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UNSOLICITED PROPOSAL FOR PRIVATE OPERATION
OF THE U.S. AIR TRAFFIC CONTROL SYSTEM

Consistent with the Reagan administration's efforts to reduce the size of the U.S. government, encourage private enterprise, stimulate economic development, increase employment, and deregulate industry, Sunlight Corporation proposes to create a new corporation, to be called Traffic Control Corporation, to take over operation of the U.S. air traffic control system.

This action will reduce the size of the federal bureaucracy, cut costs, increase operating flexibility, stimulate the growth of new airlines, set the stage for national economic recovery by restoring its vital air transportation network, permit restoration of cancelled flights and consequent rehiring of laid-off airline and airport personnel, end federal rationing of air travel rights (slots), forestall the financial collapse of several major airlines, restore freedom of entry to permit competition in accordance with the goal of deregulation, and provide the financing and decision-making freedoms required for the most cost-effective modernization of the air traffic control system and for cost-allocation arrangements that will permit an increase in both capacity and efficiency.

Transition period. Preliminary work has been completed to permit the new corporation to be formed and to hire and assign trained, experienced air traffic controllers to FAA facilities within 24 hours after an agreement is reached.

To permit immediate action to restore capacity to the air traffic control system during the peak period of airline travel and to permit detailing of plans for the transition from government to private operation, Traffic Control Corporation controllers will be asked to work under FAA management and supervision during a transition period to last 90 days or such period as shall be mutually agreed upon.

During the transition period, Traffic Control Corporation will work with the FAA and other interested parties to assure that the private operation maintains the excellent safety record established by the FAA while increasing the capacity and efficiency of the system.

To accomplish this goal, Traffic Control Corporation will hire a staff of the nation's top executives, establish clearly defined operating goals and priorities, formulate personnel policies and organizational arrangements, establish a method for paying for services through user fees and/or other revenue sources, and develop such procedures and structures as are necessary for an efficient organization.

Unsolicited proposal --- page two

At the conclusion of the transition period, Traffic Control Corporation will offer positions to as many civil servant controllers as the FAA wishes, and will provide incentives to these FAA employees to encourage their conversion to private employment and to assure their interests are fully protected.

Continuing operation. Following the transition, Traffic Control Corporation will assume responsibility for operational management of the air traffic control system. The FAA will retain civil service employees to provide direction, set policies and priorities, and assure that contract obligations for safety, efficiency, and capacity are met.

Contract period. To permit the corporation to make productive capital investments in improvements to insure greater capacity and efficiency in the air traffic control system -- a contract period of 10 years is proposed, with options for renewals.

Cost. The price to be charged the FAA for operation of the air traffic control system will be set at exactly 10 percent below the fully allocated cost of the FAA-managed air traffic control system as determined through cost comparison techniques established by the Office of Management and Budget. Traffic Control Corporation will agree to a firm, fixed price -- subject to adjustments only for inflation, improvements in efficiency or service, and/or increases in capacity.

Advisory board. Traffic Control Corporation's policies regarding fees and operations will be formed through consultations with an advisory board composed of chief executives of organizations (e.g., FAA, airlines, aerospace manufacturers, and others) affected by the operation of the air traffic control system.

Communications. Sunlight Corporation will provide the services of leading public affairs and communications personnel to support the FAA and other elements of the administration and Congress in communicating the purpose and nature of this agreement to all audiences.

Negotiation. Sunlight Corporation agrees to negotiate regarding any and all elements of this unsolicited proposal to assure that the interests of the government are fully protected in this conversion from public to private operation.

National policy. This step is in accordance with long-established government policy, endorsed by the General Accounting Office of the U.S. Congress and by the Office of Management and Budget, to rely on competitive private enterprise to supply the products and services the government needs.

This step will make a contribution to the achievement of a large number of important national goals. Among the benefits which may be achieved by an effective conversion to private operation of the air traffic control system are these: (1) immediately strengthen American defense preparedness; (2) increase American exports; (3) improve the national economy to facilitate business expansion; (4) increase U.S. business profitability; (5) reduce business bankruptcies; (6) reduce prices to consumers; (7) increase services to consumers; (8) improve productivity; (9) reduce government spending by 10 percent; (10) increase government revenues by 5 percent; (11) increase social security revenues; (12) reduce government pension expenditures and liabilities; (13) provide jobs in private industry for civil servants; (14) reduce the size of the federal bureaucracy; and (15) provide a stimulus to economic growth.

Proprietary. The data contained in this proposal shall not be used or disclosed except for evaluation purposes. Provided: that if a contract is awarded to Traffic Control Corporation as a result of or in connection with the submission of this proposal, the government shall have the right to use or disclose the contract. This restriction does not limit the government's right to use or disclose technical data obtained from another source without restriction.

Duration. This proposal shall remain in effect until withdrawn by written notice of the Sunlight Corporation.

Proposal approved by

F. Dennis Williams

F. Dennis Williams
President

June 8, 1982

NATIONAL GOALS

No single action can alleviate the many problems faced by our national economy, but this action can solve a problem that has perplexed the nation for nearly two decades. It will also give a significant boost to the effort to shift from government bureaucracy to private enterprise for the provision of products and services mandated by the government.

The action we propose will provide direct and measurable benefits in a number of areas vital to the nation's welfare. We believe the particular combination of circumstances that now exists will make it possible for the Reagan administration to implement a solution that combines a remarkable number of valuable benefits — not the least of which is a reduction in the cost of government without a reduction in its services. Our plan would

- (1) immediately strengthen American defense preparedness
- (2) increase American exports
- (3) improve the national economy to facilitate business expansion
- (4) increase U.S. business profitability
- (5) reduce business bankruptcies
- (6) reduce prices to consumers
- (7) increase services to consumers
- (8) improve productivity
- (9) reduce government spending by 10 percent
- (10) increase government revenues by 5 percent
- (11) increase social security revenues
- (12) reduce government pension expenditures and liabilities
- (13) provide jobs in private industry for civil servants
- (14) reduce the size of the federal bureaucracy and
- (15) provide a stimulus to economic growth.

This plan can begin taking effect within hours of the time the administration authorizes us to proceed. Some of its effects will be realized within days, others will be felt during the first three months. We believe all will have lasting impact.

The national economic problem is a puzzle much like the popular Rubik's cube. As we move one piece into the desired place, all the others are shifted away from their goals. We believe privatization, is the single solution which addresses the largest possible number of national goals in the most effective way.

Such actions, made with the cooperation and assistance of all elements in our society, may do much to restore the nation's economic well-being during the coming decade.

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NATIONAL GOALS (DETAILS)

Strengthen American defense preparedness: by restoring military controllers to their defense duties, the nation's air forces will be restored to full operational readiness; the full complement of military training flights and other air operations can be restored promptly; and the re-establishment of full capacity to the civilian sector will position the nation for mobilization.

Increase American exports: Traffic Control Corporation will be the world's largest supplier of traffic control services and will be in an excellent position to offer similar arrangements to privatize the air traffic systems of other nations. Through its unique integration of personnel and equipment -- with the guidance of the U.S. FAA and the Department of Commerce -- the corporation will be able to provide international marketing leadership for the U.S. aerospace and electronics industry. This will offset the advantage of Japan's Ministry of International Trade and Industry, which coordinates government and industry to increase exports.

Improve the national economy to facilitate business expansion: the re-establishment of full capacity to the air traffic system will provide the transportation network necessary to permit economic recovery and growth. Publicity associated with this dramatic action to cut government costs, reduce the federal deficit and improve service will help increase confidence in the economy and the administration. The restoration of airline operating efficiency and profitability combined with a return to the necessary conditions for de-regulation, will also stimulate economic recovery in a highly visible industry.

Increase U.S. business profitability: The return to an efficient air transportation system will give businesses greater flexibility in moving people between major cities during peak travel periods (those which minimize the disruptions to the business day). This improved service will lend invisible aid to the efficiency and consequent profitability of most U.S. firms.

Reduce business bankruptcies: Signs that the Reagan administration will use privatization to cut deficits, and a general increase in confidence in the administration will contribute to a lowering of interest rates. When combined with restoration of economic growth, this will reduce business failures. Among the most visible beneficiaries: such airlines as Pan American, New York Air, Continental and World Airways -- all suffering financial difficulties.

Increase services to consumers: Restoration of capacity will permit the entry of new airlines into the marketplace, and will allow existing carriers to modify services to meet the needs of the traveling public.

Improve productivity: By providing an up-front savings of 10 percent, the unit cost per air traffic control operation will be automatically reduced. By establishing a new organization with incentives for productivity, flexibility in arrangements for generating revenue, and stimulus for making capital investments, overall productivity of the system can be increased markedly in coming years.

Reduce government spending by 10 percent: By assuring a 10 percent cost reduction, and a firm price for the next decade, a clear route for ending the escalating costs of government is established. Such action will stimulate similar steps throughout government.

Increase government revenues by 5 percent: Based on an estimated taxable profit of approximately 10 percent, derived entirely from productivity improvements, unless the corporation makes capital investments or pursues other public purposes, roughly half of the profit will be returned in the form of corporate income taxes.

Increase social security revenues: All corporation employees will be subject to social security taxes, amounting to approximately 13 percent of total salaries paid. Although this is a small sum, if extrapolated to larger numbers of government employees who may be shifted to private employment in coming months, this will in some measure alleviate pressure on the social security system.

Reduce government pension expenditures and liabilities: Since no new employees will be hired by the government, additional liabilities will not be incurred. Many of the employees who move from civil service to private industry will choose to withdraw from the pension system to convert their funds to the corporation's private retirement plan.

Provide jobs in private industry for civil servants: Unlike other steps to reduce the federal budget, privatization will not require the firing of civil servants. This action will also help the public understand that the problems associated with bureaucracy are due to poor systems design rather than the quality of the individual employees.

Reduce the size of the federal bureaucracy: As a first step toward increasing the freedom and mobility necessary to a free market economy, privatization of the air traffic control system will reduce the size of the civil service and restore some measure of the division of duties between the government and the private sector.

Provide a stimulus to economic growth: By setting an example for the nation of the profit and public value of entrepreneurial action in unwinding the huge federal bureaucracy, the Reagan administration will energize the private sector and encourage the individual actions of millions of Americans.

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BACKGROUND:

TRAFFIC CONTROL CORPORATION PROPOSAL
TO THE FEDERAL AVIATION ADMINISTRATION

July 28, 1982

TABLE OF CONTENTS

PROBLEM 1
FAA CONTINGENCY PLAN 2
ECONOMY 4
AIRLINES 8
GOVERNMENT POLICY 10
TAXES AND REVENUES 12
DEFENSE 13
MANAGEMENT 14
LABOR 16

PROBLEM

Since August 1981, the air transportation system of the United States has been operating substantially below its full capacity as the result of an illegal strike and subsequent firings of 11,500 controllers. A review of FAA training and employment practices prior to that date indicated that from five to seven years might be required to restore the air traffic control system to full capacity.

The FAA reported that service would be restored in 21 months. In succeeding months, the FAA has extended this timeline. Statements from FAA personnel and from Congressional experts note that at least two more years of reduced operation should be anticipated. Even beyond this date, techniques intended to restrict aircraft movement (flow control) may be continued as a means of dealing with a shortage of capacity at hub airports.

An FAA task force hired to study the problem reported in March that morale improved briefly after the strike, but that this had degenerated rapidly and that once again FAA management and working controllers were at odds. Poor working conditions might lead to further system disruptions, the task force warned. Although a strike appears unlikely, such work stoppages as work-to-rule slowdowns and sick-outs may occur unless major changes are made in the management of the air traffic control system. Reports from some industry sources indicate such slowdowns may already be beginning at a number of locations, of which the Indianapolis en route center is the most frequently mentioned.

