

Hancock

DEPARTMENT OF TRANSPORTATION

1. The key actors:

- Alan Boyd, then Under Secretary of Commerce for Transportation (later the first secretary of transportation).
- Cecil Mackey, head of the policy planning staff at the Commerce Department, and later Assistant Secretary of Transportation.
- Lee White, then Special Counsel to the President
- Charles Zwick, then an Assistant Director of the Budget
- Daniel O'Keefe, Office of the General Counsel, Commerce Department who helped draft the legislation and now a lawyer in Washington, D. C.
- Mike Manatos and Henry Wilson, then of the White House staff who handled the Congressional liaison
- Califano-Levinson
- Harry McPherson, who wrote the transportation message
- Jack Bush, then chairman of the Interstate Commerce Commission
- Gen. William McKee, then head of the FAA
- Charles Schultze, then Director of the Budget

2. The key documents and events:

- The 1964 ^{Price} Bailey task force report on government organization
- The Bureau of the Budget "redbook" forecast of government organization changes for 1966
- The Boyd task force to further develop the Transportation Department concept
- The Califano-White contacts with the industry to smooth acceptance

- The State of the Union
- The Transportation Message
- The long legislative struggle, including redrafting the bill at the White House (a session attended by Levinson, Zwick, O'Keefe, and Boyd).
- The fight over the inclusion of the Maritime Administration.
- The last minute admendments. Levinson and Zwick went to GPO to read law as it came off the plates.
- The Presidential signing statement and "another coonskin on the wall " statement.

P29

THE WHITE HOUSE
WASHINGTON

January 20, 1964

MEMORANDUM TO MYER FELDMAN

Attached is the draft of a Presidential Transportation Message which I promised you for today. I assume you already have the outlines previously submitted by Commerce and Budget. The Commerce outline is chiefly a description of what has happened since April 1962, and a message following this outline could be prepared very easily. Therefore, I patterned my draft more along the lines of the Budget outline, which contains a number of new proposals. I have also added a few proposals of my own.

If there is to be no Transportation Message, I would like to talk to you about the possibility of the President sending several letters to select persons (e.g., committee and agency chairmen) on particular topics.

E.B.P.
E. Barrett Prettyman, Jr.
Special Assistant

Attachment.

DRAFT OF SPECIAL MESSAGE ON TRANSPORTATION

In April 1962, President Kennedy sent to Congress the first comprehensive message on transportation ever delivered by a Chief Executive. It dealt with a variety of topics -- some of immediate and urgent concern, and others of long-range importance. Since then, most of his recommendations subject to executive control, such as the revision of depreciation guidelines and the accelerated use of commercial travel facilities by Government agencies, have been implemented. However, with certain exceptions, such as the Federal Aid Highway Act of 1962, the repeal of the ten percent passenger excise tax, and the amendment of the loss carry-forward provisions, most of President Kennedy's legislative proposals are still pending in Congress.

The economic condition of the transport industry has generally improved since the President's message. In fact, the percentage

increase of over-all passenger and freight traffic from 1962 to 1963 outstripped the national economy, with rail, truck, air, pipeline and maritime traffic all registering advances.

In the railroad industry, quarterly trends in operating revenues, net railway operating income, net income, and freight car loadings have all been upward since April, 1962, and revenue ton miles of rail freight, probably the most valid indicator of rail freight activity, increased 5% in 1963 over 1962 and 10.5% over 1961. Comparable statistics in motor carriage are similarly encouraging, with intercity ton miles by regulated interstate motor carriers increasing about 3% in 1963 over 1962 and nearly 10% over 1961.

Air carriers fared even better. Net operating income for the domestic trunk lines almost doubled between 1962 and 1963, net income rose an estimated 450%, passenger miles increased about 14%, and

freight-express-mail ton-miles were up almost 8%. Oil pipelines estimated their traffic volume in 1963 as 4.5% above that of 1962, with a corresponding 5% rise in revenues. While few figures are available in the maritime industry, there are estimates that in 1963 merchant marine cargo tonnage rose 2% and barge traffic increased 3%.

Thirty-eight percent of the 41,000-mile Interstate highway system is now open to the public, and construction on another 5,400 miles is underway, with the entire project due to be completed by 1972. At a cost of \$9 billion, this will be the most modern highway system in the world and will save an estimated 8000 lives a year.

Statistics to one side, technological advances are becoming increasingly important in many parts of the transport industry. Changes instituted only a few years ago are already beginning to result in better and cheaper service. In railroading alone, for example, TOFC,

or piggybacking, has increased almost 14% in one year, the number of different car types has grown from seven to 30 in only a few years, and carriers are beginning to install fully automatic yards, ribbon rails, electronic hot-box detectors, unit trains, and centralized traffic control. This type of self-help is bound to bring long-term advantages to the industry and to the country, so long as adequate measures are taken to protect our labor forces.

Despite these technological improvements and encouraging economic portents for the future, many of the ills which beset the industry in April 1962 are still with us.

Today, as then, there are too many inequities between modes, too much rate regulation, an overcapacity in some areas and an under-capacity in others, a number of individual carriers in financial distress, a lack of coordinated mass transit planning, and a multitude of other

problems. It is timely, therefore, for this Administration to take a fresh look at the industry that accounts for 20% of our gross national product and affects every man, woman and child in the country.

Though some of the particular problems and specific solutions may have changed since 1962, the basic objectives of the Kennedy message remain as valid today as when enunciated. These include primary reliance upon unsubsidized, privately-owned facilities, with as little regulation as possible consistent with the public interest; equal competitive opportunities for all modes; an investment in transport facilities which neither substantially exceeds nor substantially falls short of actual requirements; a more comprehensive and long-range approach to the problems of mass transit to meet the increased needs of urban areas; and, as nearly as possible, the assumption by transportation

users of the full cost of services, both public and private. The long-term results of these objectives should be fast, safe and economical service in response to private and public demand, with daily and emergency requirements fully met at the lowest cost consistent with broad public objectives. Achieving these results will require certain basic revisions in our transportation policy, particularly in the legislative field.

Rate deregulation

In his message, President Kennedy expressed particular concern over two related inequities which are still present in our law: excessive regulation of minimum rates, and unequal competitive opportunities between modes. The two most glaring examples relate to bulk commodities, which are fully regulated except where water carriers haul liquid bulk commodities or three or less dry bulk commodities in one vessel, and to agricultural and fishery products, which are regulated unless

transported by motor carriers and to a certain extent by freight forwarders. The President recommended that all minimum rates on bulk commodities and agricultural and fishery products be exempted, and that the antitrust laws be made applicable to the exempted transportation. In regard to bulk commodities, he alluded to the less desirable alternative of repealing the exemption for water carriers.

