments and the White House—not to mention their influence, through our communications system, on American public opinion.

We have come a long way in time from the days when the actions of a Citizen Genet scandalized Washington and the nation. Today it appears we have latter-day Citizen Genets by the score—and little, if any, public attention riveted upon them.

Interrelationship of Domestic and Foreign Policy—Most Americans have considered foreign affairs to be remote from their daily lives, and except when war intruded, not to involve their particular living nor to impact upon their future well-being. One can ascribe reasons for this attitude—the vast distances of the United States from most of the rest of the world, the enormous domestic market for goods right here at home, to mention but two.

However, the fact is that our foreign policy cannot be something apart from our domestic policy. Each has significant impact upon the other.

American domestic agricultural policies and American government support of agricultural production is a significant dimension and influence in our conduct of foreign affairs.

Our export of agricultural products has been a major element in our achieving foreign exchange balances that have made it possible for us to meet the enormous rise in petroleum prices imposed by the Organization of Petroleum Exporting Countries (OPEC). On the other hand, American support of its close friend, Israel, in the Middle East, was importantly related to the Arab oil embargo and the subsequent OPEC development.

In this energy area, the Congressional domestic policy of holding down the prices of U.S. produced petroleum and natural gas are contributing to the decline in our domestic production and our growing dependence on imports, while at the same time, the American people are going back to the purchase of big cars, which only exacerbates the dependence.

In addition, some of our domestic environmental policies have stymied the building of new electric power plants, both coal and nuclear, and thereby added to our reliance on energy imports from abroad. Today, we are more dependent on low-sulphur Arab oil for American agriculture, industry, transport and household uses every day. Such growing dependence, together with the constant tensions in the Middle East, make the dangers of another boycott far more ominous than before.

This has a serious impact upon American foreign policy and, indeed, our basic national security. It is for this reason that President Ford has been urging the Congress for two years to adopt an overall energy policy, and more recently to enact the Energy Independence Authority. I am happy to say that Congressional hearings have already been started on the Energy Independence Authority.

Taking another area in which domestic and foreign policy are closely related, the Watergate inquiry raised some questions about possible CIA domestic activity in connection with that episode. At the President's request, I headed an inquiry into the allegations and definitely found certain domestic violations, but on the whole a vitally important and reasonably conducted intelligence operation. We made a series of recommendations to correct the situation, which the President has adopted.

Later, the Congressional investigations went far beyond the domestic scene. In the process, they exposed American foreign intelligence operations to the world—to the great profit of potential enemies and the grave distress of foreign friends. These investigations have had a most serious impact on the effectiveness of our foreign policy and national security.

A nation to survive in the real world needs an intelligence operation. Other nations of the world—and most particularly the Soviet Union—employ the most elaborate intelligence gathering and covert activities.

If we are to avoid war and protect our interests, we require both the most modern intelligence-gathering system and effective covert operations. An America without an effective intelligence agency is a sitting duck in a world of loaded shotguns. The foregoing are but examples of how domestic politics and international affairs respond each to the other.

For the American people, the essential task is to determine what serves their own enlightened self-interest in foreign policy. And this, since foreign policy has to be an extension of domestic policy, must have its roots right here at home. Mere rhetoric, no matter how lofty, is no substitute for practical knowledgeable action designed to meet specific needs or attain definite objectives of the American people.

This does not mean that Americans are not motivated or should not be motivated by broad humanitarian concerns, by moral and spiritual precepts. Our nation was founded on moral principles and we will endure only if we live by them. But Americans must see events in their true light and not permit emotionalism to substitute for moral judgment.

In this election year let us air the major issues of foreign policy. Let us look at the record, examine the facts and argue the alternatives. The Ford Administration has dealt with foreign policy with a deep understanding of the facts and a sensitive perception of the exceedingly complex interrelationships involved.

We cannot proceed with simplistic slogans which disregard the facts and mislead the public. Public understanding is essential to the development of policies in serving our enlightened self-interest.

Ten Major Bases for American Foreign Policy—What, we may ask then, are the solid bases for American foreign policy? I would like to discuss the following ten:

(1) Fostering Economic Growth at Home

One of the first bases is the fostering of economic growth to bring about more jobs, better opportunities and improved living for all Americans. Obviously, we must have a growth policy at home if we are to provide for our needs. However, a growth economy at home requires that we engage actively and increasingly in the commerce of the world. A non-trading, isolated America will be a low-growth or no-growth America. Great as our own resources are, and enormous as our domestic market is, the difference between a truly prospering and growing America and a stagnating America is our foreign trade and commerce.

There are important measures to be taken if growth is to be stimulated: 1. Development of energy self-sufficiency: 2. improvement of the productivity of American capital and technology, labor, management and government; 3. modernization of our plant and equipment; 4. pursuit of a sound environmental policy compatible with economic growth; 5. encouragement of the American enterprise system, through incentives, and through elimination of mounting bureaucratic restraints, over-regulation and ill-conceived taxation measures.

It is ironic, indeed tragic, that there are serious moves in the Congress to break up major American corporations that have helped build America's own economy and contributed to world productivity, and that by their managerial capacities and financial strengths have provided markets throughout the world for products and services created by American labor and ingenuity. Quite to the contrary, we should be seeking increased productivity to enhance the competitiveness in world markets of goods produced by American workers.

And we must seek through our foreign policy to enhance fair trading opportunity for American business abroad—and not hesitate to do so. Every major nation in the world—from France to Japan to Brazil to the Soviet Union—has the development of overseas markets for its products and the securing of overseas sources of needed and desired imports as one of its cardinal objectives.

It is high time that we stopped apologizing for our American enterprise system with its free labor movement. We should facilitate, not hamstring, the entry of American business, large, medium and small, into world markets.

In this connection, the large international companies, or the multinational corporations, have played a major role in the vast expansion of trade, the introduction of new technologies around the world, worldwide improvements in managing and marketing. Surely, there are problems and there have been abuses—just as there also have been in government and the professions. These abuses must be corrected and the individuals responsible rooted out. However, the answer to the correction of such abuses and to providing more jobs for Americans does not lie in hasty attempts to chop such corporations into pieces or to tax them into paralysis.

Experience has demonstrated that the multinational corporation—whether of U.S., European, or Japanese origin—is a most effective way today to develop markets and spread technology in the world. In the process, it can bring benefits to both its home country and others.

(2) Fostering Economic Growth Abroad

For the United States, the promotion of trade and commerce is best done through close and mutually beneficial ties with other countries. Clearly, one of our present objectives should be to support President Ford in his efforts to revive the lagging multilateral trade negotiations in Geneva. We also should support the Law of the Seas and other multinational and regional economic negotiations on which the Ford Administration and the Secretary of State have been and are working so hard in our national interest. Among these are the Rambouillet and Jamaica Conferences with the other major free-market industrial nations to deal with the problems caused by inflation, recession, unemployment and high energy costs.

It is worth reminding ourselves that these industrial nations account for 65 per cent of the world's production and 70 per cent of its trade. These are nations not committed to state-dominated and state-controlled economies, but are basically following the enterprise system. Their continued growth and contribution to world trade and development are essential—not only for their own interests but for the developing nations of the world.

American relations must vary with these nations, so loosely caught up in that phrase "The Third World." We must be sensitive to their aspirations and perceived needs, the state of their industrial advancement, their commitment to trade and development, their resources and capacities, as well as their internal social and political problems.

The Ford Administration has taken significant initiatives in this respect, as evidenced by the dramatic economic and social proposals for multinational cooperation made before the United Nations last fall, the recent visit of the Secretary of State to Latin America, and the participation of the Secretary in the U.N. Conference on Trade and Development in Nairobi this week.

On my recent trip through Southeast Asia, leaders said firmly that they cannot resist imperialist subversion by military force alone without steady economic growth and social progress for their people. The latter is essential in a struggle involving subversion, terrorism, and disruptions in the lives of the peoples of these countries.

One of these leaders told me that, "The economic progress from one multinational corporation out here is worth at least three divisions." The

United States has a vital interest in the growth and development of all these nations.

Only through solid development can the enormous problem of rapidly-increasing world population be met with success. There is large potential in areas of the world for the production of foods and of other materials critical for living.

There are still large areas that can support far more people than currently live there. There are other areas that today are not even supporting their own people, but could do so. The growth of these areas requires capital investment, technology, training in new skills, managerial know-how, all of which the American enterprise system, American philanthropy and American government can help significantly to supply—not to mention the capacities of Western Europe and Japan. The objective of our foreign policy should be to do so, and it can be done so that it benefits not only the people of the developing nations but the people of the United States as well. This means achieving international agreements against expropriation of capital investments without fair compensation and being friendly but firm in dealing with the Third World.