The dismissed controllers have had new leadership for the past several months, and this leadership has worked quietly to gain understanding and support in the media, Congress, and with other labor organizations. Such actions do not appear likely to have immediate results, but will assist the labor movement in making full and effective use of the sentiments of workers against the Reagan administration and business interests in general. According to a March survey, public sentiment now is two-to-one in favor of rehiring the dismissed controllers -- a drastic shift from the days immediately after the strike. The public still agrees that the firings were correct, but this position is eroding slowly.

FAA CONTINGENCY PLAN

Following a breakdown in labor relations culminating in the strike and subsequent firing of 11,500 air traffic controllers, the FAA implemented a contingency plan that pressed agency supervisory personnel into jobs as working controllers.

More than 60 control towers serving smaller cities were closed and some 800 military air controllers were detailed to provide support to more highly skilled civilian controllers.

To further reduce the workload on supervisory and military personnel, the FAA required airlines to modify schedules to reduce the number of flights in the morning and late afternoon — the times when most travelers prefer to fly. It also kept aircraft waiting on the ground through a system called flow control, an alternative to stacking aircraft in holding patterns around an airport. These actions were intended to reduce the peak period traffic and spread out the workload at busy airports.

This program had the unintended effect of offering airlines unwanted capacity (the freedom to fly planes at inconvenient times or along less traveled routes) as a substitute for needed capacity (peak hour flights between major airports). The nation's largest cities (which lost peak travel capacity) and small cities (which had towers closed) suffered most from these FAA actions.

The capacity restrictions hit hardest at business travelers moving between major urban areas because fewer flights were available at the times preferred by business passengers (mid-morning and late afternoon). Since highly skilled controllers are required to handle the high volume of traffic at major urban airports, the shortage of qualified personnel was more destructive to capacity at 22 major urban hubs than at the more than 400 other controlled airports. These restrictions at hub airports, however, have a cascading effect — disrupting and delaying service throughout the entire national system, which is highly interdependent. Flights out of secondary airports are often delayed on the ground as a result of limited capacity at major airports.

The FAA aggravated the shortage of traffic control capacity by establishing a slot allocation method that required airlines to fly the routes whether or not current passenger traffic was sufficient to make the flight profitable. Airlines that chose to ground their aircraft and abandon slots would not be able to resume flying these routes if traffic later improved.

This FAA approach to rationing kept airlines from reducing costs by temporarily withdrawing from unprofitable markets — a vital component of deregulation. To protect airline slots worth millions in a system where capacity was constrained, airlines were forced to accept additional operating losses during the recession.

Because the total number of flights were reduced -- the normal procedure during recession periods -- many analysts believed the strike would prove beneficial to the airlines. In fact, because the most profitable flights were curtailed and unprofitable alternatives offered as a substitute, the cost to the airlines — as projected by the Commerce Department was between \$150 and \$200 million per month. Reductions in overall operations and stringent cost-cutting measures since the strike combined with the failure of some competitors, has helped reduce these losses slightly in recent months.

NATIONAL ECONOMY

The U.S. air transportation system is a vital link in the national economy. Scholarly work on the role of transportation in economic development is readily available. Most evidence indicates that -- after communications and finance -- transportation is the most critical element in the economic infrastructure of a nation.

Air transport is the key to U.S. economic health and expansion because our economy requires rapid movement of people to coordinate the actions of diversified national and multi-national organizations. Vast distances make other forms of transportation unsuitable as substitutes. The movement of raw materials and manufactured goods, which depend on rail, truck, and water transport, has declined in relative importance during the twentieth century.

Historical background. The central role of transport in history is well established. The greatest economic powers have been those with strong transportation systems. From the galleys of ancient Phoenicia to the Spanish Armada to the fleets that built the British Empire -- ocean transportation gave these nations ready access to worldwide markets, greatly increasing their economic strength by allowing their businesses to buy from the least expensive suppliers and sell to the highest paying buyers.

As ocean-travel opened the route to world trade, so the railroad was the key to the rapid industrialization of most modern nations. W. W. Rostow, in The Stages of Economic Growth notes "The introduction of the railroad has been historically the most powerful single initiator of [economic] take-offs. It was decisive in the United States, France, Germany, Canada, and Russia; it has played an extremely important role in the Swedish, Japanese and other cases."

Rostow explains "The railroad has had three major kinds of impact on economic growth during the take-off period. First it has lowered internal transport costs, brought new areas and products into commercial markets and, in general, performed the Smithian function of widening the market. Second, it has been a prerequisite in many cases to the development of a major new and rapidly expanding export sector which, in turn, has served to generate capital for internal development, as, for example, the American railroads before 1914. Third, and perhaps most important for the take-off itself, the development of railways has led on to the development of modern coal, iron and engineering industries."

Economic infrastructure. Rostow shows how one can determine which industries are most likely to affect economic growth or decline. "The relative desirability of the growth of various economic activities may be analyzed in part through the consideration of the linkages between any activity and all the others." In the modern world, finance and communications are linked to virtually all industries -- having even greater impact than steel did in the late 19th century U.S. For this reason, reductions in the money supply, high interest rates, and breakdowns in communications can lead to serious economic disruptions.

After communications and finance, transportation is the most critical link in the national economy. In the U.S. economy, characterized by vast distances and an orientation to services rather than manufacturing, air transport is absolutely essential to economic health. The growth of air transport provides the infrastructure for overall economic growth; the decline of air transportation produces inefficiencies in all of the organizations which require rapid travel to operate effectively.

As part of the economic infrastructure -- those critical systems that are essential to economic growth and productivity -- air transportation must be accorded a very high priority in economic planning. Deterioration of such services can have serious consequences.

The vital role of the transportation system in economic growth is well established. Discussing the railroads in the U.S., Lloyd Reynolds basic textbook Economics says "The impact of cheap mass transportation on the economy can scarcely be overstated. . . . The rail network provided an indispensable framework for rapid economic growth." The air network plays a similar role in the 1980s, and national productivity is harmed both by the drastic reductions in capacity that resulted from last summer's strike and by the FAA's long-standing inability to reduce congestion and expand capacity between major cities.

Although deterioration of the infrastructure generally proceeds over a period of many years -- usually as the byproduct of national policies that reduce capital investment or prevent actions to increase economic efficiency -- the air traffic control impasse brought such pressures to bear much more quickly, aggravating air transportation capacity restraints that have been increasing for many years.

Impairments to the transportation system reduce the overall productivity and efficiency of the economy. A reduction of 25 percent in air transport capacity has an effect roughly comparable to the elimination of 25 percent of the U.S. telephone system. It is virtually impossible to measure the economic effect of such a decline in a vital part of the nation's economic infrastructure.

The current recession. Although high interest rates and a significant modification of the U.S. tax system may have been instrumental in setting off the recession that began last August (the date given in the 1982 economic report of the President), the air traffic shutdown had a marked an noticeable effect on a highly visible industry that is vital to the operation of the national economy.

In addition to the direct impact on transportation, the failure to successfully negotiate an end to the labor-management conflict may have been seen as a sign of the Reagan administration's inability to manage vital aspects of the national economy.

Ironically, while the general public admired and supported the President for his strength in firing the air traffic controllers, the action had subtle messages that were less favorable to the administration. The severity of the punishment, which the President latter sought to ameliorate through offering jobs at other government agencies, may have unintentionally contributed to the public's doubts about the President's concern for American workers and his ability to carry through on campaign promises. The breakdown in communications between PATCO and the administration portended a similar breakdown in communications between the administration and other elements of the society at a time when most Americans are striving for closer cooperation.

These deteriorations in communications (sometimes called "loss of confidence") and transportation came at a time when the third element of the national infrastructure — finance — was also undergoing drastic change. Tax law changes, reduction in the growth of the money supply, large government deficits, and high interest rates provided the third element of the serious recession now underway.

In many countries, the nationalization of transportation and other vital industries has led to their deterioration — and consequently to economic stagnation. The effort toward the deregulation of U.S. industries is one of the steps required to revitalize the national economy. Of equal importance are moves that shift government operations to the private sector. Privatization of the air traffic control system would allow concerns for capacity and efficiency to be more fully addressed.

Substantial capacity reductions and the techniques used to manage this shortage appear to produce only occasional small delays and minor disruptions in business and personal travel. Such inefficiencies, multiplied by the millions of air travellers affected, are buried in organizational overheads and individual inconveniences. Most of this cost will never be ferreted out, since it is lost sales, lost business opportunities, mistakes, wasted hours, production delays — all invisibly linked to an air transportation system that is operating substantially less effectively than is required to serve the nation's needs.

The most far-reaching economic effects are, thus, the least visible. Air transportation has grown rapidly in response to the nation's need for high-speed travel to assure the productive and efficient functioning of a complex, interwoven society. A dismantling of this service, even though it is only partial, reduces national productivity.

Although the current economic decline was stimulated by destruction of part of the infrastructure and the restoration of that infrastructure will be vital to a strong economic recovery, the most visible indication of the problem may be seen by looking at the airlines themselves. Here the penalty has not been merely a mild decline — it has been severe and unexpected losses. Because of the high visibility of this \$40 billion industry, the psychological impact may be nearly as important as the impact on productivity.

AIRLINE AND RELATED LOSSES

The reductions in air traffic control have had direct and indirect economic effects that reach into the billions of dollars.

Airline losses were from \$150 to \$200 million per month higher after the August 1981 strike than before, according to the U.S. Department of Commerce — more than \$2 billion to date. Closely connected to this are reduced demand for aircraft and consequent lost revenues to aircraft manufacturers and suppliers of aviation equipment and components. Reduced revenues to the travel and tourism industry (hotels, restaurants, car rental agencies, resorts, etc.) are a further result.

Airlines. Restrictions forced airlines to ground approximately one-fourth of the U.S. fleet, and to fly the remaining aircraft at times not convenient to many passengers. Despite such economy moves as wholesale layoffs of pilots and other personnel and cuts in expenditures for fuel and other operating costs, the high fixed costs for aircraft already purchased, for interest on debt, and for other fixed overheads pushed the highly leveraged airlines to their worst year in history. The first quarter of 1982 was the worst quarter on record — with combined losses exceeding \$500 million.

Braniff, weakened by its overextension after deregulation in 1978, collapsed in May. Several major carriers — including Continental, New York Air, Pan Am, Republic, Western, and World — now face serious financial difficulties. A number of carriers may join Braniff in the coming year, resulting in the loss of tens of thousands of jobs.

A number of new airlines have been blocked from entry to the market, preventing the creation of new jobs and the expansion of service to consumers. Other small airlines disappeared quietly, some before they were able to begin planned new routes.

In the absence of a healthy system, banks will be hesitant to extend further credit, and travel agents may impair cash flow to weaker carriers by booking through sources that delay payment — a means of protecting passengers that contributed to the Braniff collapse..

The lack of capacity and uncertainty regarding slot allocations have brought an end to deregulation, reduced service, and severely damaged the nation's vital aerospace industry.

Aircraft manufacturers. American Airlines cancelled \$600 million in orders for the new BOEing 757 scheduled to begin delivery this year, the first indication of a collapse in the market for new aircraft; prices of used aircraft have dropped significantly as large airlines sought to unload excess planes.

The FAA capacity restraints have led to restrictions on the use of business aircraft — restrictions that have contributed to a 50 percent drop in sales over the past year. Jet aircraft used by business, but exempted by FAA from the slot reservation system because of their smaller numbers, have seen a far smaller drop in sales -- down less than 30 percent from last year. Restrictions on flights by private aircraft (general aviation) have also reduced the usefulness and therefore the market for smaller planes.

The degree to which United and other major airlines will delay purchases is not yet clear. The government has taken actions to purchase some used aircraft for the military as means to help reduce the economic impact on manufacturers. The deteriorated market forced Lockheed to cease production of its L-1011, one of three U.S. produced wide-bodied jets; McDonnell Douglas planned to end production of the DC-10 (the only remaining U.S. competitor to the Boeing 747) until the government acted to maintain its production by ordering military versions of the aircraft. The Senate has taken steps to require the Air Force to purchase Boeing 747s as a substitute for Lockheed cargo carriers designed for the military.