Bills to accomplish these objectives were introduced in the 87th and the 88th Congresses (S. 3243, S. 1061, H.R. 11583, H.R. 4700), hearings have been held, and a committee print of a revised bill has been circulated in the House Interstate and Foreign Commerce Committee. I have carefully reviewed these various bills, as well as several alternatives suggested by

private groups,^{*/} and am convinced that President Kennedy's original recommendations not only were sound but constitute the best solution yet offered. While some aspects of the committee print may be helpful, there are other features which I feel could cause unnecessary confusion. For example, the committee print would repeal both maximum and minimum rate regulation and abolish the conference system of rate-making, and at the same time impose with respect to

* Commerce would substitute the following for the remainder of this section on deregulation:

"and am convinced that the committee print is an acceptable starting point in resolving these problems. Its provisions are consistent with the basic philosophy of the Kennedy Message: equalized regulation, preferably through lessened regulation, but if necessary through removal of exemptions. While I do not necessarily agree with all sections of the committee print, including the 'undue burden on * * * commerce' standard in Section 2(a), the general purport of the bill is constructive, and both the House and Senate Committees deserve praise for their efforts. I urge both Committees to conclude their deliberations at an early date and, with the committee print as a starting point, to report out a bill which will provide competitive opportunities in the rate-making field to all modes of transportation in equal measure."

minimum rates an "undue burden on * * * commerce" standard which would be difficult to apply and uncertain in effect. In my view, only minimum rates should be deregulated and traditional antitrust concepts made applicable.

Particularly important, I feel, is the extension of minimum rate deregulation to all carriers of agricultural and fishery products. Inequities under the present law impose an unnecessary and unhealthy burden on shippers and on all modes except motor carriers. While repeal of the agricultural exemption now available to motor carriers would tend to equalize regulation, the extension of the exemption to all modes would more nearly meet our objective of imposing less rather than more Government regulation except where protection of the public interest requires otherwise. If all modes are exempted,

costs and rates can be reduced in an openly competitive market, service improved, and initiative restored.

Mass transit and highways

Efficient mass transportation systems are becoming increasingly essential to the sound functioning of our urban communities. The need to improve and modernize existing facilities has been persuasively demonstrated. A balanced and well-planned system of good highways and mass transit facilities affords the only feasible means of meeting the transportation needs of our increasing urban population and of assuring our people future opportunities for recreation, health and leisure.

The Federal Government has long encouraged adequate highway development. Now a grant program to aid the development of

efficient and modern mass transit systems is urgently needed. The Congress has held extensive hearings on Administration proposals, most of which are contained in a bill reported out by the House Banking and Currency Committee. With the following two additions, I endorse this bill and urge its prompt enactment:

First, the principle of federal guarantees of taxable local securities to aid in the mass transit program should be supported. The Housing and Home Finance Agency shortly will submit proposals for carrying out this principle, while continuing to recognize the traditional relationship between state securities and the federal taxing power.

Secondly, I endorse S. 855, which seeks a more effective use of federal development grants by making them available only where local officials consider federally-aided projects as part of a

comprehensive area planning process. This proposal, sponsored by the Advisory Commission on Intergovernmental Relations, is needed to avoid a well-meaning but uncoordinated or even self-defeating use of federal funds.

I urge the States, as a logical extension of these changes in the federal program, to consider the establishment of transportation authorities in all metropolitan areas with powers to regulate peak-hour automobile traffic by such means as differential user charges; to fix road, bridge and tunnel tolls; to set transit fares, routes and schedules; and to determine the charges for and the location of parking facilities on fringes and in central business districts. This Administration, for its part, stands ready to support before the Congress any interstate compacts which will facilitate balanced transportation systems in interstate metropolitan areas. In the meantime, we intend to review

periodically the use of federal funds to make certain they are being expended on coordinated and farsighted projects.

Our Interstate highway program is very much a part of the mass transit picture, and a number of accomplishments are already growing out of the Federal Aid Highway Act of 1962. Under that Act, the Secretary of Commerce may not approve a program for highway projects after July 1, 1965, in any metropolitan area of over 50,000 population unless he finds that the project is consistent with comprehensive development plans and is an integral part of a balanced transportation system. With this same objective in view, the Bureau of Public Roads is placing added emphasis on social and economic research and on comprehensive planning in its own programs, devoting particular attention to the social and economic impact of our new highways. The Department of Commerce has established a regular

procedure for consultation with the Housing and Home Finance Agency both at the headquarter level and at regional levels throughout the country. Not only transportation programs, but all HHFA programs which have a potential connection with the Federal-aid highways, are being discussed.

There is still much to be done in regard to highway transportation. It is desirable that our current Interstate program be completed by 1972, and I urge those few States which are lagging to make every effort to advance their construction schedules. I also recommend to the Congress that authorizations for other Federal-aid highway programs be extended as part of the biennial highway legislation at a level of \$975 million for the two years 1966-67.

In my view, Congress should postpone until 1965 any consideration of vehicle weight and size limitations for our highways. The Commerce Department is now studying these matters, and new estimates of Interstate costs and final economic analysis of the highway user tax structure will not be ready until January 1965. These matters should be considered together as a single problem.

So that we do not imperil our highway safety program through a proliferation of study groups, I have requested the Secretary of Commerce to submit a plan for bringing together into one centralized authority all of the Federal commissions presently studying accident and death rates. This is a matter of utmost importance. There were 41,000 deaths on our highways in 1962, and the 1963 figure, although not yet finalized, will be of the same magnitude.

While these numbers represent a slight statistical decrease in relation to the increased number of vehicle miles traveled, they nevertheless are far too great to be tolerated in a modern society. A promising note -- and one that demonstrates one of the important dividends of the Interstate system -- is that the death rate on up-to-date, dual, limited-access highways is almost one half the rate on other highways. This is one of the developments requiring the urgent attention of a centralized study group, whose job it will be to produce a practical action program for substantially reducing the slaughter on our highways.

Mergers and passenger services

Seventeen rail consolidations have been approved during the last seven years, and additional merger or control cases involving more than twenty Class I railroads are now pending. What we are witnessing, therefore, is a basic reorganization of our rail carrier system. The

affiliations established today cannot easily be disestablished, so that we are creating in effect a new structure for our rail system, and one which will prevail for the foreseeable future. This imposes a great responsibility upon the carriers who seek affiliations and upon the Government agencies and departments whose duty it is to determine whether these affiliations are in the long-term public interest.

An excess of railroad right-of-way and facilities in some sections of the country has existed for many years, and at least part of the recent merger movement is an attempt by the carriers to eliminate this excess. Less than ten percent of the main line miles now in service carry 50 percent of our total freight ton miles, and 30 percent carry only two percent. For this reason, the Government does not oppose proposed affiliations per se; in many instances these affiliations may be entirely justified. At the same time, each must be

judged on its own merits and not as part of an irreversible trend.

Recognizing the importance of the modern merger movement, President Kennedy in his 1962 message directed the formation of an Interagency Committee on Transport Mergers to develop criteria applicable to transportation mergers and to present a Government position on each major merger application. That Committee has met regularly under the chairmanship of the Under Secretary of Commerce for Transportation, has issued its merger criteria, and has established a Government position in a number of individual cases. I have directed that this Committee continue its functions under its present make-up.

In considering future applications, the Committee will take into account not only its announced criteria but also the fact that rationalization need not always require merger or control. Often

branch lines and other facilities within a single system can be abandoned without undue harm to passengers, workers, shippers, consumers, or communities. In addition, pooling agreements, joint operations, trackage rights, and other inter-carrier arrangements are sometimes feasible. But where such alternatives are not practical, and where the proposed consolidation satisfies the other criteria established by the Committee -- with particular emphasis on the protection of employee job rights, significant cost reductions, and the improvement of service -- the consolidation will receive the sympathetic consideration of the United States. At the same time, it must be recognized that the United States is a party to these cases, that the consolidations must be initiated by the carriers themselves, and that responsibility for approval or disapproval lies with the regulatory agencies.

