

214894

①

4 pages

To: Vernon Williams
Surface Transportation Board
Fax: 565-9004

Dear Mr. Williams,

Per my earlier fax, this is the draft testimony due today, Oct. 12, 2005. I hope you can find a place for me to testify at the STB's Oct. 19 hearing.

Yours truly,

Paul A. London

Paul A. London

ENTERED
Office of Proceedings

OCT 12 2005

Part of
Public Record





Re: STB Ex Parte No. 658

Oct. 12, 2005

Testimony before the Surface Transportation Board at Hearings Commemorating the 25th Anniversary of the Staggers Rail Act of 1980.

Testimony of Paul A. London, Ph. D, author of "The Competition Solution, the Bipartisan Secret behind American Prosperity." AEI Press, 2005.

At the beginning of my short remarks I want to thank the Surface Transportation Board for allowing me to speak at these hearings, and more important for having the foresight to hold them.

There is a great deal to learn from the history of the Staggers Rail Act of 1980 and related legislation concerning trucking, airlines, and other once "regulated" industries. I discuss these in my book, "The Competition Solution, the Bipartisan Secret behind American Prosperity," and I believe it is very important to make this story known, which is what the STB is trying to do today.

The Staggers Rail Act was vitally important but it was not "stand alone" legislation in a broader sense. It was nearly the last piece in a broad effort to open up the American transportation system to competition in the late 1970s and 1980.

President Franklin Roosevelt, 40 years earlier, had been uncomfortable with several of the anticompetitive features of transportation regulation that emerged from the Great Depression of the 1930s, but he could not get the Congress to change them.

Presidents Dwight D. Eisenhower, John F. Kennedy and Lyndon Johnson shared Roosevelt's distaste for the weak competition in the broad transportation area, but drew back from taking on the powerful vested interests in transportation, the companies that benefited from price fixing, and the unions who knew that price fixing meant padded payrolls, and higher wages and benefits that regulators would allow to be passed on to consumers.

President Nixon almost took on the political challenge of opening up the vital transportation industry, but pulled back because the companies and unions opposed competition.

President Ford submitted legislation. He took more political risks than President Nixon did but his more aggressive and courageous efforts to bring real competition to the transportation sector made little headway.

(3)

President Carter and the Congress in the late 1970s took on the historic challenge. The "opening up" of the transportation industry to competition began with famous hearings on airline competition in 1975, the deregulation of air freight shortly thereafter, then airlines, then trucking, and finally the railroads with the Staggers Act.

During this earthshaking period in economic terms, as I show in my book, transportation was not the only area of the economy that was being opened to more intense competition as a result of courageous political action. Similar "micro-economic" policies driven by political leaders were making competition more intense in other areas of the economy.

Manufacturing was opened up by import competition and new foreign and domestic investment. New auto and steel companies began producing in the U.S. and the postwar oligopolies began to disappear.

Deregulation made competition more intense in telecommunications, energy, and other areas where price and entry regulation had prevailed at least since the Depression.

Finance was opened to competition in large measure because of our antitrust laws. Fixed commission rates on stocks were declared illegal, shaking up the whole financial industry. Junk bonds became an option over the objections of the financial establishments, so that newcomers as well as Blue Chip companies could get money more easily. The big East Coast banks were pushed to face aggressive newcomers and financing costs dropped.

Finally, high margins were squeezed out of the retailing sector by newcomers like Wal-Mart. One was said that "Wal-Mart did more to fight inflation than the Federal Reserve," and I agree. Indeed, I argue in my book that it was intense competition not the Fed that killed inflation in the 1980s and 90s and allowed low unemployment that would have been inflationary in the old economy of fixed and manipulated pricing.

So the Staggers Act was part of a huge project, like the tip of an iceberg. It was an important piece of a very, very important transformation of the American economy. Competition in transportation and all these other areas led to lower costs for shippers, 40 or 50 percent lower I believe.

Competition also led to innovations that have been copied all over the world. A lot of these changes have been painful. Many of the changes brought about by competition in areas where it was once weak, are still echoing thru the economy.

How we should be dealing with these painful and continuing changes is a subject for a much broader discussion. But the Staggers Act of 1980s has driven the modernization of American freight railroads. It is a part of a vast change in America that affected the whole world, and whose benefits --- very large benefits I believe --- are still being felt.

So I want thank the Surface Transportation Board once again for holding these hearings because the Staggers Act was very important and needs to be remembered. It is a very

4

good indeed a great history lesson with implications for other American industries like healthcare, which needs to be considered and understood.

Thank you very much.