Reduced demand for aircraft has also affected those who subcontract to supply component parts used in manufacturing airplanes — affecting suppliers across the nation.

Travel and tourism: Air transport is vital to the many large and small businesses that serve travellers. In the months following the reduction in air traffic capacity the hotel industry reported a 2.5 percent drop in occupancy rates, and increased rates more than 10 percent to prevent losses.

The large hotel chains reported that business travel, which is normally resistant to recession, faded during the early months of this recession — a result of capacity restrictions that had the most severe effect on business travelers.

Areas that depend heavily on air travel were particularly hard hit. Las Vegas — which had not experienced a recession since the 1930s — saw the Silverbird and Royal Inn close their doors and others like the Golden Nugget and Showboat record sharp income declines. Some resort areas have relied on the same approach as the airlines — cutting prices to attract business — but with consequent reductions in income for all competitors.

GOVERNMENT POLICY

For nearly 30 years, it has been the policy of the Federal Government to rely on contractors for goods and services while using Federal employees to do work that requires governmental authority. Despite this long-standing policy, a report to Congress by the Comptroller General in June 1981 said "Federal agencies . . . are using Government employees to provide commercial services that contractors could provide in many cases at lower cost." It went on to say that despite the long-standing orders to the contrary, "agency compliance with this policy has been inconsistent and relatively ineffective."

Economic benefits: During fiscal year 1980, a total of \$200 billion was spent by the federal government for goods and services -- with \$82 billion of this amount going to pay federal workers.

Although much of this money is spent on work which only federal employees are trusted to conduct, the General Accounting Office study reported an OMB finding that "as many as 400,000 federal employees are currently operating more than 11,000 commercial or industrial activities at almost \$19 billion annually. These employees represent almost one-fourth of the total executive branch civilian work force."

Studies by the Department of Defense indicate that some 60 percent of in-house work could be converted to contract at savings of 10 percent or more in personnel costs and an average overall saving of 20 percent.

Even based on a rather limited definition of the types of products and services available from private industry, the OMB estimates that \$3.6 billion could be saved in fiscal years 1982-87 by shifting work from the civil service to business.

Conversion of entire programs -- a much more dramatic shift -- could save 10 percent of all expenditures by civilian agencies, perhaps as much as \$50 billion annually. If assumptions about the profitability of businesses benefitting by such a shift are correct, additional tax revenues of \$25 billion or more are possible. The combined benefit to the government -- \$75 billion -- would eradicate much of the current federal deficit.

Furthermore, conversion of the assets of government agencies through sales to private corporations would significantly reduce the national debt and thus alleviate interest costs -- a significant contributor to deficits. Businesses that acquired assets now held by the government might be expected to put them to better use -- given the profit motive -- further contributing to the overall productivity of the national economy.

Better government: An important added benefit of using outside contractors to perform those jobs which do not require federal employees is that this step would free agencies to assign personnel to the vital role in leading, regulating, and guiding the nation toward its overall goals. Under present circumstances, when agencies assign federal employees to tasks that might be contracted out, overall personnel ceilings prevent the agency from dedicating sufficient staff to higher-level functions.

Those areas which government employees are believed required to perform include (1) making value judgments required to establish the policy, direction, and priorities of federal programs; (2) collecting taxes and controlling other monetary transactions; (3) administering regulations and laws; and (4) analyzing and evaluating work done by contractors to the government.

Executive action: This policy was set in temporary bulletins issued as early as 1955 and became permanent with the 1966 issuance by the Office of Management and Budget (Bureau of the Budget) of Circular A-76 -- Executive Order of the President. Revisions and supplements have reaffirmed the general policy of reliance on the private sector for goods and services, stressing that cost comparison should be made to determine whether work should be done in-house or in the private sector, and detailing the cost comparison method to be used.

On April 8, 1981, the OMB issued Bulletin 81-15 requiring agencies to provide OMB with the number of federal employees performing commercial or industrial activities. On January 26, 1982, OMB further revised Circular A-76 to, among other things, deny severance pay to civil service employees who are hired within 90 days by an outside contractor. The denial of severance pay normally available to government workers who are laid off and take jobs in private industry will inhibit less skilled civil servants from taking jobs which they may not be able to perform well. Such employees will accept retirement or severance pay and seek careers in new fields. This action may, however, lead to 90-day interruptions in careers as employees seek to take severance pay prior to converting to private industry -- an undesirable incentive.

Legislative action: In 1978, GAO recommended that "Congress, through legislation or otherwise, endorse a national policy of reliance on the private sector" because "until Federal departments and agencies perceive that the policy is a firm national resolve, they will not carry it out effectively." In their 1981 report, they reiterated "We believe the Congress should act on our earlier recommendation to legislate a national policy of reliance on the private sector for goods and services."

In a letter to GAO, OMB Deputy Director Edwin L. Harper said "OMB would not oppose a Joint Resolution incorporating the basic policy in OMB Circular No. A-76 provided it clearly states 'It is the general policy of the Government to rely on competitive private enterprise to supply the products and services it needs.' This Resolution would provide a clear basis for the Executive Branch requirement that agencies comply with the policies of OMB Circular No. A-76, while leaving the execution and administration of the policy to the Executive Branch.

Legislation previously passed may inhibit the free movement of experienced civil servants into comparable jobs with contractors in private industry. If cutbacks of as many as 400,000 positions are to occur, every effort must be made to permit the easy transition of trained and competent people from government to the private sector. Although it is not essential, it may be desirable to pass legislation to permit former civil servants to deal immediately with the agencies that employed them. Senator William Proxmire was instrumental in the original legislation -- intended to prevent improper relations between contractors and government agencies.

Congress may also wish to state in a resolution endorsing privatization that contractor hiring resulting from privatization shall be on a merit basis, with full attention to the experience of civil service employees, who should be given first consideration in staffing.

Cost comparison: To permit cost comparisons between civil service and contractor, the products and services provided by government employees should be broken out and costs (including all overheads) should be assigned to each product or service.

Two methods exist for making such comparisons. For a programs as large as that encompassing the air traffic control system, the use of line items from the agency budget and a calculation of overheads based on the overall budget of the agency provides the best and simplest route.

To provide a more detailed breakdown or to assist in interpreting the division of costs where segments of a program are to be taken over, the Office of Management and Budget and the Office of Inspector General at each agency seem the best source of useful information. This office operates independently from other agency elements to assist management by conducting and supervising audits and investigations designed to promote economy, efficiency, and effectiveness, and to prevent fraud, waste, and abuse.

GOVERNMENT REVENUES AND EXPENDITURES

In a time of record federal budget deficits, the traffic control restriction has had a measurable impact on federal tax revenues and expenditures. Reduced air traffic volume leads to a substantial decline in federal corporate and personal income taxes and cuts in a variety of other sales, use, and excise taxes. The \$40 billion dollar industry generates total direct and indirect tax revenues of approximately \$8 billion for the federal government. Since the bulk of this tax is not directly dependent on profitability, one might estimate that a 25 percent capacity reduction would result in a loss of \$2 billion in federal tax revenues. Serious losses are experienced by state and local governments as well.

Reduced tax revenues also result from the loss of sales by aircraft manufacturers and their suppliers.

On the other side of the ledger, governments at all levels bear the cost, directly or indirectly, for much of the unemployment compensation paid to tens of thousands of pilots, attendants, ground personnel, and controllers laid off as a result of reduced operations and airline bankruptcies. Federal, state, and local governments may also bear costs for other welfare and subsidy payments.

Among other hidden costs: government legal and administrative costs associated with the strike, overtime pay for controllers who remain at work, and multi-million dollar liability suits by World Airways and Air Florida as the result of crashes in Boston and Washington for which controllers are alleged to be responsible.

Other losses to the economy, translated as lost jobs and lost tax revenues, are virtually impossible to measure.

DEFENSE

Although most details are classified, the transfer of large numbers of military air traffic controllers to the civil sector has had inevitable effects on military operations. Shifting part of the burden from the civilian to the military sector reduced the economic effects and shifted the impact to an area not visible to the public, but over the long-term it has serious consequences for military preparedness.

The reduction in the total number of controllers has three significant negative effects: (1) reduced military flight time leads to deficiency in pilot training and readiness; (2) the shortage of civilian controllers would severely inhibit the nation's ability to mobilize in the event of conflict; and (3) military controllers detailed to the civilian sector will require reorientation and retraining after they return to military duties.

Of these, the vital importance of reduced capacity in the civil sector is perhaps the least noticeable. With conflicts breaking out around the world and continuing wars in the Mideast, the ability to move men and material quickly is vital to the nation's security. The serious limitations on capacity in our current system would be a tremendous handicap in the event we should have to mobilize our military and civilian forces in the event of an attack. Given the current instability in key areas of the world, this risk cannot be taken lightly.

A measure of the importance of the civilian air transport sector is the prompt action by Franklin Delano Roosevelt to place all commercial aviation under the direction of the Secretary of War within days of Pearl Harbor. Under current circumstances, at least two months would be required to rehire fired controllers and restore capacity.

FAA MANAGEMENT OF AIR TRAFFIC CONTROL PERSONNEL

History: Serious problems with the management of U.S. air traffic control personnel go back to the early 1960s.

The Air Traffic Controller Committee Report prepared under the Nixon administration Secretary of Transportation John Volpe in January 1970, detailed the situation and its causes. Princeton Professor John J. Corson, who had formerly headed the U.S. Employment Service and had served as President of the American Society for Public Administration, chaired an eight-member committee to investigate labor relations problems at the FAA. Among its other members were investment banker Arthur D. Lewis, the former president of Eastern Air Lines; Dr. Robben Flemming, president of the University of Michigan and an experienced industrial arbitrator; James M. Mitchell, who had been Commissioner of the U.S. Civil Service and an associate director of the National Science Foundation; and Stanley H. Ruttenberg, a former U.S. assistant secretary of labor.

"The FAA is confronted with a highly disaffected work force" due to such factors as poor working conditions and inadequate training at all levels (at entry, to maintain proficiency, for supervisory positions, and for reassignment or new employment after the usual 20-year career span). The committee confirmed the fairness of these complaints: "The physical environment in most of the older terminals and flight service stations leaves much to be desired; control equipment is inadequate both in terms of quality and quantity", and management policies affecting working conditions "are in need of examination and reappraisal." The committee further noted "The Air Traffic Service has been inadequately staffed for at least three years. . . ." -- a condition which contributed to such job actions as work-to-rule slowdowns and a sick-out in 1969 that led to the formation of the committee.

Current Status: In September 1981, following a strike by the Professional Air Traffic Controllers Organization (PATCO), Reagan administration Secretary of Transportation Drew Lewis and FAA Administrator Lynn Helms formed a task force to report on those factors that had created problems between employees and management at the FAA and to recommend actions that would strengthen future working relationships within the FAA, particularly in the air traffic control system.

The task force had just three members -- chairman Lawrence M. Jones, president of the Coleman Company; Dr. Stephen H. Fuller, vice-president for personnel administration and development of General Motors; and Dr. David G. Bowers, research scientist at the University of Michigan.

The task force delivered its \$600,000 study to the administration on March 17, 1982. In its summary, it said "In past years, the FAA has concentrated on the technical aspects of managing the federal airways system and promoting the growth of civil aviation. Airways activity since 1960 has increased rapidly and in a manner multiplying the relative variability of peak-level compared to low-level traffic volumes. This increasing pressure; plus factors such as an aggressive union of Air Traffic controllers, a lack of attention and resources for management development, and inflexible personnel management policies; caused escalating tensions between employees (particularly air traffic controllers) and a rigid and insensitive system of people management with the FAA." The task force noted that PATCO had taken over the "concern for people" role that should have been the obligation of management and gained its strength from this.