New nations really have only two basic choices for outside capital—the Communist world or the free enterprise world. Those who have chosen independence and the enterprise system have made dramatic progress compared to those who have followed the Communist alternative. It is my conclusion that the world can and must add to the availability of resources, jobs and income for people. We must not accept a shriveling pie of goods and services, as envisaged by some Doomsday prophets, but rather work toward an expanding pie for all to share in increasing amounts.

(3) Access to Raw Materials, Capital, Science and Technology, Management and Markets

Another of the bases of our foreign policy should be to assure access to energy and key raw materials like oil, chrome, bauxite and the other products essential to the American economy as well as those of the other independent nations. The attractiveness of the U.S. domestic market for foreign goods, our food surpluses, our financial strengths, and the need of other nations for capital, technology and managerial expertise, are the basis for mutually advantageous and equitable international arrangements. And looking to the future we must, as has been so forcefully advocated by President Ford's Administration, come to an international understanding of the use of the untapped resources in the unexplored areas of the sea, air and space, as well as the polar regions.

(4) Freedom of the Seas

It almost goes without saying that all of the foregoing—economic development at home and abroad; development of greater trade and commerce; access to raw materials—depends upon freedom of the sea lanes; that is, the free and unhampered passage of ships of all nations throughout the world. This is an historic base of American foreign policy, but it needs reemphasis in the most positive tones today. Today freedom of traffic on the seas depends for the free world principally on the American Navy, inasmuch as the other nations of the free world no longer maintain large naval forces.

This American Navy, however, itself is being challenged by the worldwide growth of the Soviet Union's naval power—in ships, in submarines, in missiles and in technology. Our naval investment in World War II has been wiped out by time and technology. The time is at hand to greatly accelerate the rebuilding of the American Navy so it can play its role in maintaining freedom of the sea lanes.

(5) An Open World

The era of old world imperialist empires is gone. And yet we find ourselves faced with a new and far more complex form of imperialism, a mixture of Czarism and Marxism, with colonial appendages. As a result, far too much of the earth's surface is closed off today, in one way or another, to the free flow of communication, the free movement of tourists, businessmen, scholars and journalists.

An "open world" would offer humanity a far greater choice of forms of society and government—of patterns of living and working—than the closed or partially closed areas of the world now do. Pursuit of a more open world is in America's interest, for it expands the horizons of others as well as Americans. And, as a free society, we can be more secure in a more open world.

Detente is a major effort in the direction of a more secure and open world. Certainly, the avoidance of nuclear confrontation, the increased communication, exchange of visitors, cultural associations, joint space activities and opportunities for expanded trade, which this new Soviet-American relationship offered, were major steps in the right direction, even though it was never expected that the worldwide ideological objectives of the Soviet Union would change. Similarly, the opening of relationships with China was a significant development of such a policy. The question may appropriately be asked, "What more specifically should we be doing for this more open world?"

First, I share President Ford's belief that we should press vigorously for implementation of those agreements which nations of the world have signed and ratified, both within the context of the United Nations and outside, which look to freer access of information, communication and travel.

Second, I believe the Congress should stop hamstringing the President and his Administration from moving forward with such interchanges and programs through Congressional amendments and riders that defeat this basic objective.

Third, as the world's leading nation in technology, I urge that we make a concerted national effort to maintain this leadership, through encouragement and incentives to scientific and technological training, manpower and development. We should strive to secure more openness in the closed and semi-closed areas of the world for mutually beneficial exchanges of technology as a condition to the export of our technology and to our cooperation with such areas in technological development.

Fourth, we should clearly not hide the fact, nor apologize for the fact, that our technological developments are related to our democratic way of life, our individual freedom, our national security effort, our philanthropic support of research, our educational system, our governmental support of basic research, and our American competitive enterprise system and military strength.

All of the world—and particularly the developing world—should know that our system of enterprise, our structure of freedom, and our commitment to human dignity are basic ingredients in our free science and our successful technology, The incentives to individual and collective research, the challenge to find technology to meet present and emergent situations, the willingness to risk time, money and resources, are surely related to the promise of reward for such efforts. Our 200-year history bears such witness.

(6) A Closer Partnership of the Independent Nations

Whether we like it or not, a continuing attempt is underway to organize the world into a new empire in which the Soviet sun never sets. This new form of imperialism—I know of no better way to describe it—involves ideological, diplomatic, economic, financial, political and military structures and relationships importantly dominated from Moscow.

A positive and far closer partnership of the independent nations of the world, particularly of those that espouse and encourage economic enterprise without state dominantion and control, is an essential counterpoise, economically, militarily and politically, to the Soviets' expansionist thrust. This is the greatest hope for the ultimate realization of freedom and respect for human dignity throughout the world.

(7) Identification With Progress and Self-Realization of All Peoples

The United States should be in the forefront of encouraging nations—new and old—to develop their identity, their economy and their particular role in the world. This means taking a realistic view—both of what America can offer and of the capacities and circumstances of other nations. It means developing a closer and more consistent series of trade, investment, social, cultural and, indeed, political ties with nations large and small in all parts of the world.

In dealing with all nations, one of America's great strengths is America's own cosmopolitan population—its unity within the diversity of the peoples who compose the United States.

Certainly, within our borders there are problems between national and ethnic groups. The crucial fact, however, is that so many people of such varied racial, religious, national origin and cultural backgrounds have, through emphasizing shared values, made the most productive society yet achieved by man. The United States cannot represent all its people, or its own national self-interest, if it tries, or is forced, to represent special groups ahead of the nation's interests as a whole.

(8) Maintaining a Sufficiency of Power

The eighth base of American foreign policy must always be to maintain sufficient power so the United States and the other independent nations are not in danger of being overrun or engulfed by Soviet or any other imperialism. Sufficient strength, therefore, must be at hand, or be developed, to preserve the freedom of the sea lanes, to ensure that neither directly by military action, nor indirectly through infiltration, subversion or blackmail, can the independent nations be picked off one-by-one, dominated or overwhelmed.

This requires that the United States and the other independent nations maintain a military capacity and presence that can counterbalance that of the Soviet Union and its satellites. It means also working with our NATO allies and with nations in other areas of the world to add to this strength. It means encouraging continued economic growth and development

throughout the world to help other peoples meet their needs and aspirations, and it means having the industrial capacity and strength to support the necessary military and strategic elements.

In the welter of criticisms of America and its institutions and policies—many of them generated here at home—the American public does not have an accurate picture of the United States' role in the world. In the brief trip I made just a few weeks ago to various parts of the world, leader after leader of the independent nations called for American leadership, economic, diplomatic and political, and backed by a strong military presence. Again and again, I heard a three-fold fear: Fear of Soviet expansionism, fear that the United States is turning inward, and the fear that America is losing—not the *capacity* to lead—but the *will* to lead.

The original purpose of "détente" was to establish contacts between the Soviet Union and the United States which would reduce the danger of a nuclear confrontation. The phrase has unfortunately been taken by some as meaning the Soviets had given up their global aims or their aggressive international objectives.

From the beginning, this was not the case. As the Secretary of the Central Committee of the Soviet Communist Party flatly put it: "In conditions of detente, the front lines of ideological conflict do not become silent. On the contrary, they become deeper and wider." Therefore, it was never intended, that the "detente" policy should lead to unilateral cuts in U.S. military programs and unbalance the economic, military, political and social forces of the free world versus the Soviet world. Nor was it intended that the United States be considered to have given up its championship for the free world—and for oppressed peoples everywhere, including those now under Soviet domination.

(9) Presidential Responsibility for the Conduct of Foreign Affairs

The United States Constitution makes the President responsible for the conduct of our international relations, subject to the role of the Senate to confirm Ambassadors and to approve treaties and subject to the significant power of the Congress for appropriations. The Ship of State cannot be steered by 536 hands grasping for the tiller.

From the very onset of our constitutional system the President—as chief executive officer of the government, Head of State in dealing with foreign governments, Commander-in-Chief of the military forces, and as the officer charged with negotiating international agreements—has been responsible for initiation and implementation of American foreign policy.

Congressional actions in the past few years, however well intentioned, have hamstrung the Presidency and usurped the Presidential prerogative in the conduct of foreign affairs. They have already caused serious difficulties abroad and have even worse implications for the future of our foreign policy. There is frankly no alternative but to return to the constitutional arrangement of strong Presidential initiative and leadership in foreign affairs with the cooperation of the Congress.