In order to apply its criteria properly, the Interagency Committee will need extensive information about traffic flows, regional disparities, rail capabilities, growth prospects, the extent and nature of intermodal competition, effects on community labor forces, costs, and a multitude of other facts. Much of this information is not presently available. The Department of Commerce, therefore, is promptly undertaking further research studies -- similar to the New England and Mid-West studies already underway -- in areas to be designated by the Interagency Committee. Under the guidance of the Committee, Commerce will develop data and analytic techniques so that in each major region, merger proposals can be evaluated in terms of overall transportation objectives. Information which the Committee feels will be helpful to the regulatory agencies in individual cases will be introduced in evidence at appropriate hearings.

Excess facilities and discriminatory regulation are not the only problems facing the nation's railroads. Of equal importance are the deficits arising out of passenger services. For years, suburban commuter and intercity short haul traffic have failed to pay their way on most rail carriers. This is a particularly serious matter in the Eastern District, where good highways, the prevalence of the short haul, and severe competition from other modes all combine to create special problems for the rails, so that even freight revenues often do not offset passenger deficits. A solution to the passenger problem would substantially improve economic conditions not only in this District but for many railroads in other parts of the country.

The Federal Government recognized the importance of this problem when it initiated the Washington-Boston Corridor study, which is considering the feasibility of high-speed transportation in the megalopolis between Washington and Boston, an area embracing only 1.4

percent of our land but containing over 20 percent of our population.

The first phase of that study will soon be completed.

Regardless of what it shows, States and local communities will continue to have important responsibilities in the solution of the basic rail passenger problem. For this reason, I recommend that the States sponsor regional conferences of railroads and local governments to develop plans for assuring the continuation of necessary passenger services. Topics for consideration might include interstate compacts; state and local subsidies; the elimination of inequitable and discriminatory tax provisions; the possibility of exempting passenger commuter services from all taxation; and the relation of rail passenger transportation to passenger transport by other modes, including the automobile. The Federal Government is willing to send representatives to these conferences in an advisory capacity and to consult with local officials in an effort to produce workable plans.

The maritime industry

Our maritime industry remains in a state of transition.

Despite an increase of 25 ships in our active fleet during 1963,

American flagship participation in our expanding foreign trade again

showed a slight percentage decline, as it has in each of the past

fifteen years. We have not yet fully solved the problem of shipping

discriminations against our fleet, particularly in the area of export

freight rates.

It is essential, therefore, that the Federal Maritime Commission

put renewed effort behind its program of assuring fair and reasonable

rates for the movement of commodities in our international trade.

Rebating and other discriminatory practices must be curbed. I am

also requesting the Maritime Commission to expedite its investi-

gation of the rate-fixing powers of conferences in terms of their

effect upon competition and the adequacy of service. Particular

attention should be directed to illicit pooling agreements.

The Maritime Administration should continue its efforts under the so-called "fifty-fifty" program and under Section 212(d) of the Merchant Marine Act of 1936 -- efforts which are beginning to show positive results. The Agency for International Development, for example, has been active in aiding Maritime in its preference-of-vessels program, and the Defense and Agriculture Departments are now using United States vessels to a greater extent than in the past. I am requesting that work continue throughout the Government on compliance with the cargo preference laws, encouragement of the use of United States flag carriers by private and public shippers, and improvement in the status of coast-wise shipping, including the trade-out of vessels in the reserve fleet.

The need for revising and modernizing our shipping laws and regulations is universally recognized. However, previous attempts at a wholesale revision of Title 46 have proven unsuccessful, largely because so many substantive changes of a controversial character were suggested that little over-all progress could be made. I propose, therefore, that the needed revision be accomplished in two steps. First, Title 46 should be recodified. This would involve a restatement of the existing laws by consolidation, elimination of obsolete provisions, rearrangement into a logical form, and other improvements entailing little or no substantive changes. Once this first step is accomplished, substantive amendments can be introduced by means of a series of separate, smaller bills. With a view to initiating this revision, I am requesting the Director of the Bureau of the Budget to call

an early meeting of the departments and agencies concerned with the administration of Title 46, and to invite to the meeting representatives from the Senate Commerce Committee and the House Merchant Marine and Fisheries Committee. Out of this meeting should come a project embracing the two steps outlined above.

Domestic and international air transport

Local service air subsidies can no longer be justified in the amounts awarded heretofore. They should be continued only when, and to the extent that, the continuation of an essential service necessarily entails a specific loss. Plans already under way by the Federal Aviation Agency and the Civil Aeronautics Board for the development of area airport facilities should help eventually to reduce these local subsidies. In the meantime, I recommended that subsidy requirements be tightened in one or

more of the following ways: (a) The use-it-or-lose-it policy should be strengthened by increasing minimum qualifying requirements each year until assured traffic produces break-even revenues. (b)

The class rate formula should be adjusted so that subsidy is related more closely to loss operations rather than to the overall system needs of the carrier. (c) Communities which want to continue a loss operation should at some point be required to share in its costs. (d) If a community cannot share subsidies and nevertheless requires the air service, consideration should be given to reserving operating rights for non-subsidized carriers. (e) The allowable rate of return for subsidized carriers should be successively reduced over a period of years to a level more nearly commensurate with risks involved and the financial requirements of the industry.

In the field of international air transport, I endorse S. 1540 as introduced. It provides for control over international air rates by the Civil Aeronautics Board and preserves Presidential review powers. Any attempt to eliminate Presidential review would in my judgment raise a serious constitutional question, since the determination of international air rates necessarily involves a consideration of foreign policy.

I also recommend approval by the Senate of the Hague Protocol modifying the Warsaw Convention. The Protocol would increase the liability of international air carriers from \$8,000 to \$16,000 per person for personal injury or death. Legislation perfecting the operation of this program will shortly be sent to the Congress for approval.

A Presidential statement on International Air Policy in 1963 instructed various agencies and departments to develop a program of

user charges for international air carriers. A staff study dealing with this subject is underway, and any necessary legislation will be submitted to the Congress in due course.

Carrier reports and interagency meetings

The number and complexity of reports which Government departments and agencies require of transport carriers have markedly increased in recent years. Most of these reports are essential to responsible decision-making in Government, and the data derived from them are also of value to the transport industry itself. In some instances -- notably at the Federal Maritime Administration and the Federal Maritime Commission -- carrier reporting actually needs to be expanded. But in many instances the opposite is true. Duplications, obsolete items and unnecessary details have become imbedded in the reporting process, creating a burden both on industry and on Government. A thorough review of reporting requirements is long over-due.

Recent action by the Interstate Commerce Commission demonstrates what can be accomplished. Over the last three years, the Commission has entirely eliminated some 453,000 reports which carriers had heretofore been required to file annually, deleted some 22,800 pages from additional reports, and canceled, in all, approximately 33,800,000 items of information previously reported. Not only have the reporting tasks of the regulated carriers have been greatly simplified, but the Commission itself has been relieved of receiving and processing all of these unnecessary items.

