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STATEMENT OF BRADFORD C. SNELL
BEFORE THE
UNITED STATES SENATE
SUBCOMMITTEE ON ANTITRUST AND MONOPOLY

PRESENTED AT HEARINGS
ON THE GROUND TRANSPORTATION INDUSTRIES,
IN CONNECTION WITH S1167

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MR. CHAIRMAN:

For forty years, a war has been raging in this country between automobiles and mass transit. It has shaped American society. It began as an economic struggle among competing methods of travel. It became a relentless campaign to destroy America's rail and bus systems. Unless government intervenes, it will end only when public alternatives to private automobiles are no longer attractive.

This is the war General Motors, Ford and Chrysler have been waging against public transport. I am here this morning to suggest how it might be concluded in the interest not only of the traveling public, but also of the management, shareholders, and employees of the Big Three automakers.

During the past five years, I have studied the social consequences of one of the most enduring monopolies of this century: the American auto trust. With the aid of a grant from the Stern Fund, I have evaluated the impact of three powerful automobile companies on the development of this Nation's system of ground transportation. My findings, contained in a study entitled American Ground Transport, are briefly this: the Big Three car companies used their vast economic power to restructure America into a land of big cars and diesel trucks.

Mr. Chairman, America has become a second-rate nation in ground transport. Unlike every other industrialized country, we rely on cars and trucks for virtually all of our transport needs. In every city and suburb, our rail and bus services are either dead or dying. American travelers returning from Europe say that there is a "bus gap." Even in Moscow, they say, the buses and subways look better than anything made in the United States. Travelers back from Japan tell the same story. Having ridden on 150 mph bullet-trains, they ask "What ever happened to America's railroads?"

Let me suggest an explanation: The Big Three car companies reshaped ground transportation to serve corporate wants instead of social needs. They eliminated competition among themselves, secured control over rival bus and rail industries, and maximized profits by substituting cars and trucks for every other competing method of ground travel, including trains, streetcars, subways and buses. In short, they put America on wheels.

But along the boulevards of every major American city, these wheels are grinding to a halt. The highway transport system designed by the Big Three is falling apart. We have committed more than \$180 billion a year and one-sixth of our work force to automotive travel. We have consumed much of the Nation's oil supplies, fouled our air with poisonous exhausts, and turned our cities into highways and parking lots. Now, we are running out of gas. And there are no public alternatives. No high-speed trains. No rapid rail transit. No decent, fume-free buses. Nothing but 100 million gas-guzzling cars. As a result, we are confronted with a petroleum shortage which is paralyzing travel, shutting down industries and throwing hundreds of thousands of people out of work.

I contend that the time has come to dismantle the auto trust. More specifically, I propose that reorganizing General Motors, Ford, and Chrysler into smaller, more competitive companies would provide this country with a wider range of transportation alternatives, including energy-efficient cars, modern buses and fast trains.

I recommend reorganization for three principal reasons: First, due to their enormous size and concentration, the Big Three automakers are out of touch with reality. They are incapable of building cars the public wants. Secondly, General Motors is in effect a sovereign economic state whose interlocking control of auto, truck, bus and locomotive production is a major factor in the decline of this Nation's rail and bus systems. And, third, reorganizing the Big Three into a number of competing ground vehicle firms is an essential step toward achieving a balanced system of transportation.

The first reason for dismantling the auto trust, therefore, is that it is incapable of responding to society's needs: It is out of touch with reality. Due to their enormous size and the absence of competitive forces, the Big Three are naturally inclined to build oversized, high-profit cars which are energy-inefficient, unreliable, costly, unsafe and destructive to the environment. Now they are caught in an increasingly awkward situation. To protect huge sunk investments in plant and equipment, they are forced to promote the sale of big cars at a time when petroleum shortages largely have eliminated the demand for them.

The origins of this dilemma are basically two: economic concentration and vertical integration.

The Big Three have concentrated nearly all domestic auto production in their own hands. General Motors alone accounts for more than 50 per cent of industry sales. This high degree of concentration has insulated the Big Three from competitive forces. It has permitted them to eliminate energy-conserving electric and steam car producers as well as to delay the introduction of smaller automobiles. In short, it has enabled them to resist changes which threatened their fundamental interest: selling big, high-profit cars powered by conventional piston engines.

In addition, the Big Three have locked themselves in to big car production through extensive vertical integration. They are integrated upstream into major parts production and downstream into distribution and repair. They produce their own bodies and most of their stampings. They cast their own engine blocks and cylinder heads, manufacture their own automatic transmissions and assemble their own cars. They maintain separate nationwide networks of franchised dealers and repair facilities. In short, they have invested billions of dollars in plants geared to the production and distribution of one special type of vehicle: large, gasoline-powered automobiles. They are reluctant, therefore, to adapt to technological changes or realities such as the energy shortage which would compel them to scrap these facilities.