(10) The American Will To Lead

Fundamental to all of this is the continuing American will to lead. This can only be based on an understanding by the American people of the fundamental realities of the world in which we live, and the relationship of those realities to our long-term enlightened self-interest.

But American leadership will endure only so long as we preserve our faith and belief as a people in our moral and spiritual values and our confidence in ourselves, our heritage, and our basic institutions. It is only from such a base that we can summon the inspiration, the vision and the courage necessary to grasp the unique opportunities which exist at this moment in history.

I am optimistic about the future, confident that the American people will summon the will to lead in the face of our unprecedented challenges, to realize our own dreams as a nation born of freedom, to achieve a national purpose worthy of a free people, dedicated to the individual dignity and well-being of all mankind.

CHAPTER 11

"American Security and The Future of Freedom"

BEFORE THE LOS ANGELES
WORLD AFFAIRS COUNCIL
LOS ANGELES, CALIFORNIA
MAY 5, 1976

History does not repeat itself. But history certainly bears repetition—for what it may teach us. For although historical parallels are surely not precise, nevertheless, they can cast a sharp light of experience on the present, and afford a perspective for the future.

An Historical Perspective—Some of the utterances, attitudes and actions of today may be all too reminiscent of those of some 35 to 40 years ago. It was not then talk of some "military-industrial complex" that was raised as a bogeyman against military security actions, but a series of exposés of "the international munitions makers" who allegedly fomented wars and reaped the profit therefrom.

A Senate Committee conducted extensive hearings and inquiries in this vein and produced the Neutrality Act of 1935 with amendments in 1936, 1937 and 1939. This helped to stymie efforts to prepare the nation's security forces against the gathering Nazi-Fascist storm already threatening human decency, peace and freedom in Europe.

It was a period when young men took the Oxford pledge never to fight in any war—since it was said no war was justified and "war never settled anything." It was a period when unemployment was high and the ravages of the recession had borne down heavily on America, Europe, and, indeed, the world.

It was a time when military expenditures were attacked as too expensive, and unnecessary and non-productive. It was claimed that the defense money could better be spent on social programs. American freedom and security were taken for granted. It was a period when the free world allowed its armies, its navies and its fledgling air arms to languish, while the nations with one-party dictatorships mounted enormous military programs.

It was a time when a British Prime Minister bought peace for what he called "our time" by a sell-out of Central European democracy to the Nazi Fuhrer. It was a time when Japan, Germany and Italy built new naval vessels with great striking power.

The American Navy had stagnated—with old ships, inadequate maintenance, limited readiness, and limited personnel; it was only beginning to be rebuilt. It was a time of voluntary military service—no required universal military training or service.

It was to be a time when, in the nation's approaching hour of dire need, the new Selective Service Act was to be extended by a margin of one vote in the House of Representatives. It was a time when the Congress tied the hands of the President by the Neutrality Act, the paucity of military appropriations and the series of sensational investigations into foreign and military affairs.

It was a time that bred the isolationism that sought to ignore, or somehow, escape the forces that were uprooting the world—as though America could stay aloof, uncommitted and unaffected by the mounting hurricane that was to engulf the world in history's bloodiest war.

It was a time when two military giants—the Nazi and the Soviet—were considered to be implacable enemies and thus to provide by their ideological antagonism a kind of security for the free world, only to find the Nazi-Soviet Pact launching the destruction of Poland and the onset of a carnage that ended some six years later.

There are disturbing parallels to today's situation—but they need not forecast the future. President Ford has recognized these dangers. There are encouraging signs of the Congress facing up to the situation. If we as a nation but have the will—and act in time—there is no need for us or the world to go through what we did before.

The successful defeat of the Axis powers in World War II and the following 30 years of American leadership have helped bring more independence to more peoples, greater opportunity to more individuals, and a greater economic growth, social upward movement and better living to more people than ever before in human history.

Throughout these decades, the United States has been a bastion of strength and a source of help for the independent nations of the world, the principal champion and shield for freedom and freedom-loving peoples of the world.

The credit surely is not all ours, by any means. But a fair share of the credit clearly belongs to America for its leadership in science, technology, management, the free labor movement, and agriculture, and for America's willingness to share these through gifts as well as trade and commerce with much of the rest of the world.

All of our Presidents since World War II have been identified with these causes. President Ford has carried on these efforts in the trying times of our Constitutional crisis, recession, and inflation at home, as well as turmoil abroad.

Today's Situation—Today the United States faces a world situation unique in its history and more directly critical than heretofore. America's geographic isolation has disappeared with the advance of modern science and technology. There are no buffers today comparable to the British and French naval and military forces of yesteryear. The United States, instead, finds itself on the front lines throughout the world.

The steady growth of Soviet military power—in its wide-ranging nuclear capacity, its massive armies, its increasingly versatile airforce, its vast missile capability and its worldwide navy—constitute a formidable and growing challenge. And to this is now being added a new dimension of sophisticated satellites and sensors, with a diverse range of missions. The Soviet military effort is backed by a major military-industrial complex with priority call on manpower and resources. It can draw not only material resources from the Soviet bloc but in addition, as Angola has shown, it can draw on colonial troops now as well.

The Russian thrust for expansion—indeed, for a world hegemony—is no secret. The Czars started it. Stalin advanced it. Khrushchev continued

it. Admiral Gorshkov built his navy for it. Brezhnev, while agreeing to "detente", reasserted it. Brezhnev proclaimed the continuation of the ideological struggle through a global effort.

And the Soviets have been doing just that on a worldwide basis—through bribery, blackmail and bugging, through infiltration, subversion and political activity, through espionage and guerrilla activities, and through supporting so-called "wars of liberation", economic pressures, intimidation and outright military intervention. This is the Soviet side of the coin. The obverse is that none of the independent nations nor any combination of them without the United States can counterbalance the Soviet challenge.

The leadership in this task, accordingly, is squarely ours. The task itself involves three major areas of effort—none of which by itself is sufficient, but all are essential: (1) Military strength; (2) covert activities, and (3) overt actions in the realms of diplomacy, economic growth, and social progress.

1. The Military Factor

At this juncture, the United States and the Soviet Union have arrived at a rough nuclear balance. Efforts have been and are being made through existing Soviet-American agreements and the SALT talks to assure the continuation of such an equivalence and to keep either power from escalating its capabilities and developing a significant advantage that could upset the balance. The nuclear balance has given new emphasis to non-nuclear weaponry and other military technology.

The fact, of course, is that since the end of World War II there have been several wars—and some very decisive ones—but neither side has employed nuclear weapons. Accordingly, while maintaining the necessary strategic nuclear balance, the United States must equip and re-equip itself with ever-new and modern arms, and pursue non-nuclear science and technology, for enhancement of its military capacity.

The Defense Budget—The American defense effort can be put in perspective by a look at the United States defense budget. The constant attacks on defense spending and other demands on the Federal budget have brought United States defense spending to its lowest percentage of the Federal budget since 1940. United States defense spending today is 25 percent of the total. It was 43 percent in 1964 before the Viet Nam War. In the past decade, Congress has consistently cut the President's annual defense budget requests. The aggregate of these cuts is over $48 billion.

While our defense spending has been cut back to pre-Pearl Harbor percentages, the Soviet Union has moved dramatically in the opposite direction. If we were to match the present level of Soviet effort here in the United States, it would cost us some $144 billion a year. The estimated magnitude of the Soviet Union's defense effort in relation to the Soviet Union's gross national product is such that for the United States to mount a similar effort would require us to spend some $200 billion per year.

Comparative Forces US-USSR—Leaving aside some 400,000 military security force members, the Soviet Armed Forces have risen to 4,400,000 men. The United States has 2.1 million today, *down* from the 3.4 million peak of the Viet Nam War.

In recent years, the Soviet Union's investment in new systems and facilities in crucial areas like research, development, testing and evaluation for military purposes has clearly exceeded ours. And the Soviet Union has developed an impressive military-industrial base that is presently out-producing the United

States in most categories of military hardware. Currently, the Soviets are testing and deploying a new generation of intercontinental ballistic missiles and strategic submarine-launched missilles. Since 1962, the Soviets have built four times as many ships for their Navy as we have for ours. There is now a Soviet naval presence in all the oceans of the World.