Accordingly, I have requested the Chairman of the Interstate Commerce Commission to continue the review of his agency's reporting requirements, and the chairmen of the other regulatory agencies and heads of departments in the transportation field to continue or initiate similar reviews of their own. Such implementation logically follows from the joint discussions on this subject already undertaken by the agency chairmen.

Since September 1962 the chairmen have also held joint conferences in regard to such matters as terminal areas; the divergent treatment and regulation of freight forwarders, brokers and consolidators; the need to facilitate the establishment and maintenance of through routes and joint rates between different transport modes; auditing; uniformity of accounting; collaboration on long-range research projects; the simplification of formal case processing; containerization; tariff simplification; and credit regulations. These conferences appear to have been fruitful and should continue. After most of their present discussions have developed to fruition, the chairmen may well want to solicit suggestions from industry and labor as to further topics which are of mutual interest and which require consideration.

Additional proposals

Several additional subjects arising out of or supplemental to the 1962 message deserve special mention.

The committee print circulated in the House Interstate and Foreign Commerce Committee does not contain a provision allowing all carriers to ship vehicles or containers on the carriers of other modes at the same rates available to non-carrier shippers and freight forwarders. In the light of the continued growth of such innovations as piggybacking, it is even more important now than heretofore that all carriers be allowed this right, and I recommend the inclusion of such a provision in pending legislation.

The committee print does include, and I endorse, a repeal of the so-called Commodity Clause of the Interstate Commerce Act, which, with certain exceptions, prohibits a railroad from transporting

any commodity manufactured, mined, or produced by it, or under its authority, or in which it has any interest. Here again, recent events have pointed up the need for equalizing the competitive opportunities of railroads, so long as the antitrust laws guard against possible abuses, and the Commodity Clause should therefore be repealed.

I endorse previous proposals for user charges on domestic air transport and inland waterways. These charges comply with the equitable doctrine of allocating costs to those who benefit most from services, and are essential to even a minimal lightening of the economic burden now being borne by the Federal Government for domestic air and water transportation. While the two-cents-per-gallon net tax on gasoline is continuing, there have not been but should be comparable taxes on jet fuels. A three-cents-per-gallon tax on fuels used by general aviation is also proposed. Similarly, fuel used by

inland waterway carriers should be taxed at a rate of two cents per gallon. The five-per-cent tax on airline tickets was passed by Congress as a user charge and signed into law as part of the legislation repealing the ten-per-cent passenger excise tax, but this legislation expires on June 30 of this year. It should be extended at least for another year, and its permanent extension should be considered whenever a general review of excise taxes is undertaken by Congress.

Subsidies for helicopter operations have been reduced each year but are still being granted. These subsidies are no longer warranted and should be terminated by the beginning of fiscal 1966.

Public Law 88-239, enacted December 23, 1963, gave the Post Office Department some degree of flexibility in arranging for the transportation of mail. As we gain experience under that Act, Congress may want to consider whether the Department should not be authorized to

contract with any type of carrier which meets its needs with economy and efficiency. This would not only result in lower costs to the Department but increase competition among modes in the important area of Government procurement. Similarly, that Department probably should have greater freedom to adjust parcel post rates and weight limits.

I am also taking two steps administratively which should increase the efficiency of Government operations. First, I am directing the Department of Defense and the General Services Administration to make use of all types of carriers, including contract carriers, when the circumstances seem appropriate. Secondly, I am directing these same departments to continue their rate and documentation simplification programs under Section 22 of the Interstate Commerce Act. Hopefully, experimentation under these programs will lead to simplified rates and documents applicable to all shippers.

Finally, I recommend that the Congress begin studying the feasibility of three steps which might well quicken the trend toward rate simplification: (a) authorizing contract-type rates for rail and motor carriers, thus enhancing competition with private carriage and lowering transport costs to shippers; (b) requiring rail carriers to accept the rail equipment of shippers; and (c) granting motor carriers the operating rights to provide power units (truck-tractors) and drivers to shippers, with the latter providing the trailers.

Conclusion

Throughout our history, transport conveyances have held a special fascination for Americans. The moving train, the landing plane, the whistling tug -- these are at once reminders of our rich and productive past, and symbols of our constant movement toward future accomplishments. The internal, technical workings of the

industry, however, are little understood. Contracts and conventions, rates and rebates and rationalization, short hauls and long subsidies, users and user charges -- these are difficult subjects even for experts. Yet no industry in our expanding economy requires a greater appreciation of its complexities than transportation does today.

Americans not only deserve adequate transportation; they demand it. As our population, our goods, and our capacity for speed all increase, so will our desire for safe, economical, commodious movement. The old methods of travel, the old regulations, the old relationships between modes, will not necessarily serve us for the future. That is why it is particularly important that our experimentation and research in this field continue. The \$2 million which the Congress has provided for a study of transportation problems will be meticulously and constructively spent. In addition, various groups

are now investigating such subjects as experimental freight rates, new kinds of service, mergers, through routes and joint rates, coordinated mass transit and highway programs, and practices and competitive efficiency in the maritime industry. These studies and the current Transport Census will continue, and those conducting them will be charged with the duty of producing practical solutions rather than laudatory goals. For, as Mr. Justice Moody once said, "The business of transportation is not an abstraction. It is the labor of men employed with the aid of instrumentalities, animal and mechanical, in carrying men and things from place to place." It is in recognition of this fact that we must seek real answers to real problems.

DATE 10/16/64

TO: Mr. Cater

FROM: Gordon M. Murray

REMARKS:

Mr. Gordon asked that we prepare the attached note for use by the White House staff.

October 16, 1964

~~CONFIDENTIAL~~ (Gordon M. Murray)

X
Transportation Task Force
X

The Transportation Task Force will have its fourth meeting on Monday, October 19. The following observations may require substantial modification at the conclusion of that meeting. At the present time, I see the situation as follows:

1. Ideas.

a. Rate policy. Some of the ideas will be far reaching, but gradual in effect and, therefore, dramatic. They involve changes in regulatory statutes, particularly the Interstate Commerce Act, which could bring about radical changes in the transportation industry over the long run, e.g., requiring all carriers to haul the vehicles of others, including non-carriers. This could turn the rate structure upside down. Another such proposal is to shift the burden of proof in rate cases from the carrier proposing the change to the shippers and opposing carriers. These ideas have real merit in terms of less regulation, more competition, but they may not be very realistic in terms of industry acquiescence.

b. Public investment policy. Will emphasize cost/benefit analysis, tie to user charge policy. Some far-out suggestions, e.g., Federal purchase of State toll road bonds selling at a discount (West Virginia, Calumet) have been mentioned, probably will not survive.

c. User charges and subsidies. Probably will support first, oppose second. Nothing new. In accord with executive branch positions for many years.

d. Maritime policy. Will be more like Bureau-Council ideas, less like Maritime Administration's. Logical ideas, certain to be resisted by the industry and the bureaucracy: buy some ships abroad, change subsidy formula to encourage innovation and reduce costs, reduce cargo preference, eliminate subsidy for liner service.

e. Merger policy. Will suggest that maintenance of competition is not a valid test intra-railroad, emphasize alternatives for merger, such as abandonment of facilities, development of jointly-owned facilities, and--where the real need is to write off useless capacity--bankruptcy.

f. Operating rights. Will recommend less restriction on entry, fewer limitations on routes and service rights.

g. Government organization. Somewhat more exciting would be recommendations for a Department of Transportation, a Transportation Investment Review Board, a greatly strengthened Interagency Merger Committee, and a new organization to represent the executive branch in regulatory proceedings dealing with rates, operating rights, etc. These ideas have merit and may be feasible. My understanding is that similar recommendations will be made by the Task Force on Government Organization.