In sum, concentration insulates the Big Three from change and vertical integration locks them in to the production of vehicles from a superseded technological age. As a result, the consumer is ill-served. As ex-GM vice president John DeLorean said recently: "There is no forward response at General Motors to what the public wants today. It's gotten to be a total insulation from the realities of the world. From the standpoint of America it's frightening.

The public ultimately bears the costs of monopoly. The auto trust results, for instance, in higher prices. According to a recent estimate by the Federal Trade Commission, 9 million purchasers of domestic 1972 automobiles paid \$2.1 billion, or more than \$230 per car in overcharges to the Big Three automakers.

It also retards innovation. This industry's technology has remained basically unchanged since 1940: automatic transmissions, power brakes, air conditioning and other major innovations were all developed prior to that time. In addition, recent advances such as gas-conserving engines, collapsible steering columns, crash-absorption bumpers and safety belts have all originated abroad.

More importantly, monopoly prolongs the sale of outmoded products. Due to their vast economic power, the Big Three have been able to persuade the public to buy obsolete cars. They have maximized monopoly profits by selling Americans millions of 5,000 pound, 6 miles-per-gallon motorized dinosaurs, despite a worldwide trend towards smaller, energy-efficient autos. Not until energy shortages reached crisis proportions, have they reluctantly begun a gradual shift to smaller cars. Their resistance is not illogical. As Henry Ford II has said "mini cars mean mini profits." But their persistent resistance to change has grave implications for auto workers, dealers, shareholders, consumers and the economy in general. Their slow-motion reaction to the energy crisis, for example, has resulted in massive unemployment, growing inventories of unsold vehicles, plunging stocks, unfilled demand for small cars and signs of an auto-induced recession. This, then would appear to be reason enough to reorganize these corporations: they are so big that their failures to respond to change can bring down the entire economy.

II. The auto trust should be dismantled for a second reason. General Motors is in effect a sovereign economic state whose interlocking control of auto, truck, bus and locomotive production has contributed to the decline of America's rail and bus systems.

GM is the world's largest industrial enterprise and one of the world's most powerful private governments. Its annual sales of \$35 billion dwarf the revenues of every government in the world except the United States and the Soviet Union. Its 800,000-man worldwide work force is larger than the standing armies of most nations. It is, in effect, a sovereign economic state unaccountable to the citizens of any country yet possessing tremendous influence over the course of national as well as international developments.

GM is a major force in international affairs. During World War II, for instance, it maximized global profits by supplying both the Axis and Allied powers with armaments. Its auto plants in Germany built thousands of bomber and jet propulsion systems for the Luftwaffe at the same time that its American plants produced aircraft engines for the U.S. Army Air Corps. Currently, it is negotiating with the Soviet Union for the construction of the world's largest truck facility.

GM is also a major force shaping America's national transportation policy. It dominates the production not only of autos and trucks, but also of buses and rail locomotives. Last year, for example, it manufactured most of the nation's city buses and more than 90 per cent of all bus engines. In addition, it produced more than 80 per cent of all rail locomotives.

General Motor's interlocking control of these competing methods of travel, however, amounts to a serious conflict of interest. The economics are obvious: one bus can eliminate 35 automobiles; one streetcar, subway or rail transit vehicle can supplant 50 passenger cars; one train can displace 1,000 cars or a fleet of 150 cargo-laden trucks. Due to the volume of units displaced, GM's gross revenues are 10 times greater if it sells cars rather than buses, and 25 to 35 times greater if it sells cars and trucks rather than train locomotives. The result was inevitable: a drive by GM to maximize profits by wrecking America's rail and bus systems.

American Ground Transport describes that process in considerable detail. It examines, for instance, GM's role in the destruction and "motorization" of more than 100 electric rail and electric bus systems in 45 cities including New York, Philadelphia, Baltimore, St. Louis, Oakland, Salt Lake City, Lincoln, Nebraska and Los Angeles. More generally, it evaluates the impact of this undertaking on the quality of life in America's cities.

For illustration, the study focuses on Los Angeles. Thirty-five years ago this was a beautiful city of lush palm trees, fragrant orange groves and ocean-enriched air. It was served by the world's largest electric railway network. In the late 1930's General Motors and allied highway interests acquired the local transit companies, scrapped the pollution-free electric trains, tore down the power transmission lines, ripped up the tracks, and placed GM motor buses on already congested L.A. streets. The noisy, foul-smelling buses turned earlier patrons of the high-speed rail system away from public transit and, in effect, sold millions of private automobiles. Today, this city is an ecological wasteland: the palm trees are dying of petrochemical smog; the orange groves have been paved over by 300 miles of freeways; the air is fouled by 4 million cars, half of them built by General Motors, which emit 13,000 tons of pollutants daily.