Numbers, of course, do not tell the whole story. There are significant areas of American quantitative and qualitative superiority. The wide variety of weapons, the degree of their accuracy and sophistication, the readiness of equipment, and the skill of personnel to use it, all add variables that must be taken into account.

One must also weigh the different missions, offensive and defensive, that the Soviet and American military must encompass in judging their comparative effectiveness. Many more statistics could be added to show the growing Soviet numbers and improved quality.

Suffice it to say that the combined nuclear, naval, air, and Red Army capabilities make the Soviet a super power today. In their weapon systems, the equipment of their forces, and in their military doctrine which now stresses the offensive philosophy for a "blitzkrieg" type of war, the Soviets present a formidable challenge to us and our allies—to all independent nations throughout the world.

Clearly, the Congress and the nation face a critical decision. If the downward or static trend of U.S. defense expenditures of the recent past continues, the United States will be abandoning its ability to maintain its essential strength *vis-a-vis* the Soviet Union. This means the United States would become inferior in status and capability, with all the grave portent that entails for America's own security and the fate of independent nations and freedom in the world.

President Ford has asked for a defense budget that would begin to reverse this downward trend. We must expand and modernize our military forces, enhance their capabilities and advance our military technology. We cannot afford to have the Soviet Union surpass us. We must be willing to pay the costs for this effort.

It is time, also, to involve our allies and associates in ever greater participation in this mutual defense effort—in money, in materials, in technology, and in manpower. A greater sharing and pooling of our collective talents and resources is called for. A cohesive, positive effort, by NATO and our other allies and friends, and most importantly by the United States itself, can insure our mutual independence and freedom against any threat.

Full Utilization of Our Scientific and Technological Talents.—As we face the challenge to our security, growth and strength as a nation, our demonstrated scientific and technological capability is one of the nation's resources to which we can look with particular confidence.

From the outset, we have been an inventive people, a nation of tinkerers, both pragmatic and creative. These natural instincts, first cultivated on the wilderness frontiers, have been continuously stimulated and rewarded by the American enterprise system.

The pace of our scientific competence and achievements accelerated as our educational institutions grew in number, quality and sophistication. They were supplemented both by the extraordinary American system of private philanthropy, and a program of government support that encouraged freedom of individual research initiatives.

The growth of scientific knowledge, and the development of our unique technological capabilities, together with their applications, have been almost unbelievable in the last decade. American science and technology have been in the forefront of the fabulous strides that have been made in new concepts, new systems and new products.

The time has come, once again, to enlist the creativity and a fuller participation of American science and technology in a special effort to strengthen our national security. This means the imaginative development of bold new military concepts and systems. The objective is to leap-frog the conventional devices and approaches.

It is imperative to recognize that neither science nor security is a static affair. For every weapon, a defense can be contrived; for every defense, technical ingenuity can devise a way to circumvent or negate it.

What is crucial to our military strength, as it is to the vitality of the American enterprise system, is to stay sufficiently ahead of the competition in new knowledge, new applications and new products. Lead time and relative superiority are the objectives. These can be maintained only by constant and attentive emphasis on the scientific and technological bases of military strength.

To achieve this required level of emphasis, I believe we should supplement existing Defense Department research and development activities, by separately organizing and separately funding a government effort which will harness our undoubted scientific and technological genius. The present organizational structure of government is having trouble in attracting and holding enough such talent. Such an effort should be limited in time, responsive to the Commander-in-Chief, and supplemental to the existing scientific and technological efforts of the government.

2. Covert Activities

Over 2,000 years ago, a Chinese General, Sun Tzu, in his treatise on the "Art of War" said: "Those skilled in war subdue the enemy's army without battle. They capture his cities without assaulting them and overthrow his state without protracted operations." Sun Tzu's writings have had a major influence in shaping the strategic thinking and the tactics of Mao Tse-Tung and Stalin.

Intelligence and covert activities are the gray areas of international relations affecting national security. The overreaction in the Congress to the problems raised about American intelligence and covert activities following Watergate have done serious damage to our intelligence capabilities in a difficult and crucial time in our history. Other nations' foreign intelligence and covert operations have little difficulty functioning here in our democratic, open society.

Let me quote from the 1975 Report to the President on CIA Activities Within the United States, which states: "While making large-scale use of human intelligence sources, the Communist countries also appear to have developed electronic collection of intelligence to an extraordinary degree of technology and sophistication for use in the United States and elsewhere throughout the world and we believe that these countries can monitor and record thousands of private telephone conversations."

This means that, with the aid of sophisticated equipment, the Soviets can intercept and record specific telephone and teletype communications involving our defense industries, high government officials, Members of the

Congress and virtually anyone with secret information. Indeed, confidentiality of information is becoming increasingly difficult for the government and defense industries to maintain under the pressure of many sources—Congressional, media, special interest groups and the like. The leaks of information have already embarrassed us as a nation on many occasions.

When all the Congressional investigations are finished and all the proposals are vented, it must be remembered that: (1) America needs to protect itself against Soviet and other espionage, infiltration, sabotage and undercover intelligence activities, and at the same time, (2) America must have a means of getting foreign intelligence, analyzing it and using it for the conduct of overt foreign policy activities, and, when necessary, covert activities to protect the security of the United States and the freedom and independence of other nations.

Clearly, it is impossible for a confidential and effective intelligence effort to function under existing and proposed Congressional limitations and procedures. Over the years, U.S. intelligence and covert assistance have helped many nations maintain their freedom and independence from subversion, infiltration and military takeover by outside forces.

It is necessary to counteract the Soviets' covert imperialism, which they carry out worldwide through an infinite variety of methods including subversion of individuals in communications, in political, military, labor and academic life, through buying of elections, and the use of military equipment and colonial troops to overthrow independent governments.

To hobble our own capabilities in these fields is not only naive but could be disastrous.

3. Overt Activities for Economic and Social Progress, National Security and the Defense of Freedom

The normal, open, day-to-day relations of the United States with the rest of the increasingly inter-dependent world covers a broad spectrum of relations. They include concerns ranging from the routine diplomatic to bold initiatives, from trade and transport to tourism, from the economic and financial to cultural and informational, from the educational and social to the scientific and technological.

All of these areas are intimately related to the security, well-being, and opportunity of all peoples and nations. Thus, imaginative diplomacy systematically conducted can enhance our national security and help protect the freedom and independence of other nations.

But they are all dependent upon the maintenance of a U.S. capability to preserve freedom of the seas and the sea lanes for trade and commerce.

The progress made by President Ford and the Secretary of State toward ending hostilities in the Middle East, opening relationships with China, in achieving through detente the Interim Strategic Arms Limitation Agreement with the Soviet Union, and the subsequent Vladivostok accord, are examples of such creative diplomacy.

We must always be alert for other equally imaginative and productive diplomatic initiatives. Such opportunities beckon, for example, in the development of the resources of the oceans and the underlying seabeds, the rational use of the atmosphere, space and the polar regions, and cooperative ventures with our allies in such areas as energy, raw materials, transportation, environment, food, weather information and control, and international monetary relations.

The Ford Administration has addressed itself with foresight and imagination to all of these opportunities. There are numerous other major elements in which the Ford Administration has taken a wide range of initiatives as part of a foreign policy designed to further our national security and enlightened self-interest, such as: Fostering economic growth and social progress at home and abroad; assuring raw material supplies and freedom of the seas; working for an open world; developing a closer partnership with other independent nations; and identifying with the progress and self-realization of all peoples.

These Ford Administration initiatives have been taken through the United Nations and various regional bodies around the world. The latest is Secretary Kissinger's imaginative proposal for a multi-billion dollar development plan for the people of Africa.

Conclusion—It is not my purpose today to review in detail the whole range of past and possible future initiatives. But in concluding, there is one imperative for our nation's security and well-being that must be mentioned. No nation is stronger in foreign affairs than it is at home. And no nation can be strong at home without confidence in its purposes, and the energy and will to pursue those purposes with steadfastness and vigor.

For this our people must understand the issues and be united in their basic goals: For a nation and world growing in its capacity to meet the needs and aspirations of people; for a nation secure and effective in its relations with the rest of the world.

America today suffers both at home and abroad from cynicism about its institutions. It is time for Americans to stop berating America. It is time to stop magnifying our shortcomings. It is time to take a proper pride in the very real values and to renew our faith in the strengths of our nation and our basic institutions.

We as a people, in our values and freedom, in our respect for individual dignity, are the most successful society in every way that the world has ever known. We have every reason to be proud of our country, to have faith and belief in ourselves, to have confidence in our future.