2. Costs.

Most of the ideas likely to survive would require very limited, if any, additional Government expenditures, except that I cannot estimate the fiscal effects of establishment of a Department of Transportation.

3. Critique.

I sense a cleavage in this task force between market analysts and institutional economists. In my view the latter are less doctrinaire, see more clearly the complexity of economic problems, and are aware of the inadequacy of most simple solutions. It is too soon to say whether a consensus can be reached on the most important issues, even as to identifying what they are. It now appears unlikely that a report can be completed by November 15. Four sections of the first draft of a formal report have been prepared, but at least four other major sections remain to be done. The four sections already drafted have not been subjected to close review, and until after the next meeting it is impossible to estimate whether they will survive or be so hacked up as to require new beginnings.

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON 25, D.C.

EXECUTIVE

FBI/DOJ/Task

BE-2-4

FD-18-3

TN

FBI-1

July 21, 1964

MEMORANDUM

To: ^{**}Members of Transportation Task Force:
George Hilton, Chairman
Maver Bernstein
Benjamin Chinitz
Allen R. Ferguson
John Meyer
James Nelson
Robert A. Nelson
George Wilson
Franz Wolf

From: Gordon M. Murray, Executive Secretary

Subj: Transmittal No. 2

1. Attached is a copy of the report of the Interagency Committee on Transport Mergers and covering White House Press Release of March 6, 1963.
2. The next meeting of the task force has been set for August 14 and 15, 1964 at the Department of Commerce. Additional details later.
3. Work papers due here August 6, 1964 will receive prompt circulation.

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET

DATE July 21, 1964

TO: Mr. Cater

FROM: Mr. Murray

REMARKS:

we -
Glen
note date

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON 25, D.C.

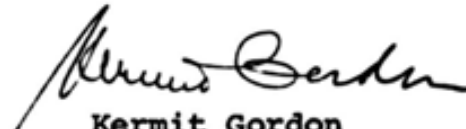
C. F.
FG 600/T*
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OFFICE OF
THE DIRECTOR

June 22, 1964

MEMORANDUM FOR MR. CATER

The attached issue paper has been prepared in connection with the work of the Task Force for which you will act as liaison for the White House. You may wish to look it over before the meeting with Mr. Moyers which is scheduled for 3:00 p.m. Tuesday, June 23.


Kermit Gordon
Director

Attachment

*with file
Cater 1/2
2nd night work*

XX

Task Force on Transportation

ADMINISTRATIVELY CONFIDENTIAL

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12 Sunday, 30h

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Task Force Issue Paper

TRANSPORTATION

- I. Background
- II. Issues for the Task Force
 - 1. Regulation
 - 2. Subsidies and user charges
 - 3. Research and development
 - 4. Other issues and Task Force focus
- III. Task Force
 - 1. Nature of the Task Force
 - 2. List of possible members

June 17, 1964

Task Force Issue Paper

TRANSPORTATION

I. BACKGROUND

The Federal Government is more heavily involved in transportation than in any other major industry. Through heavy investments, subsidies, user charges, research and development support, and taxation, it plays a major role in determining the growth and structure of the Nation's transportation system. The Federal Government's role as among various modes of transportation, however, is extremely uneven. Moreover, policy with respect to each mode is more often than not pursued without consideration of the consequences for other modes. As a consequence, a set of transportation policies has been evolved which, viewed in the perspective of the entire transportation system, makes little rhyme or reason.

The most recent major enunciation of a Federal transportation policy took the form of the Transportation Message of April, 1962. A central theme of that message was that significant changes in the technologies (and therefore relative costs) of the different modes of transportation over the last several decades have made it possible and desirable for the United States to place much greater reliance on competition and lesser reliance on regulation.

The 1962 message contained three major legislation recommendations: (1) a program of Federal financial assistance for urban passenger transportation, (2) transportation user charges for airways and waterways, and (3) rate deregulation of agricultural and bulk commodities. None of these measures has been enacted, though each has been the subject of extensive hearings, committee deliberations, and executive branch efforts to develop acceptable compromises.

This discussion excludes any reference to the vexing questions of Federal policy toward the maritime industry, though some of the general points suggested for task force consideration undoubtedly have a bearing on that subject.

II. ISSUES FOR THE TASK FORCE

1. Regulation

While the 1962 Transportation Message suggested a basic approach toward the regulation of transportation, it left unresolved a number of questions. That statement did not spell out the criteria necessary to guide the Congress and the regulatory agencies in reaching decisions on particular reductions or modifications in the approach to Federal regulation. It contained only one specific deregulation recommendation -- that referring to minimum rail rates of agricultural and bulk commodities.

If the underlying shift in emphasis suggested by the 1962 statement is to be effective, more precise guidance must be developed. In particular, a central problem in rate regulation arises because of the inadequate basis provided by cost data as currently collected. Realistic cost accounting would make possible a major simplification in tariff schedules for those rates which remain regulated. More importantly, better cost data would provide one part of the information needed to determine the areas in which the possibilities of intra-modal competition make deregulation desirable.

Reflecting the interactions among nominally independent public policy decisions is the impact of regulatory policy on Federal investment decisions in transportation. For example, the investment in waterways is predicated on the traffic that inland water carriers are expected to generate, given their present rates vis-a-vis rail and truck rates. There is reason to question whether relative rates in the different modes appropriately reflect differences in economic costs.

2. Subsidies and user charges

An underlying issue in Federal transportation policy which so far has been approached on an ad hoc basis is the extent to which the direct beneficiaries of Federal support of a given mode of transportation should pay, in some form or other, for all or a part of the benefits they receive. Direct user charges such as the highway gasoline tax which supports the highway trust fund, coupled with State and local gasoline taxes and other user charges (e.g., toll roads), are (apparently) predicated on the principle that the full cost of this particular transportation mode should be borne by the users (this applies only to inter-urban highway transport). By way of contrast, the Federal Government heavily subsidizes both water and air transport, and even the currently proposed user charges in both of these modes will by no means recover full costs.

Finally, the railroads currently receive almost no significant direct Federal subsidy, and since their rights-of-way and equipment are privately owned, they are subjected to State and local property taxes. (During their developmental stage, the railroads did receive significant public subsidy, primarily in the form of land grants, but since the end of the 19th Century there has been little if any public subsidy for the railroads.) Furthermore, the railroads are subjected to perhaps the most stringent regulations of any mode of transportation.

If some rationality is to be brought to the present "crazy quilt" pattern which shows a wide range of subsidy policies among the different transportation modes, a basic task is the development of criteria which can guide particular decisions.

Closely related questions arise with regard to such issues as Federal excise taxes on passengers using the various modes, and the question of the Federal Government's own procurement of transportation services (e.g., postal services, preferential treatment of the Defense Department personnel on air carriers, excise taxes on the purchase of private automobiles, etc.).