After noting the difficulties that had been seen over the two decades preceding the 1981 strike, and observing that "the cost to managers, employees, and the public has been high", the task force noted "The situation might well have been different. Air Traffic controllers enjoy their work as much or more than any other group; they like each other; they and their managers work in relatively small groups; all managers begin as controllers, creating a common ground and creating upward mobility opportunity; non-supervisory employees in the FAA receive good pay and benefits; employees find it exciting to be part of the aviation community; and they are intensely proud of their skills and aware of their responsibilities. There is a feeling of being special, elite, as part of the Air Traffic Control System. Many other organizations would envy these attributes in attempting to construct teams instead of adversarial groups."

The task force noted that managers in the system were used to giving orders to aircraft and treated employees in much the same way. The group that organized PATCO "tested their leaders constantly but were obedient when it counted." In earlier years, "They wanted more controllers and better equipment and they were impatient with the inability of the system to get these things done. Managers, wanting the same things from Congress, not so subtly encouraged the tactic and the concessions were won."

The task force listed more than a dozen steps that it deemed "essential" to improve management and employee relationships within air traffic and throughout the entire organization. Among these steps are (1) concern for the development of human resources; (2) the use of a system that assures careful selection and proper training of managers who will be able to build teamwork; (3) delegation and decentralization of authority; (4) better communications; (5) flexibility in staffing; (6) more objective employee performance appraisal and reward systems; and (7) pay policies that more accurately reflect the level and quality of work performed.

LABOR

Full and effective operation of the U.S. air traffic control system will require the hiring of between 8,000 and 10,000 experienced controllers. Virtually all the trained and available work force will have to come from the 11,000 dismissed from the civil service as the result of an illegal strike. These individuals were among the most talented -- including the majority of the controllers who handled peak hour traffic in the nation's largest airports. To reach such positions normally requires many years of training and work experience.

A restoration of productivity in the air transportation -- as in other fields -- will require the enthusiastic and conscientious support of well-trained, highly qualified skilled labor.

In its report to the Reagan administration in March, the task force convened by Transportation Secretary Drew Lewis and FAA Administrator Lynn Helms said that despite the high morale and remarkable work done during the period after the PATCO strike, ". . . as months passed, the crisis became a tiring routine; traffic was tending to push toward greater volume and variability; and Air Traffic managers were often reverting to the heavy-handed supervision that had been repressed by the union." "Many employees in the Air Traffic System were nearing the time they could retire and expressed an intention of doing so." "Those who had hoped for a new day were becoming dispirited, seeing little basic change, anticipating another union among new controllers, and fearing the consequence of future changes in Administrators, Secretaries, and Presidents. Plans for a major restructuring of facilities and technology were announced by the FAA which were impressive and exciting in technical terms but involving complicated adjustments in human terms."

"As Secretary Lewis and Administrator Helms had suspected, the FAA needed urgently to initiate actions to strengthen management and employee relationships . . . within the Air Traffic Control System."

To solve the personnel management problems within the FAA would require significant changes in the rules and policies governing the civil service as a whole. Poor communications, low morale, too many layers of management, lack of delegation, excessive centralization -- these are the basic characteristics of the entire government structure.

To modify such arrangements, if it were possible, would not necessarily solve basic staffing and structural difficulties. Even should the Congress and the administration act to change the system drastically, the time required to piece together such action and the political complexity of such steps might delay this action for years.

Even with changes to the overall system, the FAA would be left with (1) an untrained managerial staff, including many who are poorly suited to this role; (2) a cumbersome bureaucratic structure; and (3) a set of administration-imposed restrictions that prevent the hiring of trained and experienced controllers.

In the event that substantial changes do not take place with respect to the air traffic control system, the nation can expect continuation of well established trends: (1) increased rate of early retirement (doubled from 1978 to 1980); (2) increased rate of transfers to other organizations (doubled from 1976 to 1980); (3) increased rate of operational errors throughout the system (up 50 percent in past decade); and (4) decreased number of operations handled by each controller (down 50 percent since 1948).

The task force report has established that the system is already on another collision course. Moreover, with an influx of new and untrained controllers, the stresses on the system may return it to the state which led to work slowdowns and sick-outs more than a decade ago: serious understaffing, excessive overtime, lack of vacation, equipment failures, poor management, and the like.

FAA Administrator Helms has admitted in private conversations that occasional and uncoordinated slowdowns have been observed from time to time in recent months; similar reports have come from industry.

The seriousness of the problem within air traffic control should not be underestimated. To quote the FAA task force study "the entire lower levels of the work force, in Air Traffic especially, are . . . a self-protection cluster, where subordinates are interpersonally banding together for their mutual protection from a harsh system. . . . Under extremely harsh conditions, one will find a counter-dependent cohesiveness which contributes little or nothing to the organization."

Such conditions are rare among U.S. workers -- accounting for only four percent of all workers according to the task force, and usually seen in blue-collar, non-supervisory settings. The task force concludes: "Not only is the strike by air traffic controllers consistent with what might have been expected, but also the prevalence of this same [type] in the profiles of other levels -- Technicians, Air Traffic Team Supervisors, and perhaps even Facility Chiefs and Sector Managers -- suggests that trouble and disruption in other forms and from other sources might occur."

For this reason, we are proposing a well-established procedure for instituting organizational change: creating a new organization to assume the responsibilities for providing air traffic control services, and providing it with the necessary revenue to perform these duties. The new corporation will absorb the FAA personnel and facilities into a structure far more efficient than the federal bureaucracy.

BACKGROUND:

TRAFFIC CONTROL CORPORATION PROPOSAL
TO THE FEDERAL AVIATION ADMINISTRATION

July 28, 1982

Traffic Control Corporation will establish policies and procedures in direct response to the recommendations of the Reagan administration task force. It shall be the corporation's intention to employ a collaborative management style, in which working-level controllers play an active role in the decision making, and in which the long-range needs and goals of the employees are a paramount consideration.

Unions and Employee Associations. The management of Traffic Control Corporation will cooperate fully with any and all elected representatives of employees of the corporation. In the structuring of employee compensation and benefits, persons chosen by working controllers to represent their interests will be consulted and their views fully reflected in the proposed packages.

We should note, however, that it is the corporation's goal to provide working conditions and communications systems that will make a new union a superfluous expense. It should be observed that most controllers belonged to a professional organization that did not pursue disruptive policies in past years, and that the corporation will encourage such professional association.

Hiring. Traffic Control Corporation agrees to hire air traffic controllers and supervisory personnel on the basis of merit alone, giving first consideration to those persons currently employed in the operation of the system. Merit selection will be made on a non-discriminatory basis, taking into account previous training and experience. Former air traffic controllers dismissed as a result of an illegal job action will be given an opportunity for re-employment in accordance with President Reagan's assurance that these workers should be considered for positions with other government agencies and in the private sector.

Civil Service. FAA will continue to provide policy guidance and direction to the corporation which acts as operator of the system; will test and evaluate new technology as it is developed by the contractor; will inspect and review the operation of the air traffic control system; and will take such other oversight actions as are deemed necessary to assure the continuation of the highest possible level of safety and quality control.

APPENDIX

TRAFFIC CONTROL CORPORATION PROPOSAL
TO THE FEDERAL AVIATION ADMINISTRATION

TABLE OF CONTENTS (QUESTIONS)

SUNLIGHT	1
STRIKES	2
POLITICAL	4
SUPPORT	7
LEGISLATION	9
PRIVATIZE	10
QUASI-GOVERNMENT CORPORATIONS	11
STUDIES	12
COMPETITION	13
COSTS	15
EFFICIENCY	17
FINANCING	18
INSURANCE	21

SUNLIGHT CORPORATION

Q. What is Sunlight Corporation? What management expertise has it in this area?

ANS: Sunlight Corporation is a small communications and financial services firm based in Washington. It specializes in systems analysis, planning, and management of communications and in financial planning and analysis. It has conducted a variety of projects for such clients as NASA, the Office of Technology Assessment of the U.S. Congress, the National Alliance of Business, the National Association of Private Industry Councils, Fairchild Industries, and others.

This project was undertaken initially in an attempt to prevent serious consequences to the national economy, the national defense, and the aerospace industry. The unsolicited proposal resulted from a thorough analysis of the alternatives available for the restoration of air transport capacity. The restoration of this industry is a vital pre-condition for the nation's economic recovery and continued growth.

Sunlight Corporation will assist the new firm with communications and human relations, but it will be managed by a group of outstanding executives from the aviation and aerospace industry, supported by an expert team of former FAA senior managers.

STRIKES

Q. How can a private corporation prevent a strike that would jeopardize the national interest?

ANS: Nothing can prevent free men from striking. Oaths of office and such steps have already proven ineffective in preventing job actions. The experience of August 1981 will, however, convince FAA controllers that other actions -- work-to-rule slowdowns and sick-outs -- are more likely to achieve results than strikes. Such job actions are extremely undesirable, but it appears from nearly fifteen years of FAA history that this agency, under the best leadership, cannot prevent such actions.

Traffic Control Corporation will have several advantages over the FAA.

First, it will establish open communications and effective management from the beginning. Close ties between the controllers and their management will do much to prevent a hostile environment from developing. The corporation will have a fresh start toward harmony -- something that would be impossible within the FAA. To assure that this start is not lost, Traffic Control Corporation will hire only well qualified and well-trained managers. The firm will also avoid the complicated and cumbersome management structure that characterizes the federal bureaucracy. A relatively small, decentralized management structure will be established -- suited to the nature of the air traffic control operation.

Second, as productivity improvements lead to corporate profits, half of the profits will be provided to employees via an employee stock ownership trust. If employees participate in any slowdown or other job action, they will harm the profits of the corporation and will thereby lose the opportunity to gain ownership of the firm.

Third, an employee stock ownership trust will be established to permit employees to gain ownership in the corporation over a period of years. Any action taken against the corporation will, in the end, be an action taken against the employees themselves. Employee-owned corporations are generally impervious to unionization and resistant to job disruptions.

Fourth, as automation progresses, Traffic Control Corporation employees will see their total compensation rise each time the number of employees declines. This will provide an incentive to avoid featherbedding practices. Even those employees who leave their jobs as controllers will benefit as a result of their stock ownership in the corporation. Only by departing from the corporation can employees cash in their stock in the retirement plan.

Fifth, the proposed contract with the government calls for a fixed price for services over the 10-year period of the agreement. A strike will not increase the amount of money called for in the contract. Increases in individual compensation will depend entirely on increases in productivity. By preventing workers from taking advantage of consumers via a monopoly firm, this arrangement will eliminate a major cause of strikes.

Sixth, at the conclusion of the 10-year contract period, the performance of the corporation will determine whether its contract is renewed. This will provide a strong incentive to work for the overall good of the system and to meet government and client's standards for effective action.

Seventh, in the event of a strike, the government could cancel the contract with Traffic Control Corporation for non-performance. Airlines and others could sue for losses resulting from the corporation's failure. This step could bankrupt the corporation and wipe out the employee trust fund for retirement. In such an event, the FAA could turn to another corporation to hire the controllers, possibly cutting salaries and reducing employment as part of the rehiring.

Eighth, the corporation will provide for instant and binding arbitration of all grievances. Such a step will prevent minor problems from becoming far more serious. This is a procedure now used in some coal mine disputes.

Ninth, all employees will be informed prior to hiring that they may be dismissed without recourse for taking any action which imperils the safety of the air transportation system, reduces its efficiency or capacity, or does not promote the effective use of aviation. Specific performance standards will be set, and individuals will be promptly dismissed for failure to adhere to these standards.

For these reasons, it appears likely that the Traffic Control Corporation will be better able to prevent job actions than the FAA has been.

POLITICAL

Q. Is the attempt to rehire the controllers an effort by the Reagan administration to win favor with organized labor?

ANS: Although we believe this step shows the President's concern for the interests of all workers and is evidence that last year's firings do not represent a policy of deliberate action to undermine labor unions, the purpose of this action is not primarily the short-term political gain.