This can be the most exciting moment in our history, if we but have the vision, the wisdom and the courage to grasp it.

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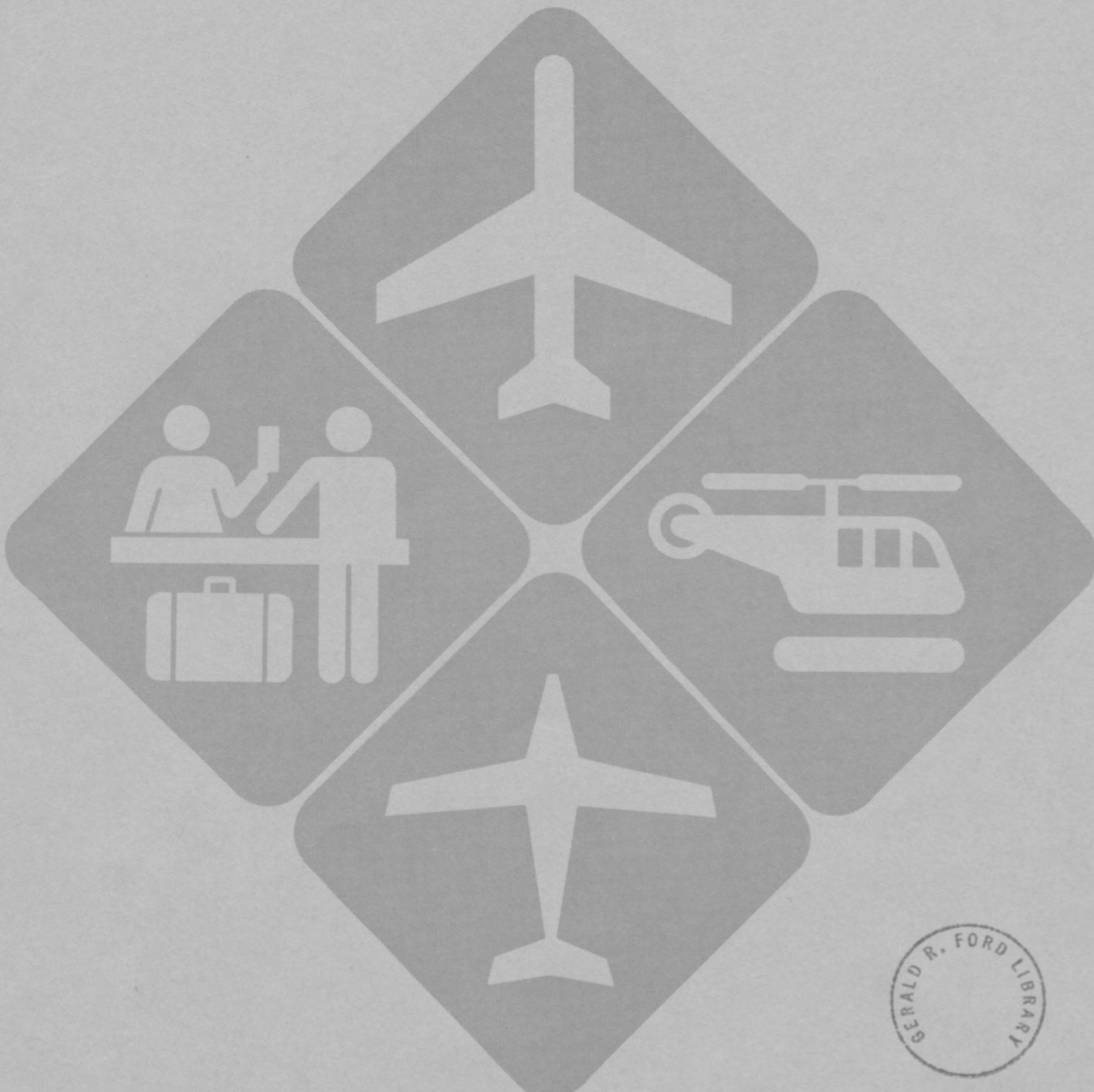
Aviation Act of 1975

United States Department of Transportation

A bill to expand competition in the airline industry, to provide improved services by the airline industry to travelers and communities, and to better enable the airline industry to adjust to changing economic conditions.



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United States
Department of Transportation

Office of the Secretary
Washington, D.C. 20590

January 1976

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To the Congress of the United States

As part of my program to strengthen the Nation's economy through greater reliance on competition in the marketplace, I announced earlier this year my intention to send to the Congress a comprehensive program for the reform of transportation regulation. In May, I sent to Congress the Railroad Revitalization Act aimed at rebuilding a healthy, progressive rail system for the Nation. Today I am pleased to submit the Aviation Act of 1975 which will provide similar improvements in the regulatory environment of our airlines. To complete the package, I will soon be forwarding similar legislation for the reform of regulation governing the motor carrier industry.

The result of the regulatory reform measures proposed in this legislation will have a direct and beneficial impact on the American consumer. Countless Americans use air travel on a regular basis in connection with their jobs and leisure activities. But for many Americans, air travel has become a luxury too expensive to afford. In part, today's high costs of air transportation are attributable to inflation and the rising cost of fuel and labor. But they are also the result of long years of excessive economic regulation.

In 1938, when the Congress authorized the creation of the Civil Aeronautics Board, there was a belief that some form of government intervention was needed to protect the infant airline industry. Accordingly, the Board was instructed to regulate this industry in order to promote its growth and development. Entry into the industry was strictly controlled. Even those airlines who were allowed entry into the industry were rigorously controlled with respect to what markets they could serve and fares were regulated. Real competition was intentionally dampened.

In the almost four decades since economic regulation of airlines was established, this industry has grown tremendously. It can no longer be called an infant. Consequently, protective government regulation established to serve the particular needs of a new industry has outlived its original purpose. The rigidly controlled regulatory structure now serves to stifle competition, increase cost to travelers, make the industry less efficient than it could be and deny large segments of the American public access to lower cost air transportation. A number of studies have indicated that the cost of air transportation to American consumers is far higher than necessary as a result of overregulation.

The overriding objectives of the proposed legislation is to ensure that we have the most efficient airline system in the world providing the American public with the best possible service at the lowest possible cost. We must make sure that the industry responds to natural market forces and to consumer demands rather than to artificial constraints set out by government. This legislation would replace the present promotional and protectionist regulatory system with one which serves the needs of the public by allowing the naturally competitive nature of the industry to operate. It provides the airline industry increased flexibility to adjust prices to meet market demands. And it will make it substantially easier for firms who wish and are able to provide airline services to do so. These measures will be introduced gradually to permit the industry to adjust to a new regulatory environment. Government will continue to set rigid safety and financial standards for the airlines. But the focus of the new regulatory scheme will be to protect consumer interests, rather than those of the industry.

I urge the Congress to give careful and speedy attention to these measures so that the over 200 million passengers who use our airlines every year are given the benefits of greater competition that will flow from regulatory reform of this industry.

GERALD R. FORD

THE WHITE HOUSE, October 8, 1975.

Facts Concerning Aviation Act of 1975

The Aviation Act of 1975 is the first comprehensive legislative proposal for regulation of the airline industry since the Civil Aeronautics Act of 1938. By lessening economic controls over the industry and by placing maximum reliance on competition, the Act will enable the airline industry to provide more efficient, responsive and less costly service to the public. It will assure that inefficiency is not protected by an outdated system and that well-managed airline firms will be able to grow and prosper.

Principal Objectives of Legislation

1. To increase the ability of air carriers to respond to consumer interests. This legislation directs the Civil Aeronautics Board (CAB) to allow competition to direct the setting of airline fares and to determine the services to be provided in response to market demand. The present regulatory system insulates the airlines from competition and protects industry interests instead of the public interest.

2. To introduce and foster price competition in the industry. Government regulation has limited price competition in the airline industry. The bill will encourage airlines to compete on the basis of price as well as service and create opportunities for low-cost air service.

3. To liberalize entry into the industry and to reduce restrictions on the services which carriers can provide. Government regulation has restrained competition by severely restricting the entry of new firms into the industry and by controlling the routes which existing airlines are allowed to serve. This legislation will, over a period of years, permit qualified firms to enter new markets and offer new air transportation services.

4. To eliminate anticompetitive air carrier agreements. Presently, airlines are accorded special treatment under the antitrust laws. Unlike other industries, carriers are permitted to restrict capacity, pool revenues, and deliberately lessen competition. The bill will prohibit such agreements. However, carriers will still be able to enter into agreements which are not anticompetitive and which facilitate air transportation. Carriers, for example, can continue to transfer baggage on connecting flights, honor ticket exchanges and make joint reservations for the convenience of their passengers.