Another basic issue currently handled in a variety of ways and with a variety of devices has to do with the question of the form in which Federal support is given to the different modes of transport. Should the Federal Government directly invest in facilities (e.g., the Federal airway system, inland waterway development), should it make grants to States and localities -- with or without fund matching -- so that they may undertake direct investment, should it make loans on preferential terms to public or private bodies for investment and, finally, should it grant operating subsidies?

As indicated above, the decisions made with regard to user charges, subsidies, and taxation have a direct and pervasive bearing on the public regulation of transportation, and particularly on the impact of subsidies (in one form or another, direct or indirect) on the regulation of one mode when heavy Federal support goes to another mode. This problem is highlighted by the situation of the railroads vis-a-vis water carriers particularly, and, to a lesser extent, motor carriers.

Developing criteria to guide decisions in this range of problems will presumably focus on encouraging the economically efficient use of the existing resources as well as on the efficient development of additional capacity, but such criteria

must also take account of the present fabric which past policies have created. Equity considerations presumably demand that we acknowledge past private decisions in investment predicated on past public policy and the expectations they have engendered.

3. Research and development

The Federal Government has adopted a broad range of policy toward its role in supporting R&D in the various modes of transportation. At one extreme, virtually no Federal effort has been made to encourage the improvement and modernization of railroad transportation. At the other extreme, the Federal Government has been the prime mover, both in terms of leadership and in terms of financial support, for the development of aviation. While there is a growing consensus that the Federal Government has a legitimate role in supporting research over a wide spectrum of civilian activities, there is no agreement yet as to the appropriate guidelines by which the Government should arrive at decisions regarding the extent and kind of R&D which it should support. The question of the Federal Government's role in the development of the supersonic transport has highlighted most of these issues -- and emphasizes their complex and controversial nature. Nonetheless, if we are to move toward greater reliance on competition within and among competing modes of transportation, it is vital that a policy be developed, taking due account of the differential effect of the current pattern of Federal support for R&D among the various modes of transportation.

4. Other issues and Task Force focus

There are a number of specific transportation policy issues currently confronting the executive branch. Examples include:

- Evaluation of the Civil Aeronautics Board airline subsidy reduction program.
- Implementation of the urban mass transit program (assuming congressional passage).
- The subsidy reduction program for local service aviation.
- The development of the Federal Government's program for post-1972 highway development.

- Evaluation of proposals to develop high-speed ground passenger transportation in the Boston-Washington Corridor.

The task force may choose to consider one or more of these (or other) specific and more or less immediate issues. In addition, the transportation area contains serious Federal organizational problems. Either the transportation task force or the task force on efficiency and economy should give serious consideration to the proposal that all Federal transport "promotion" activities be placed in a single Department of Transportation, or in some other way brought under common control.

Rather than focusing on more immediate issues which are already under active consideration in one or more parts of the Federal Government, the task force may direct its attention to the broader, underlying issues mentioned above. Those wrestling with particular problems in the transportation field on a day-to-day basis are frequently frustrated by the lack of a frame of reference which would help articulate the important interrelations among modes of transportation and among policy areas. While it would be unreasonable to expect a task force in a few months to provide the definitive development of such a frame of reference and set of criteria, it might lay the groundwork on which a basic re-evaluation of Federal transport policy could be evolved -- possibly as the charter of the new Department of Transportation. Inevitably in the course of such an effort the task force would throw off more immediate and specific policy recommendations leading either to the development of specific legislative proposals or changes in specific Administration policy.

III. TASK FORCE

1. Nature of the Task Force

Below is a list of suggested persons inside and outside the Government from which the task force might be drawn. No information is available as to the willingness of any person on the list to serve. It is to be noted also that the list does not contain a specialist in the field of public administration. At least one person on the task force should have this competence and preferably work experience in the field of transportation.

It is suggested that this paper, as it may be revised, be submitted to each task force member with a portfolio of key documents. Each member should be requested to prepare an issues paper of his own. Arrangement should be made for the exchange of these papers and for preparation of comments by each member. An initial meeting of the task force should then be scheduled. At this meeting, to last several days if necessary, the task force members should be required to draft a consensus paper selecting and defining issues for subsequent development. The resulting issues paper can then serve as the progress report scheduled for submission completion on July 5th.

2. List of possible members

Inside Government

Allen R. Ferguson, International Air Coordinator,
Department of State (Economist with impressive
work in transportation).

Robert A. Nelson, Director of Research, Office of
the Under Secretary for Transportation, Department
of Commerce (Transportation Economist, able
researcher).

Outside Government

George Bortz, Brown University (Transportation
Economist).

Benjamin Chinitz, University of Pittsburgh
(Economist with work in regional resource
development and transportation).

John Dunlap, Harvard University (Economist with
impressive experience in transportation labor).

George Hilton, University of California,
Berkeley (Economist with emphasis in trans-
portation regulatory problems) (reported at
World Bank this summer).

Edward Mason, Harvard University (Economist,
possible task force chairman).

George Wilson, Indiana University (Transportation
Economist) (on leave at Brookings).

THE WHITE HOUSE
WASHINGTON

NOV 16 1964

MEMORANDUM FOR PARTICIPANTS IN WHITE HOUSE MEETINGS ON
THE LEGISLATIVE PROGRAM

Attached is a copy of a Task Force report covering the subject of the meeting you are scheduled to attend tomorrow. These Task Force reports are being held in strict confidence, and the attached copy is for your eyes only; please do not distribute it to your staff. You should bring it to the meeting tomorrow.



Bill Moyers
Special Assistant to the President

Attachment

NATIONAL TRANSPORTATION POLICY

REPORT OF A TASK FORCE TO THE PRESIDENT OF THE UNITED STATES

NOVEMBER 1964

November 16, 1964

The President
The White House
Washington, D. C. 20500

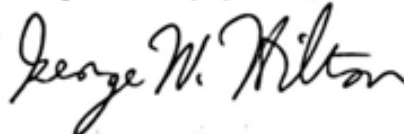
Dear Mr. President:

Herewith I present to you the report of the Task Force on Transportation Policy.

The Task Force was unanimously of the opinion that American transportation policy has been deficient in two major respects: first, the use of rate regulation and restrictions on entry rather than competition has raised rates and lowered utilization of many transport facilities; second, investment in transportation has often been allocated in a fashion not wholly in accord with the public interest. Accordingly, we have framed a program which is mainly concerned with policies in these areas.

We are keenly aware of the honor of serving on the Task Force, and we hope that our efforts may be of service to your Administration and to the Nation.

Respectfully yours,

A handwritten signature in cursive script, reading "George W. Hilton".

George W. Hilton
Chairman

TASK FORCE ON TRANSPORTATION POLICY

George W. Hilton, Chairman

Gordon M. Murray, Executive
Secretary

Benjamin Chinitz

Allen R. Ferguson

John R. Meyer

James R. Nelson

Robert A. Nelson

George W. Wilson

Franz B. Wolf

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PREFACE

Transport expenditures in the United States exceed \$100 billion annually. The industry consumes nearly half of our total output of energy. It employs directly more than nine million people. Transport permeates the economy. Virtually all other industries -- manufacturing, agricultural, extractive and service industries alike -- are heavily dependent on transport. Consumers depend on transport for much of their recreation and for much of their freedom in choosing where to live. Workers depend on it not only for access to their jobs but for much of their freedom to choose between jobs. The economic health of transport is, therefore, of vital concern to the U.S. Government.