It is, however, consistent with the President's long-standing commitment to reduce government interference with the private sector and to begin the de-bureaucratization of the nation.

The contract with Traffic Control Corporation also fulfills the President's campaign commitment to work toward the solution of the long-standing problems in the management of the air traffic control system. This step is taken despite the illegal strike undertaken by air traffic controllers in violation of their oath of office.

The President has previously made clear that, while he would not permit the controllers to return to their previous positions with the FAA, he would give them every opportunity to take positions with other federal agencies and would not block their employment in private industry.

An FAA study conducted after the strike indicated that the strike was the culmination of many years of escalating tension between labor and management -- the blame for which must be laid at the feet of those who have held management positions -- from the FAA Administrator and the Secretary of Transportation to the U.S. Congress and the President. Their actions and inactions permitted an extremely poor working environment to continue for nearly two decades. Many of these conditions are due to policies that affect all government workers.

This action is considered the most rapid means for eliminating problems that have affected labor relations at FAA for nearly two decades.

The arrangement will end legal efforts to reinstitute the Professional Air Traffic Control Organization as the official bargaining agent for controllers. Employees of the new corporation will have the same freedom to join a union as do employees of other private businesses.

Q. Don't most Americans oppose the rehiring of the dismissed controllers?

ANS: No. A 38-city survey conducted in March by Dallas-based Action Market Research found that a declining majority (52 percent) of Americans still support the President's decision to fire the striking controllers, but that two-thirds (66 percent) of the 7,765 surveyed said they believed that the strikers should be rehired.

This shift in sentiment has occurred despite the lack of favorable coverage for the strikers. Traditional American concern for the underdog may be expected to push these figures further toward support for the dismissed controllers, particularly as they have shifted to a quiet and diplomatic approach from their former confrontational strategy. Under these circumstances, administration support may be expected to continue eroding as time goes by.

Q. Won't a decision to rehire the dismissed controllers hurt the President politically?

ANS: To prevent substantial losses in the November elections, the President must take direct and aggressive action to stimulate the economy.

Conservative columnist James J. Kilpatrick said recently that the Republicans could lose 50 seats in the House and might lose control of the Senate unless the economy turns around by September. Republican political advisors are telling candidates that they should not count on an economic upturn to assist them this fall, and should try instead to blame the Democrats for current economic conditions.

This strategy appears unlikely to succeed, as is evidenced by recent surveys showing that a majority of Americans (60 percent) blame the President for the current recession, and that Ted Kennedy would defeat Reagan if the election were to be held now (according to a recent Harris poll).

The decision to shift a major government operation -- one which has been plagued by problems for more than two decades -- to private industry will be seen as a bold move to use the power of the executive office to bring about a renaissance of the national economy. Such an action could be used to prove the President's point that native American ingenuity and entrepreneurial skill will prove to be the solution to the nation's ills -- and that we should not look to the bureaucracy for our solutions.

This bold action will be strongly endorsed by conservative and libertarian elements in the society, and will gain popular support by showing how the size of government may actually be reduced. Many actions to dismantle government agencies are viewed with skepticism by Americans, who believe such actions are cosmetic attempts that simply rearrange the bureaucracy without eliminating significant operations.

The step will also win support from middle-class workers who will see the rehiring as evidence of the President's willingness to temper justice with mercy and as proof that his actions will lead to a stronger and healthier national economy through a shifting of resources and responsibilities to the private sector.

The immediate effort to rehire from 8,000 to 10,000 people and the subsequent actions by airlines to rehire pilots and crews to fly planes into hub airports, where capacity restraints will be lifted, will provide an indication that unemployment recovery may be expected and give voters a reason to believe that the administration will succeed in developing mechanisms for re-employing America.

Traffic Control Corporation will immediately have offices in more than 400 locations, will acquire up to 25 locations in resort areas for training and communications facilities, and will undertake a vigorous effort to promote air travel and improve community relations. Such steps, seen across the U.S., will help stimulate press attention to other small businesses that are growing as a result of Reagan economic steps.

SUPPORT AND OPPOSITION

Q. What Congressional opposition do you anticipate?

ANS: Our initial discussions with Congressional staff indicate that support will be found from key members of committees involved with aviation, finance, budgeting, and government operations. Congress recognizes the severe economic difficulties faced by the nation and the serious problems posed by the air traffic control impasse. Should the administration select this approach as the best possible solution to a very difficult problem, we expect members of Congress from both sides of the aisle to be extremely cooperative in its implementation.

Q. What do members of the four Congressional committees involved with air safety think of the idea? Have the chairmen and members been consulted?

ANS: All key committee staff have been informed of the nature of the proposal, and their views will be fully reflected in the final agreement. The 90-day transition period is designed to permit the resolution of any differences among the interested parties.

Q. Are FAA Administrator J. Lynn Helms and Drew Lewis favorably disposed to the plan?

ANS: The unsolicited proposal to the FAA was presented to Administrator Helms on June 8. Helms observed that he philosophically supported the idea of privatization and had reviewed such an approach during the months following the strike. He noted that other executives had suggested this course to him, but that he had been unable to find a means for implementing the approach. He noted that the danger of strikes, the potential for cost escalation, and the resistance of working controllers to rehiring were the most serious problems to be overcome. We noted our methods for meeting the first two problems and promised to investigate the third.

In a subsequent letter, we indicated our views on the third area and offered to provide additional information regarding the solution. We also urged Administrator Helms to bring this matter to Secretary Lewis through the proper chain of command.

Mr. Helms did not respond to this letter.

Given the considerable importance of this matter, the approval of the President and the endorsement of Secretary Lewis will be required, in addition to the formal agreement of the FAA Administrator.

Q. What do the airline pilots and passenger associations think of this idea?

ANS: The airline pilots are interested in increasing the pilot's participation in the control system, a method that is compatible with the corporation's goal of minimizing centralized control and reducing the danger of single-point failures. Increased capacity would mean additional jobs for pilots. The Air Line Pilots Association is, however, following the lead of the airline industry -- which is primarily to provide quiet support to virtually all actions of the Reagan administration.

Organizations representing airline passengers are expected to endorse this approach as a means of improving service, reducing delays, and preventing cost increases due to re-regulation of the market.

Q. Has the concept been endorsed by the FAA, OPM, or OMB?

ANS: The concurrence of all three agencies would follow upon the approval of the president.

Q. Do airport owners and operators have to rehire strikers and let them back in the towers?

ANS: Air traffic control is the responsibility of the FAA. Except in rare instances airport owners and operators do not employ controllers nor oversee the operation of the system. Nevertheless, airport owners and operators will be closely consulted during the 90-day transition period since the new arrangement will be intended to improve the efficiency of their operations and to increase their operating flexibility.

Q. How do private aircraft owners and operators feel about the plan? Have all users been consulted?

ANS: General aviation will be given greater freedom to operate as a result of the return of capacity to the system. During the transition period, the interests of private pilots will be given special attention, to assure that private aircraft are not forced to pay for and use a system that is designed to serve commercial and military users.

Traffic Control Corporation will also work to promote greater use of private aircraft, an FAA responsibility that has been often neglected. The corporation, which will depend on increases in volume and reduction in costs as its only method of gaining profits, has a strong financial incentive to promote general, commercial, and military aviation.

LEGISLATION

Q. What legislation would be required to permit turning the air traffic control system over to a private corporation?

ANS: No legislation is required, since the use of contractors or civil servants to perform the work of a federal agency is a decision left solely in the hands of the executive branch. Congressional action to confirm executive policy for such transitions would be very desirable, however, and a Congressional resolution may be sought during the 90-day transition period to formally endorse privatization as a means of reducing the cost of government.

Congress could, of course, pass legislation to prevent contracting for air traffic control services. Discussions with key Democrats make such legislation appear extremely unlikely.

Q. Doesn't the law require that FAA operate the air traffic control system?

ANS: Yes, but FAA is not required to operate this system with civil service employees. It may choose to run the system with government workers, employees hired under individual contracts, or it may turn to one or more a private companies to supply the service. All three methods are used commonly by most government agencies, and are particularly common in such vital national areas as space and defense.

By contracting with Traffic Control Corporation to perform the work necessary to assure a safe, efficient, and productive air transportation system, FAA would be better able to meet its legal responsibilities. Over nearly two decades, the FAA has had a commendable safety record, but has been plagued by serious management problems. A study completed by the Reagan administration in March of this year indicated that the labor-management difficulties experienced by the agency should be expected to continue. Since then there have been unconfirmed reports from the airline industry that a slowdown may now be in effect at some en route traffic control centers. The FAA has also proven a poor performer in the important area of promotion of aviation, and in the maintenance of capacity and efficiency.

PRIVATIZATION

Q. Who conceived of the "privatization" concept?

ANS: The term "privatization" may have been coined as a contrast to "nationalization" -- in which government takes over a private firm and runs it like a government agency. Privatization would reverse this trend toward ever-expanding government bureaucracy, which most observers believe leads to inefficiency and economic decline.

The official policy of relying on the private sector -- business -- to produce the goods and services required by government goes back to the Eisenhower administration and has been endorsed by every succeeding administration.

The General Accounting Office, which watches over government spending for the Congress, recommended in 1978 and 1981 that the long-standing policy be formally endorsed by Congress. The GAO recommendation is a result of the finding that government agencies have consistently chosen to expand civil service staff rather than allowing private firms to do the work -- despite numerous studies showing that many jobs could be done far more efficiently by business.

Senator S.I. Hayakawa (R-CA) introduced a joint resolution recommending this policy after the 1981 report by the General Accounting Office. Extensive hearings were held at that time. Subsequently, Senator Lloyd Bentsen (D-TX) introduced his own measure stressing that small businesses should be given the opportunity to take over this work. At the present time, Senate bill 2278 "The Economy in Government Act of 1982," introduced by Senator John East (R-NC) and Senator Hayakawa, is pending before the Committee on Government Affairs. Hearings were held May 19, but no further progress is expected on this legislation unless some dramatic action provides sufficient impetus. Formal adoption of this legislation, or a resolution expressing the sense of the Congress, could be sought during the transition period to encourage other such actions.

One of the nation's leading experts on management, Peter Drucker, suggested the term "reprivatization" in a chapter called "The Sickness of Government" in his 1968 book The Age of Discontinuity. Drucker said "The next major development in politics, and the one needed to make this middle-aged failure -- our tired, overextended, flabby, and impotent government -- effective again, might therefore be reprivatization of the "doing," the performance of society's tasks."

Drucker argued that many institutions could take over the job of doing the work needed to reach the goals set by government, but that business would be particularly important because "it is predominantly an organ of innovation; of all social institutions, it is the only one created for the express purpose of making and managing change. All other institutions were originally created to prevent or at least slow down, change. They become innovators only by necessity and most reluctantly."

Q. Do any other countries have privately managed traffic control systems?

ANS: Yes. Switzerland -- the world's oldest democracy (formed in 1291) -- has a system operated by a private corporation. Several developing countries have also turned to private firms for aid in handling air traffic control. An English firm, International Aeradio Ltd., reportedly has contracts in Malaysia and Abu Dhabi and has recently been recruiting dismissed air traffic controllers to work in other countries.

Q. Does the "privatization" concept apply to other areas of the government?

ANS: Yes. OMB has said that private operation could help cut government costs by several billion dollars and could result in as many as 400,000 civil service personnel either moving to the private sector or being reassigned from current jobs in which they provide services or products to responsibilities for setting policy and assuring its implementation.

Q. What will be the reaction of federal employee unions and associations and other organized labor to the concept of private operation?

ANS: Although one might expect unions and employee groups to fear any action that would disrupt the status quo, there are a number of reasons why they are expected to endorse this solution. First, although the new corporation will have no union and management expects to provide working conditions that reduce the likelihood of a union forming, all employees will be eligible to join a union if they so desire. If such a union is certified to bargain for the employees, it will be entitled to the rights and protections given to all unions in the private sector, including the right to arbitration of grievances.