Major Provisions of the Aviation Act

1. Policy Changes. The present Declaration of Policy, enacted in 1938, was framed in the context of an infant industry in need of protection. The Board has often relied on the Declaration of Policy to limit competition. Now, however, air transportation is a mature industry capable of operating in a competitive environment. The Aviation Act of 1975 revises this declaration to stress the desirability of competition rather than the protection of established carriers. The new declaration also directs the Board to encourage the entry of new firms into air transportation.

2. Pricing Flexibility. Price competition has been discouraged by Federal regulation and is virtually non-existent. Restrictions on price competition have significantly harmed air travelers. For example, while carriers in intrastate markets are subject to Federal safety regulations, they are free from Federal economic restrictions on fares and routes. In these markets, prices have been lower than in comparable interstate markets. Scheduled commuter air carriers, operating equipment which is more costly per passenger mile, charge comparable or lower fares than regulated carriers for similar distances.

Ironically, air carriers have not earned unusually high profits from this lack of price competition. Excess profits that might have been earned have been dissipated through service competition—most visibly in the form of in-flight movies, free drinks, and other amenities but most expensively in terms of scheduling additional flights.

The Aviation Act of 1975 substantially increases airline pricing flexibility over a three-year period. During the first year of the Act, airlines may lower fares as much as 20 percent and in the second year as much as 40 percent below the fares in effect on the date of enactment, without CAB interference. By the third year, fare decreases may be disallowed only if they are below the direct cost of the service in question.

Fares may be increased up to 10 percent per year without CAB involvement.

Flexible pricing, coupled with liberalized entry and the removal of antitrust immunity, will assure the widest range of consumer choices for air transportation at the lowest possible prices.

3. Entry Into Air Transportation. The CAB controls the entry of new firms into the industry and the expansion of existing firms into additional markets. With minor exceptions, no new scheduled passenger carriers have been licensed since 1950. No new carrier has been permitted to enter major airline service since regulation was established in 1938. The Board has often been restrictive in allowing carriers to expand their routes. It maintained an unannounced route moratorium, during which it refused to consider major route applications, for most of the past five years.

The effect has been to deny consumers the benefits of services which efficient and innovative carriers have been willing to provide. For example, in 1967, World Airways (a large charter carrier) proposed scheduled transcontinental service with a one-way fare of $75. The Board took no action whatever until it dismissed the application six years later as being "stale".

Numerous conditions and restrictions have also been attached to the operating certificates held by air carriers. For example, some flights may not carry local passengers, while others may not provide through service or must continue to points beyond their logical destination. These restrictions protect the markets of established air carriers and add to costs by wasting aircraft, fuel and labor.

The Aviation Act of 1975 is designed to reduce substantially the barriers facing qualified firms that wish to enter into air transportation, expand into new markets, or offer innovative service. It provides for increased entry while giving airlines time to rationalize their operations and adjust to the changing regulatory environment.

Entry is facilitated by a variety of means. The new declaration of policy directs the CAB to encourage the entry of new firms into the airline industry. Other provisions allow carriers to offer new or better service:

A. Certificate Restrictions. The Act directs the Board to eliminate all existing operating restrictions within five years and prohibits it from imposing restrictions in the future.

B. Discretionary Mileage. Following the removal of operating restrictions in 1981, the Act allows each carrier to increase route mileage by about five percent per year. This allows carriers to expand and rationalize their route systems.

C. Sale of Certificates. After January 1, 1978, a carrier may sell, transfer, or lease any portion of its operating authority to any air carrier found by the CAB to be fit, willing, and able to provide air service. This will also enable air carriers to restructure their routes to improve service to the public. New carriers entering the industry under this provision will be eligible to increase their route mileage under the discretionary mileage provision.

D. Scheduled Service by Supplemental Carriers. The Act allows supplemental air carriers (charter carriers), who have been innovators in the air carrier industry, to apply for authority to provide scheduled service.

E. Unserved Markets. The Act requires that the CAB permit entry by qualified applicants for non-stop service between cities not receiving such service from certificated carriers.

F. Charter Service. The Act improves opportunities for low-cost service by reducing the strict limitations on charter services which have severely impaired their growth.

G. Commuter Aircraft Restrictions. Carriers operating aircraft up to 30 seats now are exempt from economic regulations but are subject to the same safety rules as certificated airlines. Operating within this exemption, a vigorous and rapidly growing industry of more than 200 commuter airlines has developed, primarily providing service to small and isolated communities not served by certificated carriers. The Act allows scheduled commuter carriers to increase the size of aircraft they operate from 30 to 55 seats. This will enable them to purchase larger turbo-prop, pressurized aircraft and provide improved service to many small communities.

4. Abandonment of Service. Certificated carriers require CAB approval to withdraw service from a city. Although abandonment does not seem to be a major problem, the existing standard for abandonment should be changed for two reasons. First, costs that a carrier incurs when it is compelled to serve markets at a loss, without subsidy, are defrayed by passengers elsewhere on the carrier's system. This is unjustifiable. If subsidy is desirable, it should be paid directly by the government rather than by air travelers flying elsewhere. Second, carriers are more likely to enter new markets if abandonment provisions are liberalized because they would then be able to withdraw from service if the market should prove unprofitable.

The Act deals with abandonment in the following manner. Carriers will be permitted to exit upon 90 days notice if alternative scheduled air service is provided by another carrier. Where alternative scheduled air service is not provided, carriers will be permitted to exit whenever, taking subsidies into account, they could not cover fully allocated costs for one year or they could not cover direct operating costs for three months. The Board may require continued service if the community or another public body were willing to defray the carrier's losses.

The new provision will not substantially change abandonment practices. The Board has generally granted abandonment applications where a carrier can show that it has lost money on this service. This provision will ensure that appropriate economic criteria will continue to be applied in abandonment proceedings.

5. Subsidies. The Act proposes no substantive changes in the subsidy program. The Board now administers an annual subsidy program of nearly $70 million directed at ensuring the continuity of service to small communities, primarily by local service carriers. The CAB has periodically recommended revision of the subsidy formula. The Act directs the Secretary of Transportation to undertake a comprehensive study of the present subsidy system and to report to Congress within a year. The Secretary will undertake this study in full consultation with the CAB, the affected communities and the airlines. The study will develop recommendations for legislation to improve the program.

6. Mergers. The Act brings airline merger standards more in line with antitrust laws. Under the new standards, the Board could not approve a merger which would tend to create a monopoly or substantially lessen competition, unless it found that the anticompetitive effects were outweighed by the probable benefits to the communities to be served and that no less anticompetitive alternatives were available. The Board would have one year to decide on a merger application. Because there is a substantial difference between the current and the proposed merger standards, a 30-month transition period is provided. During the interim, existing merger procedures would be retained.

7. Anticompetitive Agreements. Currently, agreements among carriers are immune to antitrust challenges once Board approval is given. Although most agreements filed with the Board do not raise antitrust considerations, some agreements, particularly those which restrict capacity, have anticompetitive effects.

The Aviation Act of 1975 prohibits the Board from approving agreements to control levels of capacity, equipment or schedules, or which relate to pooling or apportioning of earnings or of fixing of rates. The Board could continue to confer antitrust immunity on other agreements between airlines, but before granting approval it would have to find that the agreements meet a serious transportation need and that reasonable, more competitive alternatives are not available.

8. Procedural Changes. The Board has often refused to hear applications or to render decisions in a reasonable period of time. It has also used procedural motions to settle substantive questions. The Act requires the Board to hear and decide cases speedily. In order to avoid burdening the Board with spurious applications, it will be allowed to dismiss certain cases. However, any cases dismissed shall be dismissed on the merits, and the dismissal may be reviewed by the Court of Appeals. This will end the practice of dismissing applications on procedural grounds, leaving the applicants with no recourse to court review.

Questions and Answers About the Aviation Act of 1975

General

What are the goals of the Aviation Act of 1975?

The purpose of the bill is to modernize Federal economic regulation of the air transportation industry. It reflects the Administration's desire to rely more heavily on competition and to improve and update airline regulation to meet today's economic needs. Competition among carriers will cause them to meet travelers' and shippers' needs most efficiently.

Why is the Administration proposing reform now?

The Aviation Act of 1975 is part of the Administration's overall program to revitalize the free enterprise system and it is one of three proposals seeking fundamental reform of economic regulation governing the transportation industry. As President Ford has noted: "Such regulation, established long ago, in many instances no longer serves to meet America's transportation or economic needs."