When account is taken of the increased demands for transport services that are generated by a growing population and a growing economy, the need to develop a national transport policy consistent with the circumstances and opportunities of a dynamic and highly developed industrial society becomes apparent.

The United States now has a massive, flexible transport system linking all parts of the nation together. That system has been built within the confines of present policy. Why, then, is a new policy needed? First, it will eliminate inefficiencies which retard growth, impair the ability of American industry to compete abroad, and depress the standard of living at home. Second, it will reduce the deep entanglement of governmental agencies as advocates, promoters, protectors and regulators of private interests which conflicts with our liberal international policies and contravenes the precepts we advance to the less developed and the non-free nations. Advocacy of "equal opportunities for all and special privileges for none" is particularly appropriate in transport. Finally, it will save governmental funds needed

to achieve real social benefits but now flowing into unproductive channels.

Thus there is need for drastic revision of national transport policy, geared to contemporary realities. What are these contemporary realities?

(1) The transport industry has been transformed by technology, growth of market, massive investments and competition. A nationwide system is in operation. Virtually all shippers and travellers have a wide range of choice of modes, routes and destinations. The old notion that transport is a natural monopoly is no longer relevant.

(2) The extension of the number and variety of transport alternatives makes comprehensive regulation administratively infeasible.

(3) The problems of the nation are now vastly different. We are a highly developed country experiencing accelerated technological change. A prime requisite of further progress is flexibility to respond to such change. Detailed and complex regulations which serve to diminish adaptability to change discourage general economic expansion.

The new transport environment requires that we emphasize the efficient accomplishment of the primary mission of the transport system, which is, to meet the demands generated by the economy. This objective will be achieved only if we:

(1) Place greater reliance on market forces and less on public regulation in guiding the development of the private transport sector, and

(2) Rigorously evaluate costs and benefits in the allocation of public funds for the enhancement of the transport system.

The transport system that develops under this policy will have strength and flexibility--and will serve the nation at lowest cost consistent with the demands put upon it.

To implement this policy, the task force has made recommendations ranging the entire spectrum of transport problems. These recommendations call for:

- (1) Establishment of a Department of Transportation.
- (2) The curtailment of Government subsidies and creation of a mechanism --the Federal Transport Investment Review Board--for harmonizing the expenditure of public funds with the stated objectives of an integrated transport policy.
- (3) Relaxation of rate regulation by the Interstate Commerce Commission so that the rate structure will more nearly reflect the technological and competitive conditions which determine the alternatives faced by the shipping and travelling public.
- (4) Wider application of user charges in air, water, and highway transport on grounds of equity, public revenue needs and the improvement of public investment decisions.
- (5) Purchase of transport services by the Government at lowest cost compatible with adequate service.
- (6) Removal of legal barriers to entry and abandonment on the part of common carriers.
- (7) Enlargement of the authority of the Interagency Committee on Transport Mergers which would permit the Committee to develop and present before the regulatory agencies alternatives to mergers proposed by the carriers and to evaluate and suggest alternatives to merger.
- (8) Drastic reduction and alteration of operating and construction subsidies in the maritime industry.

The task force feels that immediate legislative action to correct current deficiencies can be initiated along the following lines:

Investment

- (1) Divert some funds from the Highway Trust Fund to the new Federal fund for the development of outdoor recreational facilities--at least 1 percent immediately, 5 percent or more within five years.
- (2) Divert some of the funds now expended on the inland waterways to the rehabilitation of major ports.
- (3) Terminate the Federal-aid Airport Program.

Rates

- (1) Eliminate most of the authority of the Interstate Commerce Commission to regulate minimum rates of all carriers under its jurisdiction.
- (2) Repeal the "long haul, short haul" provision of the Interstate Commerce Act.
- (3) Eliminate the "rule of three" and other limitations on bulk commodities that may be transported on the waterways without loss of the exemption.
- (4) Amend the Interstate Commerce Act to eliminate the requirements in Parts I, II, III, and IV that carriers maintain rates based on "reasonable classifications".
- (5) Amend the Interstate Commerce Act to require rail and highway carriers to accept shipper-owned or -leased equipment for transport. The law should be amended to permit shippers to lease equipment among themselves as well as to and from car-leasing companies without regulation of leasing terms.

(6) Amend the Interstate Commerce and Federal Aviation Acts to provide that in rate cases where the complainant is a carrier, the burden of proof as to the reasonableness of the rate shall be on the complaining carrier.

(7) Amend the Interstate Commerce and Federal Aviation Acts to deny carriers the right to request suspension of proposed rates.

(8) Amend the Interstate Commerce Act to give the railroads and bus companies complete freedom in setting intercity passenger fares.

(9) Amend the Federal Aviation Act to eliminate rate regulation of all unsubsidized domestic air passenger transport.

User Charges and Subsidies

(1) Terminate subsidies for helicopter operations.

(2) Levy an initial tax of 2 cents per gallon on all fuel used on the inland waterways.

(3) Increase the tax on highway diesel fuel from 4 to 7 cents per gallon, the weight tax on trucks over 26,000 pounds gross weight by an additional \$2 per thousand pounds, and on tread rubber by an additional 5 cents per pound.

(4) Extend the 2 cents per gallon tax on aviation gasoline to jet fuels for commercial aviation. Continue the 5 percent tax on passenger travel by air and extend it to air freight. Increase the gasoline tax for general aviation to 10 cents a gallon and extend it to jet fuels; impose annual license fees averaging \$1,000 per aircraft (varying with weight).

Mergers

(1) Revise the Interstate Commerce Act to require the Commission to give dominant weight in mergers to the effect of the merger on

adequate transport service to the public.

(3) Revise the Interstate Commerce Act to substitute more flexible alternatives for the protection of affected employees to the present provision of a 4 year guarantee of equivalent employment.

(3) Revise the Interstate Commerce Act to give greater influence to equity and other junior security holders in bringing about reorganization.

Operating Rights

Permit complete freedom of entry to new firms and permit existing firms to adjust routes, direction of movements and commodities carried in response to demand. Reduce impediments to exit and to abandonment of facilities and discontinuance of service for all modes.

International Maritime

(1) Discontinue the operating subsidy for passenger ships. No new subsidy contracts for such ships should be made and existing contracts should be renegotiated to terminate them as speedily as possible with compensation for undue hardship otherwise imposed on operators and crews. Contract settlement terms should protect operators against losses and a modest portion of subsidy savings may be used to assist displaced seamen.

(2) Eliminate the concept of the essential trade route and allow cargo line operators wide latitude in scheduling their operations. Relieve them of the requirement to operate American-built vessels exclusively and to use only American yards for repair and maintenance.

(3) Reduce new obligational authority for ship construction subsidies immediately by one-third and the remainder by one-fifth per year so as to terminate in five years.

(4) Eliminate cargo preference either immediately or in steps of, say 10 percentage points annually.

(5) Eliminate the requirement of filing rates 30 days in advance of effectiveness.

I. SUMMARY OF RECOMMENDATIONS

A. Organization and Procedures

Institutional Means?