Public service unions are at a severe disadvantage in negotiations with the government, since they do not have the right to binding arbitration -- the best alternative to strikes. Working conditions are often extremely poor in the public sector, as FAA studies of their own employees have shown.

The improved working conditions, and the right to gain ownership of the company are significant benefits to the workers. As a further protection against breakdowns in relations between management and working controllers that might otherwise lead to strikes or slowdowns, employees will be entitled to instant compulsory and binding arbitration of grievances.

During the transition period, employee associations and union leaders will be consulted to assure that this move will provide better working conditions for transferring employees and that the rights and interests of remaining federal workers will not be jeopardized.

Q. What voice will civil servants have in the conversion?

ANS: During the transition period, civil servants at FAA and throughout the government -- and organizations representing public service workers throughout the nation -- will be consulted regarding the arrangements for converting from government to private operation.

QUASI-GOVERNMENT CORPORATIONS

Q. Won't this end up being just like the Postal Service?

In several instances the government has created organizations with some characteristics of private corporations to conduct government programs. The closest to a private corporation is Comsat, created by the Kennedy administration to give the U.S. a strong presence in the market for satellite communications services. This profitable and effective private firm was created by the government and stock was sold to users and the general public.

Perhaps the least effective government-created corporation is the U.S. Postal Service, a monopoly created as the result of a labor impasse. This action strengthened the position of established unions, increased the cost of operation by increasing salaries across the board, and promised continuing subsidies and a permanent monopoly over a vital portion of the American economy. The lack of employee ownership has severely impaired incentives for cost reductions, and the power of the unions has led to tremendous increases in postage costs over the past decade.

Amtrak and Conrail, both of which have required huge subsidies, despite the best efforts of skilled and conscientious managers, fall somewhere between Comsat and the Postal Service.

Traffic Control Corporation is not a government-created corporation. It is a private corporation created as an entrepreneurial effort with the support and assistance of industry. It will not be a permanent monopoly, but may be replaced by a new firm after the 10-year period. It has built-in incentives to achieve its obligations -- increasing the safety, efficiency, and capacity of the air transportation system and promoting its use.

Unlike government-created institutions, Traffic Control Corporation will provide a model for individuals and organizations who feel they can solve major national problems more effectively than the existing bureaucracy -- and without harm to experienced and competent federal workers.

STUDIES

Q. If the theory sounds appealing philosophically, shouldn't the President appoint a task force of experts to evaluate it practically instead of acting hastily and possibly imprudently?

ANS: Lengthy and expensive studies have already been completed of FAA management, modernization, and cost allocation for the air traffic control system. Detailed studies of the concept of private control have also been completed over the past several years.

One study, completed by a member of the staff of the Senate Committee on Commerce, Science, and Transportation when he was with the Department of Transportation, compared the cost of FAA-operated control towers with comparable facilities run by private firms. The study showed that the private towers cost just half as much to operate as those run by the government bureaucracy.

The Government has a long history of studying problems for months or years, proposing solutions, and then failing to implement these solutions. The bureaucracy buries most solutions -- sometimes because of a lack of incentives for undertaking change, sometimes as a result of simple inertia, sometimes as a means of self-protection.

This proposal comes as a direct result of a thorough analysis of more than a dozen studies of the air traffic control system, the FAA, and government cost reduction. To assure that no point is overlooked in the transition to private operation, an additional 90 days will permit further review of the actual implementation. This will also permit initial steps to incorporate the recommendations of past studies.

COMPETITION

Q. Why shouldn't the FAA allow other firms to make proposals to do this work? Wouldn't this produce fair competition and a lower price at the end of a period of bidding?

ANS: Sunlight Corporation made an unsolicited proposal to the Federal Aviation Administration to provide air traffic control services. To reward organizations for assisting the government in solving the complex problems facing it, federal agencies must accept such unsolicited proposals without turning the idea over to other firms and permitting them to bid to do the same work.

To quote government contracting expert Herman Holtz, author of The \$100 Billion Market, ". . . an unsolicited proposal is one offered by an individual or organization at his, or her, own initiative often based on proprietary ideas; that is, ideas and concepts developed by the proposer at the proposer's expense... the government does not have the right to make the proposer's idea known to others and to solicit proposals from others. The government either accepts the proposal, with or without negotiation, or rejects it."

Even if government rules permitted such an abuse of the efforts made by a private firm, the tremendous loss to the American economy resulting from the lengthy delays required for implementing cumbersome competitive bidding procedures would far exceed any savings that might be achieved by permitting other firms to attempt to compete.

Sunlight Corporation spent nearly 10 months and more than \$250,000 to develop the proposed solution to this problem prior to offering it to the U.S. Government. During this period Sunlight Corporation: (1) conducted extensive research into the nature of the problem; (2) outlined the key elements of a solution that would provide significant short and long-term benefits to the nation and to the interested parties; (3) produced an approach that takes into account the complex requirements of the many users of the system; (4) provided a method for assuring the legitimate interests of all interested parties are protected in both the early steps and over the long run; (5) obtained the assistance and advice of key aerospace executives; and (6) identified specific individuals to assist in the operation of the new company.

While other firms might have chosen to do this work, only Sunlight Corporation did so. The provision that calls for unsolicited proposals to lead to awards without competition has two major benefits. First, it encourages organizations to spend their funds to develop solutions to critical national problems. Second, it permits the government to act quickly to get work done.

The speed with which such a contract may be approved has in some cases led to abuse. To quote expert Herman Holtz, "Many contracting officials are suspicious of any proposal purporting to be unsolicited. They suspect that a government executive may have used the unsolicited proposal provision as a convenient means to circumvent the normal procedures, which represent a great deal of work and time. A statement of work must be written, solicitation packages must be sent out, with time allowed for recipients to prepare proposals, proposals must be evaluated, and negotiations conducted. This normally requires six months or more before a project can actually get under way. But an unsolicited proposal avoids the writing of work statements and evaluation of proposals. So there is always the possibility that a government executive has actually suggested to a contractor that he offer an unsolicited proposal to do something the government executive wants done!"

This proposal was originated solely by the Sunlight Corporation and was presented to the U.S. Government only after its key provisions were worked out. No government official encouraged Sunlight Corporation to do the work. The project was undertaken as the result of conversations that began in August 1981 between Benjamin V. Cohen, the financier who is credited with authoring the major institutions of the New Deal for Franklin Delano Roosevelt, and F. Dennis Williams, president of the Sunlight Corporation.

COSTS

Q. What will be the cost or savings to the government of private operations?

ANS: The proposed agreement will save the government more than 10 percent of its current expenditures in this area -- a total expected to be between \$100 and \$400 million dollars a year, depending on the number of FAA operations to be transferred to private management. If the company is able to reach its profit goal and does not reinvest in equipment or expansion, an additional \$50 to \$100 million in corporate income taxes would be due.

Q. Has the OMB made a cost analysis of the plan?

ANS: The contract will be a fixed price contract with the total set at 10 percent below the amount currently paid for government operation of the system, including all overheads. This figure can be calculated from the FAA budget without extensive study. The basic methodology for such cost comparisons has been completed for sometime, and the actual salary and benefits to be paid to corporation employees have been set by reference to the OMB Cost Comparison Handbook. The fixed-price contract will include sufficient sums for overheads, based on the levels currently existing at the FAA.

Q. How can you promise the government that you will reduce the cost of personnel by 10 percent?

ANS: Our agreement with those who come to work for the corporation is based on a formula that allows us to pay exactly 90 percent of the salary and benefits paid to FAA employees of comparable skill and experience. The average controller now on the job has a salary and benefits worth approximately \$45,000 per year (of which \$32,000 is annual salary), not including overtime. Our employees will receive a package worth just over \$40,000 (of which \$29,000 is salary).

To give the corporation's employees an incentive for improved productivity, the company will share profits resulting from such improvements on a 50-50 basis. We believe that more productive employees can reduce overall costs by nearly 30 percent from the current system, based on our analysis of this and other government operations.

If we are wrong, the government -- and users of the system -- will save 10 percent, the corporation will make no profit, and our employees will earn 10 percent less than they have in the past.

If we are right, employees and the corporation will share in profits of approximately 20 percent -- splitting the overall gain in productivity three ways (10 percent for customers, 10 percent for the corporation, 10 percent for employees).

We believe a well-managed corporation with intelligent, dedicated employees who are given the proper incentives can run rings around a bureaucracy. Because we are confident we are right, the corporation and its employees -- who are experts on the system and know ways to make it work better -- will take the risk and guarantee the benefit to users in advance.

The corporation also expects to provide a package of benefits that is 10 percent less expensive than that now offered by the Federal Government to civil servants, but that provides greater flexibility and superior value to employees.

EFFICIENCY

Q. How can a private operation produce a more efficient system?
What can a private company do that government agencies haven't already
done?

ANS: Because the budgets of government agencies are decided each year, the agency cannot make firm commitments to long-term capital improvement programs. Changes in Congress and the administration have frequently upset plans for such advances -- the supersonic transport and the B-1 bomber both were cancelled after hundreds of millions of dollars were spent in their development.

As a result of the budgetary process, large investments made over long periods of time are particularly vulnerable. As a result, government cannot be relied on to purchase the latest technology and implement it promptly, despite its excellent intentions. Savings and other benefits are delayed and often lost as a result of the cumbersome system of planning and budgeting.

Furthermore, political pressures often force a reallocation of resources away from those parts of the system that need them most so that other areas may be given at least equal funding. Pressures from interest groups or geographical areas can thus upset carefully designed modernization plans.

A private corporation can judge the economic issues more objectively and has an incentive to provide the greatest benefit to all of the users -- the people who pay the bill for operating the system -- since they are the source of income to the firm.

FINANCING

Q. What preliminary discussion has been held with investment bankers, the SEC or others in the financial community and what reaction has been encountered?

ANS: Only brief, general discussions have been held so far to prevent publicity from impairing the development of the solution; formal conversations will be held after the administration agrees to the specific elements of the contract.

Q. What plans have you for allowing the public to buy stock?

ANS: No public ownership -- other than by employees and their retirement fund -- is contemplated. A number of corporations have been asked to make an initial investment of \$25,000 each in preferred stock of the corporation as a means of financing the steps leading to the initial contract. The option of public ownership could, however, be requested by the administration during negotiations.

Q. How will the new corporation find money to pay controllers?

ANS: Sunlight Corporation has financed the research and analysis leading to the creation of the new corporation; has conducted extensive discussions with representatives of the administration, Congress, and industry to assure its successful implementation; and has identified executives qualified to undertake management of the new organization.

U.S. corporations are now being asked to purchase preferred stock to permit the final work toward the establishment of the new firm.

The corporation will negotiate a contract with the Federal Government that requires the FAA to pay on a bi-weekly basis, without delay. This step will eliminate the need for short-term financing.

Once a 10-year contract has been signed, the corporation should encounter no serious difficulty in obtaining financing. Banks will readily lend funds on the security provided by a long-term government contract. Among the organizations that will be invited to participate in the financing are Wells Fargo Bank, Citibank, and Salomon Brothers.

Q. How much will the corporation pay to buy or lease the FAA equipment?

ANS: It is common for the government to furnish certain items in connection with the operation of its contracts (the jargon is "government-furnished equipment"). The FAA may choose to supply the equipment as a means of reducing the costs to users (whose funds were used to make the original purchase) or it may lease equipment for one dollar per year as has been done at some small airport towers now operated by private contractors, or it may request Traffic Control Corporation to acquire the equipment through a purchase at the appraised value. During this time, all of the interested parties will be consulted regarding the advantages and disadvantages of permitting the corporation to acquire this equipment.

The fairest procedure might be for the corporation to purchase all the assets of the system through a leveraged buyout, in which the government provides a mortgage for the full value of the equipment and the corporation pays for hardware out of future profits at an agreed rate. Under this arrangement, the government or a successor contractor would be required to purchase the entire capital plant at the end of the contract period.