Federal regulation has not kept pace with the growth of the airline industry. The Civil Aeronautics Act of 1938 was intended to protect, nourish and foster the growth of an infant industry. Airlines have now grown and matured into the dominant mode of public intercity passenger transportation. The regulatory practices of the Civil Aeronautics Board are badly out of date and no longer serve the public interest.

The regulatory system has attempted to protect established firms within the airline industry from the forces of competition. This has resulted in higher fares than necessary. Low cost service innovations have been discouraged. Ironically, there is little evidence that regulation has actually helped the established carriers. Competition in the form of costly services has replaced price competition.

What effect will the bill have on airline safety?

None whatsoever. The CAB has no responsibility for safety regulation. The Federal Aviation Administration (FAA) is responsible for assuring that all airlines maintain the highest safety standard. The safety enforcement powers or duties of the FAA are not changed in any way. The Administration's bill deals solely with economic regulation by the Civil Aeronautics Board.

Competition and Efficiency

How does the bill benefit consumers?

Enactment of the proposed bill will result in lower average fares and more responsive service. By removing unnecessary operating restrictions and undue reliance on costly service competition, airlines will be able to reduce costs. And by providing for increased entry and price competition, the bill insures that these cost savings will be passed on to consumers.

Airlines compete actively for passengers—ads, drinks, movies, special luggage compartments. Why is more competition desirable?

One form of competition of interest to consumers—price competition—is currently unavailable. The existing regulatory system largely limits airlines to service competition, which raises the cost of air travel. Airlines should be able to offer lower fares and innovative services. The Act will allow airlines to do this rather than relying heavily on costly frills.

What inefficiencies in airline operations are caused by the absence of price competition?

Passengers often receive services that they would not buy separately, such as meals, drinks and fancy decor. Another kind of inefficiency involves airline scheduling and results in too many airplanes flying with too many empty seats. Because all airlines charge the same fare, they are forced to compete by offering "more flights to . . ." or "a flight every hour . . ." This form of competition results in empty seats and higher ticket prices.

What inefficiencies in airline operations are caused by route regulation?

Over the years, numerous types of conditions and restrictions have been attached to the operating certificates held by air carriers. For example, a carrier may not be allowed to provide through-plane service between two cities, forcing passengers to change planes unnecessarily. In other cases, carriers must continue flights to points beyond a certain destination, whether or not there is sufficient demand for such service. Often they are not permitted to carry "local" passengers who only want to travel one leg of a particular route. These restrictions waste aircraft capacity, fuel and labor. They raise costs and passenger fares and they prevent airlines from providing service many passengers might like to have.

If reliance on service competition is reduced, won't service to the public suffer?

In competing for customers, carriers will have the incentive to provide the types of service their customers want. If consumers prefer lower fares, less frequent service and fewer amenities, then this is the type of airline service that will be offered. If travelers' preferences are sufficiently varied, then a variety of combinations of services and fares will be offered.

How will the bill affect airlines' fuel efficiency?

It will make the airlines more fuel efficient. One result of the current reliance on service competition is that the airlines are encouraged to fly more often than is desirable. With increased price competition, airplanes will tend to be more fully loaded, thus saving energy and increasing fuel efficiency. Fewer empty seats mean less fuel will be consumed per passenger mile traveled.

The bill eliminates antitrust immunity for agreements between air carriers. Does this mean airlines won't transfer baggage or cooperate on connecting flights?

No. Airlines will still be permitted to make agreements which do not result in anticompetitive behavior, such as ticket exchange and baggage transfer agreements.

Will travel agents continue to be able to function if airlines are allowed to set fares competitively?

Yes, travel agents will arrange for air travel in the same way they arrange for other services like steamship travel, hotel accommodations, rental cars, and air charter trips. The prices of these services are set in the marketplace rather than by regulation.

Airline Fares

What effect will the bill have on air fares?

What inefficiencies in airline operations are caused by route regulation?

Under current regulation competition takes the form of service competition rather than price competition. This leads to excessive scheduling and consequently to a large percentage of empty seats and to the inefficient use of aircraft, fuel and labor. While some passengers enjoy an uncrowded flight, empty seats mean higher costs and therefore higher fares. The provisions of the Administration's bill will encourage airlines to reduce costs. Competition will insure that these cost savings are passed on to consumers in lower fares.

Under a flexible pricing arrangement, why won't prices simply go up, considering rising fuel costs and other factors?

Price competition and the threat of new competitors will prevent fares from simply going up. If an airline tries to raise its fare too high, one or more of its competitors will charge a lower fare and take the traffic.

If costs rise, then fares probably will rise. This is true under the current regulatory system and it will be true under the proposed system. But average fares will be lower if the bill is enacted than if the present system continues unchanged.

Will dicount fares still be available and will there still be different classes of travel—first class, coach, etc.?

The word "discount" is misleading. There will be fare differences based on cost differences. Coach fare is, and should be, lower than the first-class fare because less service and fewer amenities are provided, seating is denser, and free drinks are not given. Night flying on some routes are lower priced than day flights because unused aircraft are available. The range of cost-based price differentials will remain and probably expand.

Students and senior citizens, whose travel schedules generally are more flexible than others, should benefit especially from a wider choice of ticket prices. Of course, they will also benefit from the generally lower level of fares which will result from price competition.

Airlines give discounts to people who plan ahead and buy tickets well in advance. Will these reduced fares remain?

Probably, and the general level of fares will also drop. If discounts result from cost savings they will stay. But if the discounts exist because some travelers are discriminated for or against, then competition will ensure that they disappear.

Would lower stand-by fares be prohibited by the Act?

No. The Act provides that fares cannot be disallowed for being too low so long as they cover the direct costs of the specific service in question. Stand-by passengers occupy seats that would otherwise be empty. Therefore, the direct costs of stand-by service are lower than that for reservation passengers, and discounts are appropriate.

How much rate flexibility is actually provided?

Airlines may lower their rates 20 percent in the first year and 40 percent in the second year below the rates in effect at the time of enactment. Rate increases of up to 10 percent per year are also allowed. Beginning with the third year a rate cannot be disallowed on grounds that it is too low, if it covers the direct costs of providing the service in question.

Entry

Why does the bill propose liberalizing entry?

The Administration believes that it is in the long-term interest of both consumers and the industry to rely to the maximum extent possible on competition to regulate fares in the airline industry. Therefore, it has proposed a gradual introduction of pricing flexibility to allow airlines to adjust fares within limits without government intervention.

To assure that this additional flexibility does not permit the airlines to raise their rates unreasonably, the Administration has proposed a corresponding relaxation of entry restrictions to encourage competition. Then, if an airline tries to charge a rate that is unreasonably high, there is always the threat that a competitor will enter the market, charge a lower fare, and take over the business.

Won't increased entry into the airline business mean more planes and an additional burden on congested airports?

The number of airlines has little to do with the number of planes or with airport congestion. The number of planes in use is determined by the amount of air travel and by the number of seats that are occupied in each plane. With price competition replacing the current reliance on service competition, there will be fewer empty seats. This will reduce the number of flights. Congestion is largely the result of airlines bunching their departure times at the start and end of the business day. With greater price flexibility, airline schedules will provide for a better dispersion of flight times because people will be more likely to choose to fly at off-peak times with lower off-peak fares. This will tend to reduce congestion.

The bill liberalizes entry by permitting airlines to sell operating rights to other air carriers. Couldn't this have an adverse effect on safety?

No. The same safety rules apply to all air carriers. The CAB must also determine that the buyer is "fit, willing and able" to provide air service.

What are the specific entry provisions of the bill designed to achieve?

The bill proposes a gradual relaxation of entry regulation which has been carefully designed to avoid short-term disruptions in the industry. First, the CAB is directed to phase out artificial route restrictions which reduce airline efficiency. This is to be accomplished in an equitable manner by January 1, 1981. To permit carriers additional flexibility to rationalize their route structures, the bill permits the sale, transfer or lease of operating authority between cities beginning in 1978. Six years after enactment of the bill, carriers are given limited discretion to expand their operations into new markets. These provisions permit a gradual move toward a more competitive marketplace.

What effect does the bill have on international air travel?

Nothing in the bill directly affects international aviation, but U.S. carriers with international routes will be able to adjust their domestic routes so they feed better into their international traffic. This should enhance the financial health of these carriers and enable them to compete more favorably with foreign carriers which cannot carry passengers between U.S. cities. International travelers from inland areas will also benefit because there will be less need to change airlines.