Tomorrow, a shortage of motor vehicle fuel and an absence of adequate public transport could disrupt the entire auto-dependent region.

GM's destruction of electric transit systems across the country left millions of urban residents without an attractive alternative to automotive travel. Pollution-free rail networks, with their private rights-of-way, were vastly superior in terms of speed and comfort to smoke-belching, rattle-bang GM buses which bogged down with cars and trucks in traffic. Likewise, electric buses were faster, quieter, cheaper and more durable than gas or diesel units. No one knew this better than General Motors. To prevent the cities it motorized from rebuilding rail systems or buying electric buses, GM and its highway allies prohibited them by contract from purchasing "any new equipment using any fuel or means of propulsion other than gas." Ultimately, the diesel buses drove away patrons and bankrupt bus operating companies. By the mid-1970's, hundreds of communities throughout the Nation lacked any form of public transportation.

General Motors was also involved in the decline of America's railroads. Beginning in the mid-1930's, it used its leverage as the Nation's largest shipper of freight to influence railroads into scrapping their equipment, including pollution-free electric locomotives, in favor of more expensive, less durable, and less efficient GM diesel units. The switch to diesels prevented the railroads from competing effectively with the cars and trucks GM was fundamentally interested in selling.

The dieselization of the New Haven Railroad is illustrative. During 50 years of electrified operation, this road never failed to show an operating profit. Then, in 1956, GM persuaded it to tear down the electric lines and scrap an entire fleet of powerful, high-speed electric locomotives. By 1959, three years after dieselization, the New Haven lost \$9.2 million. In 1961, it was declared bankrupt; by 1968, when it was acquired by the Penn Central, it had accumulated a deficit of nearly \$300 million. After a review of these facts, the Interstate Commerce Commission, in an unprecedented move, found that General Motors had contributed to the New Haven's financial ruin.

The most disturbing aspect of GM's dieselization program is that it eliminated a technological alternative, electric trains, which would have helped the railroads compete with highway transport. Today, when virtually every other advanced nation has electrified its trains, America and what is left of America's railroads are locked-in to GM diesel locomotives.

The motorization of Los Angeles and dieselization of the New Haven were not the work of malevolent or rapacious GM executives. Rather, these and other social disorders were the inevitable consequences of monopoly.

Let me cite one more example. In 1932 GM Chairman Alfred P. Sloan, Jr. put together a coalition of highway interests whose concentrated power overwhelmed rail interests and whose legislative proposals bound this country to finance roads instead of rails for nearly half a century. In short,

GM translated dominant economic power into dominant political power. The inevitable consequence for society was a transport system composed of too many cars and too few trains. While Europe and Japan have constructed hundreds of modern urban rail systems and high-speed 125 mph electric intercity railways, we have managed since the 1930's to build one new rail system in San Francisco and to electrify one stretch of railroad from Washington to New York City.

The social costs of the automakers' control of American ground transport are staggering. We are moving 90 per cent of our people and 80 per cent of our freight by cars and cargo trucks. Yet, in terms of energy consumption, pollution, safety and urban dislocations, motor vehicles are probably the most inefficient means of travel ever devised by industrial man. We will, of course, always need motor vehicles; their flexibility and convenience make them ideal for certain tasks. But we cannot afford to use them for everything.

Consider, for example, the energy crisis. Cars are the single most important cause of our petroleum shortage. We are pouring more than 40 per cent of our oil supplies into autos and trucks. If, instead, we used energy-efficient trains and mass transit for half our transport needs, we would save an estimated billion barrels of oil each year, which is more than enough to heat our homes in winter and provide our industries with all the fuel they require.

Consider our air pollution problems. Cars and trucks burn more than 40 billion gallons of petroleum each year within the densely populated 2 per cent of the United States classified as urban. The combustion of this enormous quantity of fuel has created a crisis in urban health by dumping more than 60 million tons of poisonous substances annually into the air. In Los Angeles alone, more than 500 persons a year die of ailments attributed to motor vehicle-generated smog. If electric rail transit were substituted for cars, urban air pollution would be reduced substantially. The same reasoning applies to safety and urban problems: a shift to mass transit would save lives and serve cities better.

What America needs today is not what General Motors, Ford and Chrysler are inclined to provide. We need smaller cars with efficient low-pollution engines. We need high-speed rail systems to move people and goods downtown and between cities. We need attractive, fume-free buses to supplement rail transit and to provide small towns with a practical alternative to automobiles.