Q. The existing air traffic control system is a multibillion dollar capital investment. Why should government allow a private firm to profit from its use?

ANS: Should the parties agree to have this equipment purchased by the corporation, the actual price and terms will be set by negotiation between the government and the corporation after an analysis of the usefulness and longevity of the hardware by experts on both sides.

Q. Where will the funding come from to buy the FAA equipment?

ANS: In a leveraged buyout, preferred stock or bonds might be used for the purchase of FAA equipment. Since users of the air traffic system have already paid for this equipment, the purchase arrangement should be constructed to assure that passengers and aircraft owners don't pay a second time for the same equipment. For this reason, the bonds or preferred stock may be turned over to a development trust fund for the air transportation system. This will assure that purchase moneys are set aside for use in modernizing the system.

Q. How will the multibillion dollar modernization of the air traffic control system be financed by Traffic Control Corporation?

ANS: Modernization will be financed in much the same way as it was paid for in the past -- by a combination of user charges and such payments from the government as are felt necessary for defense or other national needs. The corporation may borrow to introduce the necessary equipment at the earliest practical moment.

The exact distribution of costs will be determined during the transition period. Three principles will apply to this determination:

- (1) the benefit of any improvement must clearly exceed the cost;
- (2) the cost should be borne by the party gaining the benefit; and
- (3) the cost should be charged to the beneficiary in the simplest and most direct fashion possible.

INSURANCE

Q. How will Traffic Control Corporation pay insurance claims in the event of an accident?

ANS: With tens of millions of takeoffs and landings each year, errors in the information or advice supplied by a controller are inevitable. One or more such errors could lead to loss of life, and the controller and his corporation may be held liable.

The corporation must meet its legal obligation to pay for such errors, in much the same way that airlines and aircraft manufacturers meet their obligation to pay for negligence. Such insurance is readily available from a number of sources and will be obtained by the corporation. A cost estimate from Lloyd's of London was obtained as the result of a study of privatization of air traffic control several years ago.

Air travel is the safest mode of mass transportation in the world. In the few accidents that do occur, such causes as mechanical failure or weather conditions or pilot error are more likely to be responsible than a mistake by an air traffic controller.

Furthermore, traffic controllers do not have final responsibility for the safety of aircraft passengers. Their role is limited to providing information and advice to pilots to assist them in the safe operation of their aircraft, particularly in areas of heavy traffic. Pilots -- not ground personnel -- are the final authority in the operation of their craft.

For these two reasons, insurance claims against controllers working for a private company should be relatively uncommon, and the cost of such insurance should be modest.

Despite this fact, the Federal Government has regularly paid all claims made against the government -- even in cases where controllers were not at fault. This has added tens of millions of dollars to the annual federal budget. The corporation would defend itself against such suits, thus reducing the overall cost of such litigation.

Q. How would aircraft and passenger insurance premiums be affected by a change from a proven, safe, effective system to one that is unknown?

ANS: No change at all will occur in the management or operation of the air traffic control system during the 90-day transition period. Traffic Control Corporation will limit its operating role to supplying experienced controllers to augment those now working for the FAA. The FAA will continue to manage these employees in the same manner as they have for many years.

When Traffic Control Corporation assumes operating responsibility after the transition period, it will do so with the full approval of the FAA and only after it is clear that this step will in no way reduce the safety of the system. In fact, as a result of a larger work force and certain steps the corporation expects to take to reduce congestion and improve service, we believe that safety will be enhanced.

HIRING

Q. What safeguards will be established to keep angry controllers from seeking jobs and then sabotaging the system?

ANS: Traffic Control Corporation will have the assistance of a number of experienced controllers, including local and regional union officials, in screening dismissed controllers to assure that anyone who may constitute a danger to the system is not re-employed.

FAA managers will be the final authority in permitting a controller to resume his duties and may reject any individual whose actions have shown a disregard for safe and efficient operations. As a further check to assure harmonious working relations, a majority of working controllers at each facility may vote in secret ballot to deny any individual from resuming controller duties.

These mechanisms, combined with the severe penalties that would be associated with any effort to interfere with air travel, and the long record that controllers have for careful attention to the public safety make such an event extremely unlikely.

Q. Will the current controllers be given hiring preferences over the strikers?

ANS: Current controllers will all be offered positions with the new corporation. Hiring of dismissed or retired controllers for the corporation will be based strictly on merit, with due consideration for past contributions and experience.

Q. Won't this plan benefit strikers at the expense of those who stayed at work?

ANS. No. The proposal will result in the rehiring of some of the dismissed air traffic controllers -- perhaps as many as 80 percent -- but many of those who chose to strike will not be rehired. Even those who are rehired have faced a long, difficult period of unemployment.

During the transition period, former controllers hired by the company will receive 10 percent less in salary and benefits than the FAA civil servants who remained on the job. At the end of this time, those working for the civil service will be offered positions in the company.

The corporation will offer a package of pay, benefits, and stock ownership that should attract virtually all working FAA controllers to make the changeover. Those who prefer to remain with the civil service may do so, with the FAA receiving reimbursement for their salaries, but each of these controllers will be subject to the same performance criteria as other company employees. In the event of their dismissal, they shall be returned to the FAA for reassignment.

Those who do not wish to continue in their careers as air traffic controllers may choose to take early retirement, accept full severance pay and move to other jobs in private industry, or accept reassignment within the FAA.

Q. How many of the dismissed controllers do you expect to rehire? How will you select the best candidates?

ANS: We anticipate between 7,000 and 10,000 will be hired to meet the company's needs during the peak travel season and to allow working controllers to take leave. A target figure of 8,000 full-time employees has been suggested by the FAA.

Many of those who went on strike have accepted jobs in other fields and will not wish to return to work. Others may be refused employment as a result of actions which indicate they may constitute a danger to the safe and efficient operation of the system.

Should the corporation find more qualified controllers than are required to fill the number of positions available, the company may decide to reduce working hours and salaries as a means of assuring that no shortage of working controllers exists when FAA senior personnel return to management positions.

Q. Who determines which controllers are most qualified to be rehired?

ANS: Since candidates will be informed of the performance standards required of all employees, some former controllers may decide not to apply for positions. Those who do will be selected on the basis of merit -- skill, judgment, and experience -- by respected and experienced air traffic controllers employed by the Traffic Control Corporation, with the assistance of FAA representatives. Representatives of the dismissed controllers will assist, since these individuals can best judge the emotional suitability of candidates. As a further check to assure the safe operation of the system, FAA managers will be the final authority in permitting a corporation controller to return to a specific position during the transition period.

COMPENSATION

Q. What will Traffic Control Corporation provide in the way of salaries and benefits for controllers?

ANS: Some modifications may be made in the compensation package during the 90-day transition period, as a result of discussions with civil servants and corporation employees. During the transition, employees will receive 90 percent of their base pay, plus a package of benefits valued at approximately \$3,000. Included in this package will be a fully paid medical and dental plan and social security coverage. Half of all corporate profits will be used to purchase stock in the corporation for employees. Shares will be set aside through an employee stock ownership trust. The price of the stock at purchase and at redemption will be set at ten times earnings.

Following the 90-day period, Traffic Control Corporation expects to provide a number of benefits to its employees — in part to encourage all FAA controllers to convert to corporate employment. Among these are (1) fully paid medical and dental benefits; (2) company-paid financial planning services to help employees reduce taxes and other costs and to assist them in investing more wisely and in planning for retirement; (3) company-paid educational expenses; (4) company-paid health and recreational facilities; (5) company-paid travel opportunities; and (6) an employee stock ownership trust that will provide for retirement benefits through ownership in the stock of the corporation.

Employees will also be permitted to buy stock in the corporation at a favorable price at the time they accept employment.

Q. Since controllers will receive stock in Traffic Control Corporation as part of their compensation, what indication do you have that they prefer this to hard cash?

ANS: While certain individuals may prefer cash to stock, most will prefer to take stock in view of the income tax advantages offered by this approach. This method will help provide close ties between the working controllers and the corporation; such ties are necessary to protect users from job actions contrary to the public interest.

GOVERNMENT PENSIONS

Q. How will retirement and pension plans of civil service workers be handled?

ANS: Civil servants may (1) retain their vested interest in a government pension and receive payments when they reach the normal retirement age; (2) take their contributions out of the federal retirement program and shift them to a private plan of their own choosing; (3) shift their retirement contributions into stock in the retirement program provided by Traffic Control Corporation; or (4) take their federal retirement contributions in cash and invest them as they see fit. New employees will be given advice on the benefits and risks of each approach during the 90-day transition period.

Q. Will current controllers who refuse to join Traffic Control Corporation lose government pensions?

ANS: No. Civil servants have paid seven percent of their salaries toward government retirement, and this money cannot be taken from them. Those who choose to continue as FAA employees will see no change in status. Those who choose to join Traffic Control Corporation may either leave their retirement funds in the government's hands and receive an annuity when they reach the age of eligibility, or they may convert these funds into a retirement plan provided by the corporation.

WORKING CONTROLLERS

Q. Didn't a survey show that many of the working controllers will resign if any of the dismissed controllers are returned to work?

ANS: All serious strikes leave bitterness that must be overcome. Management usually works to bring about understanding between the strikers and those who remained at work. In this case, however, the FAA used the strike as a means of uniting those who remained at work. By condemning the strikers and praising those who did not strike, the FAA hoped to prevent any effort at rehiring.

These steps were highly successful. A survey by the Roper Organization for a Congressional Committee reported in March that a majority of the working controllers surveyed felt that those who had been fired for striking should not be hired back under any circumstances.

Some of those who wrote in response to the survey said they felt a rehiring would produce a serious rift in the organization and could indicate that the FAA did not value those who stayed on the job.

Some 58 percent opposed rehiring, while 41 percent of working controllers felt that at least some of the fired controllers should be returned to their civil service positions despite their violation of the oath of office. Working controllers in Atlanta and Honolulu have written to ask that the fired controllers be rehired.

Working controllers were not asked if they would object to dismissed controllers being hired by a private corporation -- as distinct from being returned to their FAA civil service positions.

The controllers who stayed with the FAA have shown their ability to set aside personal interest in order to serve the national good. It does not seem likely that these workers will resign from high-paying positions and leave careers to which they have dedicated many years because others -- many of whom now recognize the futility and error of their job action -- are offered jobs with lower pay and benefits than those held by the civil servants.

A number of individuals took actions not condoned by the majority of dismissed controllers. It appears likely that none of these individuals will be accepted back into positions as controllers, since their irresponsible actions may be a barrier to harmonious working relations. Far more violent strikes have occurred in the U.S. in recent years, but hostility has generally disappeared after work was resumed and communications reestablished.

A lack of communications between working and dismissed controllers has contributed to the hostility that developed at the time of the strike. Little has been done by either side to reduce this antagonism. In fact, to maintain morale and promote group loyalty, both sides have aggravated this hostility.

Prior to Traffic Control Corporation providing any controllers to the system, Sunlight Corporation will work with the FAA to conduct a thorough communications program with working controllers. This will make clear the great value of the service provided by those who remained on the job and the importance of their remaining at their posts. It will note that the nation must have experienced controllers to restore full capacity to the air traffic control system, which is vital to the national economy and the defense of our country. The past and pending financial collapse of major airlines, and the overall health of the national economy will be addressed in communications with the working controllers, as will the mutual concern of the administration and Traffic Control Corporation for the welfare of those who stayed at their posts.

The President of the United States, the Secretary of Transportation, and the Administrator of the FAA will all play key roles in communicating with these loyal employees.

It will be made clear that not all strikers will be returned, and that working controllers and management will decide who is to be trusted to resume their posts. Working controllers will be asked to set aside their strong personal differences and judge each controller strictly on merit. Should a majority of controllers at any facility vote in secret ballot to deny employment to any employee assigned by Traffic Control Corporation, the employee shall not work at that facility. These individuals may, however, be assigned to other traffic control facilities if, in the opinion of the Traffic Control Corporation and the FAA, the vote was due to personal antagonism rather than a judgment as to the individual's professional competence and willingness to cooperate.