Many airlines are facing financial difficulties. Won't increased entry and lower fares lead to bankruptcy?

Some airlines are having a difficult financial time, as are other businesses and individuals. In fact, the existing regulatory system, by emphasizing service competition, has encouraged airlines to overinvest in equipment. This results in high fixed costs and makes airlines more sensitive to fluctuations in the economy than would otherwise be the case. The bill provides for gradual introduction of both price and entry competition. This will reduce vulnerability to economic fluctuations and will enable efficient and well-managed airlines to prosper, attract capital and grow.

Service to Small Communities

Won't airlines stop flying to many small cities?

No. Air service to small cities is largely provided by scheduled commuter air carriers. These airlines are unsubsidized and unregulated by the CAB. The FAA regulates them in safety and operational matters. Commuter carriers will be allowed to use larger aircraft and this will permit improved service. Also, many small cities are served by CAB-regulated airlines that receive a subsidy for providing service. Nothing in the proposed bill changes the subsidy arrangements. There are fewer than a half dozen cities that receive service only from scheduled, unsubsidized airlines where service might be curtailed.

Will airlines be allowed to stop serving unprofitable markets?

If, despite subsidy payments, an airline loses money on its service to a city, then it will be allowed to stop service to that market upon reasonable notice.

Does the Administration bill change the Federal subsidy program?

The existing Federal subsidy program is not changed.

Does the provision of State or local subsidy make an airline ineligible for Federal subsidy?

No.

The Air Transport Association (ATA), the industry's trade association, claims that many markets will lose service as a result of this legislation. Is this likely to happen?

The ATA's claim appears unjustified. Airlines are required to fly few, if any, of the routes described by ATA as subject to curtailment or abandonment. On many of these routes, several carriers now compete—without any requirement that they do so. Also on many of the routes which the ATA says are endangered, there is service by carriers that are not regulated by the CAB, such as commuter airlines or intrastate carriers. Hence, it is unlikely that many markets will lose service as a result of a lessening of CAB regulation. The opposite is more likely to be the case. This legislation would eliminate the route and operating restrictions which now prevent or hinder service to many communities.

Other Issues

Some people feel the bill does not go far enough—that the air transportation system would be better off with no regulatory controls at all. Why does the Administration bill stop short of deregulation?

The bill provides for a gradual lessening of economic controls but maintains those which are desirable. A fairly long transition period is incorporated into the bill because abrupt change might be disruptive. If, after some experience under the new regulatory climate, it is felt that still less regulation is in the public interest, appropriate proposals could be made at that time.

Some critics suggest that the CAB should be abolished. How does the bill affect the Board's authority?

The bill reduces the CAB's discretionary authority to restrict competition. The Board will continue to license carriers, authorize routes, approve fares, and administer the subsidy program. But the bill changes the criteria which the CAB must apply in regulating air transportation. The new criteria ensure a greater reliance on market forces in determining fares and service.

Critics say the results of the bill will be to turn the clock back to pre-1938 conditions when there was no regulatory system. Is this true?

No. In 1938 air transport was a new industry, struggling to become established. Few people flew, and the equipment used by airlines was primitive by present standards. The air transport industry is now large and sophisticated. Airline travel has become routine: about 200 million Americans travel by air each year. There is no way to turn the clock back, and the Administration certainly does not want to do so. But the regulatory system of the thirties simply is not appropriate to the current situation, and it requires modernization.

Critics of the legislation claim it will disrupt air travel and destroy our air transportaton system. Is this true?

No. As a result of regulatory reform, the nation's air transport system will improve. Businesses survive and prosper if they provide a service people want and for which they are willing to pay. People want to fly and are willing to pay for flying. Existing air carriers will continue to be able to serve their customers and charge fares on the basis of costs incurred. Existing as well as new carriers will be able to enter new markets where they can provide better or lower cost service. The service to the public will improve.

Why is the airline industry strongly opposed to this change?

The Act will change the economic environment in which the airlines operate. Airline managements have been sheltered from certain kinds of competition and have been restricted in making certain business decisions. Under the Act, they will no longer be offered these protections.

The bill recognizes that airlines must earn profits if they are to attract capital and serve their growing markets. Under the bill, efficient, well-managed carriers will thrive, creating jobs and providing low-cost service. Poorly-managed firms will have every incentive to improve their efficiency and productivity through better management of their operations, without present excessive regulatory restrictions.

Effects of Implementing Aviation Act of 1975

Policy Statement

Existing Law	New Law
Directs the CAB to ensure adequate, safe, economical, and efficient air service to the public.	No change.
Directs the CAB to promote the growth and development of the aviation industry.	Revised to deemphasize promotion of the industry and to stress the desirability of competition in the public interest.
Directs the CAB to promote aviation safety.	No change.

Entry

Existing Law	New Law
Existing statute gives regulators broad authority to impose restrictions on airline operations. Restrictions have been imposed to limit the number of carriers in the industry, the routes they are permitted to fly, and where they may pick up passengers. These restrictions raise costs, inhibit competition and impair the ability of the industry to serve the public.	Prohibits new certificate limitations and mandates development of a 5-year plan to phase out existing restrictions. After the transition period each carrier could provide non-stop service between any points it now serves. Beginning in 1981, carriers would be allowed to expand their operations by a limited amount each year without government approval.
Carriers wishing to provide new service must go through lengthy application procedures with an uncertain outcome.	Qualified applicants proposing innovative services will be authorized. Applicants for routes without non-stop scheduled air service would have to prove only that they are "fit, willing and able", but not that the service is "required." Applicants would be able to begin service without procedural delay.
Carriers operating aircraft which carry fewer than 30 passengers or 7,500 pounds of cargo are exempt from economic regulation.	Exemption from economic regulation would be expanded to aircraft which carry up to 56 passengers or 16,000 pounds of cargo, enabling scheduled commuter airlines to improve their services. Further increases in aircraft size would also be permitted.

Existing Law	New Law
The Act has been interpreted to prevent supplemental (charter) carriers from receiving scheduled authority. The interpretation has been used as one basis for limiting entry by qualified applicants.	Supplemental carriers will have their applications for scheduled authority heard on their merits.

Procedural Expedition

Existing Law	New Law
No time limits for acting on aplications for new route authority now exist. Some decisions on applications have been delayed for up to eight years.	Applications must be set for hearing within 60 days or dismissed "on the merits," to allow court review. A final decision must be reached in 10–12 months from filing date.

Route Transfers

Existing Law	New Law
Government approval is required before any carrier may transfer route authority to another. In practice, approval is difficult and time consuming to obtain.	Route transfers to qualified applicants must be approved unless the proposed transfers would lessen competition.

Mergers

Existing Law	New Law
Carrier mergers are now exempt from Federal antitrust laws.	After a 30-month transition period, air carrier mergers would become subject to the antitrust laws in a manner designed to permit accommodations between antitrust and regulatory policy. A merger could not be approved if it resulted in a monopoly. If the merger would substantially lessen competition, it could not be approved unless the anticompetitive effects are outweighed by the transportation benefits.

Abandonment

Existing Law	New Law
Carriers may petition for permission to discontinue service. Abandonment may be allowed if there is inadequate public support for the service, but carriers are sometimes required to continue money-losing services.	Abandonment will be facilitated where carriers can demonstrate they have operated at a loss. Federal subsidy, as at present, provides for continuation of needed services.

Intercarrier Agreements

Existing Law	New Law
The CAB may approve intercarrier agreements and immunize them from antitrust prosecution. This authority has been used to approve capacity and other anticompetitive agreements, without public hearing or reference to the public interest.	Some anticompetitive agreements (such as those regarding capacity, pooling and price fixing) will be outlawed. Other agreements which tend to reduce competition could be approved only if they meet a serious transportation need, and if less anticompetitive alternatives are not available. The Secretary of Transportation or the Attorney General may request that hearings be held, and the CAB would be required to comply.

Rates

Existing Law	New Law
Price competition among carriers has not been permitted. The CAB has broad authority to set rates. This has resulted in rates which are higher than necessary. The CAB has required that rates be the same in markets of equal distance, despite cost differences due to variances in density or type of traffic.	Price competition will be fostered. The CAB's rate-setting authority will be limited by authorizing carriers to reduce rates to variable costs. CAB authority over ultimate lawfulness of increases is retained.
There is no time limit on rate decisions and cases may take years.	Rate decisions must be made within 180 days.

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