The Big Three automakers' economic interests lie elsewhere. They want to sell big, expensive cars and triple-trailer highway trucks power by 800 horsepower diesel engines. They want to increase their \$40 billion annual motor vehicle sales by suppressing bus and rail alternatives. In short, they want to continue their monopoly control of American ground transportation. As long as they get what they want, America will not get what it needs.

III. My third and final argument, therefore, is that reorganizing the Big Three automakers into a balanced group of competing auto, truck, bus and rail firms is an essential step toward achieving a balanced system of transportation.

The hundreds of plants controlled by the Big Three automakers could provide us with such a system. They could build smaller, safer, cheaper cars. They could shift some of their production from automobiles to buses and trains. But until they are released from Big Three ownership, they will be held back from making these essential commitments.

I propose reorganizing these plants into independent companies. In this regard, I am indebted to the Big Three automakers' own engineers and economists, who have determined that the most efficient method of producing ground vehicles is by assigning different tasks to more than 300 plants in 32 States. My proposal assumes the wisdom of this arrangement. It would leave unaltered the number, size and physical location of these many facilities. It would recommend a change only in their ownership.

Each group of plants now separate in fact, would become separate in law as well. They would be cut loose from the chains which have bound them to a superseded technological age of big cars and inadequate public transportation. Some would become independent producers of innovative propulsion systems, bodies, and mechanical components. Others would become assemblers of autos, trucks, buses and rail vehicles. All would be projected into a more balanced environment where competition and freedom from conflicts of interest would encourage them to produce the smaller cars, cleaner trucks, attractive buses and electric trains America needs.

Management, shareholders, employees as well as consumers would benefit from this reorganization. For the first time, managers would be able to excel without restraint. They would no longer be controlled by giant corporate bureaucracies which ex-GM vice president DeLorean describes as "totally inconsistent with any thoughtful and creative originality." Rather, they would be free to decide what vehicles to make, which innovations to pursue. They could choose, for example, to build small electric cars, or steam cars, or fuel-cell cars; or they could decide to build modern buses or high-speed trains. In short, they would command the destiny of their own companies.

Shareholders may benefit. The plunging values of today's auto stocks reflect the decline of what was once a growth industry. Monopoly has blinded the Big Three to the realities of the marketplace. It has led them to promote big cars for which there is little demand and to suppress the production of small cars, buses and rail systems for which there is considerable demand. Reorganization would reverse that process. It would give shareholders an interest in a diversified range of aggressive ground vehicle companies. It would enable them to participate in a growth industry again.

Employees would also benefit. The Big Three have failed to respond to a changing market. As a result, auto production is off by 25 per cent and 100,000 auto workers are unemployed, more than at any time since the Depression of the 1930's. Reorganization would change the employment picture. It would create new, dynamic firms to meet the demand for efficient cars and high-speed transit. It would put these employees back to work.

Consumers would benefit the most. Reorganization of the Big Three in the manner proposed would generate a wider range of transportation alternatives. The experience of other advanced nations, such as West Germany, France and Japan, supports this view. The combined population of these three nations approximates that of the United States. The structure of their ground vehicle industries, however, is strikingly different. It is more evenly balanced among a number of competing motor vehicle and mass transit manufacturers. In these lands, there are 20 producers of cars, 19 producers of trucks, 26 producers of buses, 23 producers of rail vehicles, and 33 producers of locomotives. Moreover, no one firm dominates these alternative methods of travel as does General Motors in this country.

What does this difference in industry structure mean for consumers: The Japanese ride between their cities on vibration-free 150 mph bullet-trains. The French have access to comfortable turbo-trains designed for speeds approaching in excess of 125 mph. The Germans and Japanese commute to work on nearly 100 modern rapid rail systems. And the citizens of all three nations can choose from a wide variety of modern, attractive buses and small, economical automobiles. By contrast, Americans are stuck with slow, rattle-bank GM trains that never arrive on time, buses that nauseate their passengers, and cars that run of gas waiting in line to be refueled.

Mr. Chairman, what I have proposed, of course, is only part of the solution. The long-term process of making America a first-rate nation in ground transport will require a major effort on the part of government and industry as well as the public. But I say let us begin that task. The automakers' war against public transport has gone on too long. It has depleted our resources; it has fouled our air; it has scarred our cities with thousands of miles of concrete pavement. I say let us bring this insane conflict to an end. Congress has the power to reorganize the Big Three automakers in a manner which would serve society's need for efficient cars and adequate mass transit. It can pass legislation which would be in the best interest not only of consumers, but also of the management, shareholders and employees of these faltering giants. It can, in sum, achieve what is good for the country as well as good for General Motors, Ford and Chrysler.