Q. How will resentment between working and dismissed controllers be minimized?

ANS: A selection process that permits FAA managers and working controllers to prevent individuals who may be a threat to the system from being returned to work will help reduce the danger of open hostility.

Lower pay and benefits during the 90-day transition period will be a visible indication that dismissed controllers have not profited by their job action.

Those working controllers and managers who feel they cannot accept the return of any dismissed controller will be encouraged to take annual leave while they consider the consequences of resigning their positions. Transfers for such employees may also be offered as an alternative to resignation, should that become necessary.

Working controllers will be reminded of the administration's concern for them and that this action was taken in part to permit them to return to regular working hours and to take annual leave that has been postponed during the crisis.

Open discussion of the matters that led to the strike and the common interests of those who remained and those who went out will be emphasized in communications.

Q. Will the working controllers get any added benefits for their sacrifices during the past year?

ANS: Yes. Although the administration has sought additional bonuses for working controllers, these have been stalled in Congress and may not survive the legislative process. Discussions with Congressional committees have made it clear that funding to reward the working controllers is not considered feasible in the current economic environment.

As a result, Traffic Control Corporation will offer an added incentive to smooth the reunification of the work force. Traffic Control Corporation will provide working controllers with an opportunity to earn a \$72,000 after-tax bonus. Those controllers who choose to shift from civil service to employment with the corporation will be permitted to buy up to \$10,000 worth of stock. This stock will be purchased by the employee stock ownership trust at a price of \$100,000 -- using profits obtained by productivity increases. After capital gains tax, this will leave the working controllers with an after-tax gain of \$72,000.

TRAINING

Q. Who will train new controllers?

ANS: This will be the responsibility of Traffic Control Corporation. Control Data Corporation, which currently supplies computer-based training to the FAA, will be invited to play a key role in the training of new controllers.

Traffic Control Corporation expects to install Plato computer terminals at all air traffic control facilities to permit continuing education and preparation for career changes. The Plato system offers a wide variety of coursework -- some 12,000 hours -- to prepare controllers for work in marketing, communications, engineering, systems analysis, and many other fields.

The corporation also expects to set up communications and training facilities in resort areas around the nation to permit controllers to participate in seminars for educational purposes and to encourage better communications between management and controllers.

MODERNIZATION

Q. What will happen to the FAA modernization plan?

ANS: Traffic Control Corporation will wish to modernize the FAA's outmoded equipment as quickly as possible, stressing those areas which will provide the greatest increase in safety, efficiency and capacity. The goals of the modernization plan will be adopted by the Traffic Control Corporation and specific steps will be taken to speed the implementation in accordance with the advice of the FAA and other interested parties.

Traffic Control Corporation will review comments on the FAA plan with the key Congressional committee staff members, the Office of Technology Assessment, and the White House prior to its implementation. First steps toward the scheduling of specific steps toward implementation will be undertaken during the 90-day transition period. These actions will be designed to work in conjunction with procedural steps taken to reduce congestion at hub airports.

It is the view of Traffic Control Corporation advisors that certain inherent advantages of private operation -- including greater flexibility in contracting and financing -- will permit the modernization plan to move ahead more quickly and more surely than has been the case with most government-funded modernization programs.

Such programs as the supersonic transport and the B-1 bomber have been enthusiastically supported in their early years, but after hundreds of millions of dollars were spent, the programs were cancelled. With changes in the makeup of Congress and the administration, such shifts in direction may lead to the delay or dismantling of long-term capital improvement programs like that now proposed by the FAA.

The best measure of an organization's ability to use the latest technology is a review of actual condition of the capital equipment and systems currently owned and operated by the organization. Numerous reports have criticized the FAA for failing to maintain reliable systems and for poor procurement of capital systems.

In recent years, reports from the administration, Congress, and others have indicated that (1) FAA's computer technology is outmoded and often unreliable, (2) FAA has accepted delivery of computers and left them idle for more than two years because software was not ready; (3) aged back-up generating equipment remains installed, despite the high maintenance costs and the potential sacrifice in system reliability; and (4) long delays due to computer backlogs make weather reporting extremely inaccurate and unreliable. Such dated equipment and systems result in inefficiency and unnecessary risks to the system.

CONTINGENCY

Q. What happens to all the controllers if "privatization" doesn't work? Do they go back to civil service or what?

ANS: During the transition period a number of contingency plans will be developed to assure the safe and continuous operation of the system. Contingency plans will permit a return of the system to government operation (nationalization) or the transfer of the contract to another corporation that might supply employees under contract to support government operations. It is unlikely that either of these contingencies would ever be necessary.

PROBLEM

Q. You say clear evidence has surfaced that the conditions in the air traffic control system may worsen. What is this evidence?

ANS: The FAA study completed in mid-March warned that labor relations problems were very likely to surface again, and that morale and attitudes among the controllers who stayed on the job had deteriorated badly.

Airline executives and others have reported unusual delays in portions of the system. Particular difficulties have been noted at the Indianapolis en route center. FAA Administrator Helms has admitted privately that occasional and uncoordinated slowdowns appeared to be taking place prior by early June. An unannounced work-to-rule slowdown could serious aggravate the economic problems of the

SAFETY

Q. Shouldn't public safety be a concern of government rather than a job delegated to a profit-oriented private company?

ANS: Absolutely. The FAA will maintain a staff of experienced personnel to assure the safe operation of the air traffic control system by closely monitoring the practices of the corporation. This role in policing the corporation will assure the proper separation of powers. There are serious difficulties with any system in which a government agency is required to police itself. Organizations have a natural tendency to cover up errors that may reflect badly on management decisions or practices. As a result of this, in fact, NASA has in the past been asked to take over certain policing functions that would normally be assigned to FAA.

With deregulation of the industry, the FAA should be taking greater care to assure that no operator undertake cost-cutting efforts that might lead to serious safety hazards. The use of less skilled pilots, inexperienced mechanics, and inferior aircraft by both established operators attempting to avoid bankruptcy and new carriers attempting to compete by extreme cost cutting present very serious hazards to the future growth of the industry.

Q. You say FAA will have oversight responsibility for safety. What happens if the private operation rejects or refuses the advice or orders of FAA? Who's in charge?

ANS: The final authority and responsibility for the operation of programs mandated by the government remains with the government. The implementation of this authority in the most effective manner will require careful detailing of the relationship between FAA and the Traffic Control Corporation during the 90-day transition period.

This relationship will be based on the basic principles set forth by the GAO for the proper functions to be performed by government employees: (1) making value judgments required to establish the policy, direction, and priorities of federal programs; (2) collecting taxes and controlling other monetary transactions; (3) administering regulations and laws; and (4) analyzing and evaluating work done by contractors to the government.

DEFENSE

Q. You refer to the serious consequences for national defense resulting from the sharp reduction in military air traffic control. What is the situation?

ANS: Information on actual operations has not been released by the military, although reports have reached us from sources in the Air Force that senior officers have written to the Pentagon to warn that military training flights have been curtailed so sharply as to constitute a serious problem for preparedness.

Q. How will private operation of the air traffic control system serve the nation's defense needs?

ANS: Operation by a private corporation will enhance the national defense both in the short-term and in the long run. By restoring the full capacity of the system during the peak summer travel period, the nation will be able to mobilize rapidly in the event of a national emergency. Without such action, our mobilization would be seriously delayed as a result of the shortage of air traffic controllers to guide the efficient movement of large numbers of aircraft.

The restoration of the system will also permit the FAA to return military controllers to their primary duties. Although results of the reduction in the number of military controllers are not so apparent to the general public, the transfer of these controllers to the civil sector has forced a sharp reduction in military training flights and has also reduced flight operations generally; a fully operational military air traffic control system is vital to military preparedness.

During the transition period and thereafter, Traffic Control Corporation will conduct discussions with the Defense Department to assure effective integration of the civil and military systems in peace and war. This will assure interoperability -- one of the primary goals of U.S. defense planning.

In the long run, a rapid and cost-effective modernization of the air traffic control system will enhance our national security. To the extent that this modernization does not provide significant benefits to commercial and general aviation, the costs of the modernization will be borne by the defense department.

pQ. You state that tens of thousands of pilots, attendants and ground personnel have been laid off as a result of reduced operations. Can you substantiate those numbers?

ANS: An exact figure would be difficult to compile; our estimate is based on reports carried in the press and provided by companies and labor officials during the months following the strike. We have not included in this calculation the layoffs that have occurred subsequently as the result of the failures of smaller airlines and the collapse of Braniff, which idled 11,000 employees.

CONTROLLER'S UNION

Q. What arrangements exist between the controller's union and Sunlight Corporation?

ANS: Although the direct participation of the representatives of striking workers is not absolutely essential to the resolution of this problem, their opposition could result in Congressional efforts to block the plan, to interference and delay in hiring controllers for the system, or to disruptions after individual controllers return to work.

Furthermore, based on studies of the air traffic control system that were done under the Nixon and Reagan administrations, it appears that the source of the labor-management difficulties was poor management by the FAA. The union formed and became militant as the result of an unresponsive and inflexible management.

After those who led controllers into an illegal strike last August resigned from office, Sunlight Corporation contacted the newly chosen representatives of the dismissed workers to discuss the company's proposal to restore the nation's air traffic control system to full operation.

The first contact occurred on March 9. After two months of discussions regarding the plan, Sunlight president F. Dennis Williams met with the union's executive board on May 15 to outline the approach and discuss how it might affect fired controllers. Williams recommended to the board that they disband PATCO as a means to facilitating a solution. On May 21, Gary Eads, the appointed president of the Professional Air Traffic Controllers Organization, acting on behalf of the board, advised Sunlight Corporation that the union would cooperate with Sunlight in the implementation of the plan and would encourage its members to seek employment with the firm. The union has agreed to assist in assuring that only trustworthy individuals are permitted to return to duty as controllers.

Union representatives have advised Sunlight Corporation that they will continue to seek legal and other remedies to return dismissed controllers to work, but that it agrees that the privatization of the system offers the best chance for solution of long-standing problems. For this reason, union representatives have formed a new association which may be used to organize the thousands of new controllers being trained by the FAA.

Q. Will PATCO be recertified under the plan?

ANS: No. PATCO has gone into liquidation. Sunlight Corporation encouraged PATCO to end its legal battles rather than pursuing an appeal to the Supreme Court. All legal battles — including cases pending before the Merit Systems Protection Board — will become a moot point, since the FAA will no longer employ controllers directly. A new union could, however, seek to organize the employees of Traffic Control Corporation, just as it might seek to organize controllers currently working for the FAA. Given the record of the union, however, it would find it very difficult to win the votes of a majority of employees, provided the new corporation meets its commitments promptly.

Q. Are current controllers represented by a union?

ANS: No. A number of reports of morale problems at certain facilities would indicate that workers may soon be subject to an active organizing effort by public employee unions.

BURN-OUT

Q. What makes you think private operation will solve basic problems like "burn-out?"

ANS: We don't believe what is called "burn-out" can be prevented, but we believe a more flexible system of management -- not burdened by the uniformity required throughout the civil service -- can assist employees with the transition to other careers.

What is commonly called "burn-out" may be more exactly described as a desire to change careers after 20 years as an air traffic controller. Many people -- teachers, scientists, lawyers, and others -- make the same decision after many years in the same field.

Traffic Control Corporation will provide free vocational, college and post-graduate training to prepare its employees for other careers. This training will also be helpful in easing career changes for other employees who find the rigors of the controller's life too difficult. A well-designed system for advanced career training will give the corporation and its employees the ability to develop into new areas if and when automation reduces the number of employees needed to operate the air traffic control system.

A 1970 study of the FAA recommended that controllers receive training for second careers. Congress agreed, but it has never provided funds to permit such a program. This, in part, is a cause of the continuing problems in labor relations faced by the FAA.