- ① Establish a Department of Transportation.
2. Build up a permanent organization for continuous policy formulation and revision in the Office of the Under Secretary of Commerce for Transportation. This should become a core element in the recommended Department of Transportation.
- ③ Establish a Federal Transport Investment Review Board, to coordinate the Federal transport investment budget and long-run transport investment planning; to eliminate inconsistencies in the methods now employed to determine the extent and distribution of transport investment; and to provide a means of efficiently adjusting transport investment to economy-wide objectives of reducing unemployment or redistributing income. *Advisory in Nature*
4. Establish, under the chairmanship of the proposed Department of Transportation, an interagency committee to formulate executive branch positions for presentation to the regulatory agencies in important rate cases and in important cases involving operating rights.
5. Enlarge the authority of the Interagency Committee on Transport Mergers.

B. Investment Policy

1. Examine the Federal-aid highway program projected for the post-1972 period in terms of (a) least-cost elimination of bottlenecks; (b) possible reduction of need in view of the completion of the Interstate Highway System already planned; (c) greater flexibility, particularly avoidance of high-volume design on light-density routes in sparsely-settled areas and excessive geometric design standards in urban areas, especially when the result is impairment or destruction of neighborhoods or aesthetic values.
- ② Continue the Highway Trust Fund, but be alert to the prospect that a combination of increasing revenues and reduced benefits derivable from additional highway investments may make possible a diversion of some of the Funds' resources as at least part payment for the indirect costs thrust upon governments by the existence and use of the Interstate System. Because of the close connection between the use of highways and the use of recreational facilities, some of the Highway Trust Fund should be diverted immediately to the new Federal fund for the development of outdoor recreational facilities: at least 1 percent immediately, and 5 percent or more within five years. *Possible tax refund of it?*
3. Place interstate toll roads on an economic and financial parity with those portions of the Interstate System now financed by the Highway Trust Fund.

4. Make an exception to the criterion of limiting estimated aggregate benefits to those accruing directly to individual private users in cases where transport investment is an indispensable tool for changing the whole face of the economy, as in Appalachia.

5. Instruct the Department of Commerce to examine the appropriateness of present forms of transport ownership and control in cases where the transport investment problem may be complicated by organizational weaknesses or fragmentation and overlapping of responsibilities. *Corridor*

6. Begin immediately to relate investment in the Federal airways to revenues that can be obtained from user charges.

7. Give greater attention to the rehabilitation and improvement of major ports. Divert some of the funds now expended on additions to the inland waterways to this objective.

C. Rate Policy

1. Eliminate the authority of the Interstate Commerce Commission to regulate minimum rates of all carriers under its jurisdiction. *Not workable*

② Repeal paragraph (1) Section 4 (the "long haul, short haul" provision) of the Interstate Commerce Act.

3. Eliminate the "rule of three" respecting the number of bulk commodities that may be transported on the waterways in a single tow without loss of the exemption.

4. Repeal the provision limiting the bulk exemption to commodities handled by water carriers on June 1, 1939.

⑤ Amend the Interstate Commerce Act to eliminate the requirements in Parts I, II, III, and IV that carriers maintain rates based on "reasonable classifications."

⑥ Amend the Interstate Commerce Act to require rail and highway carriers to accept shipper-owned or -leased equipment for transport. Shippers should be permitted to lease equipment among themselves and to and from car-leasing companies without regulation. Rates charged for hauling shipper-owned or -leased freight cars or trailers should be commensurate to the service being provided and should not take account of the nature of the commodities being hauled.

⑦ Instruct the Department of Commerce to initiate proceedings before the Interstate Commerce Commission to eliminate from TOFC tariffs, either specifically or by reference, the requirement that Plans III and IV TOFC rates be applied only on mixed loads.

8. Amend the Interstate Commerce and Federal Aviation Acts to provide that in rate cases where the complainant is a carrier, the burden of proof as to the reasonableness of the rate shall be on the complaining carrier.

9. Amend the Interstate Commerce and Federal Aviation Acts to deny carriers the right to request suspension of proposed rates. The right of shippers to request suspension would remain unimpaired.

10. Amend the Interstate Commerce Act to give the railroads complete freedom in setting intercity passenger fares.

11. Amend the Interstate Commerce Act to allow management complete freedom in setting intercity bus passenger fares.

12. Amend the Federal Aviation Act to eliminate rate regulation of all unsubsidized domestic air passenger transport.

13. Urge the Civil Aeronautics Board to encourage the setting of rates for subsidized air transport at the highest level compatible with maximizing carrier net revenue.

D. User Charges and Subsidy Policy

1. Instruct the Department of Commerce with the assistance of the Federal Aviation Agency, the Civil Aeronautics Board, the Treasury, and the Bureau of the Budget to continue efforts to quantify benefits received by various categories of users of aviation facilities.

2. Renew recommendations to the Congress for airway user charges.

3. Create an Airways Trust Fund with provisions for linking of user charge revenues and new Federal expenditures on additions and improvements to the Federal airways.

4. Terminate the Federal-Aid Airport program.

5. Urge greater cooperation between the Civil Aeronautics Board and the Federal Aviation Agency in relating changes in commercial aviation operations, especially of the subsidized local service carriers, to the development of airports and related airways system improvements.

6. Terminate subsidies for helicopter operations.

7. Urge the Board to continue the evolutionary development of its Class Rate Plan for subsidies to local service airlines, to develop similar plans for Alaska and Hawaii subsidized operations, to enforce its use-it-or-lose-it policy, and to revise use-it-or-lose-it standards progressively so that deficit operations will be eventually eliminated.

8. Levy an initial tax of 2 cents per gallon on all fuel used on the inland waterways.

9. Instruct the Department of Commerce to update and elaborate its studies of inland waterway costs and revenues and to develop a more nearly compensatory schedule of charges.

10. Create a Waterways Trust Fund with provisions for ultimate linking of user charge revenues and new Federal expenditures on additions and improvements to the inland waterways system.

11. Recommend increases (a) in the tax on diesel fuel from 4 to 7 cents per gallon, (b) in the weight tax on trucks over 26,000 pounds gross weight by an additional \$2 per thousand pounds, and (c) on tread rubber by an additional 5 cents per pound.

12. Instruct the Department of Commerce to continue its studies of accelerated highway wear likely to result from liberalized truck size and weight limits and to recommend any necessary further adjustments in user charges.

13. Instruct the Secretary of Commerce to participate directly in all stages of any study of highway needs for the period beyond 1972.

14. Instruct the Department of Commerce to explore the possibilities of developing schedules of differential user charges to control peak traffic loads (congestion) on the highways.

E. Government Purchase of Transportation

1. Direct all Government agencies to procure transport at the lowest cost compatible with adequate service.

2. Resist efforts to make any major change in Section 22 of the Interstate Commerce Act.

F. Merger Policy

1. Endorse railroad mergers when merger appears to be the best means of achieving improvements or disinvestment.

2. Revise Section 20b, Part I, of the Interstate Commerce Act to give greater influence to equity and other junior security holders in bringing about reorganization.

3. Revise Section 5(2)(c) of the Interstate Commerce Act to provide that in evaluating any proposed merger the Commission must give dominant weight to the effect of the merger upon adequate transport service to the public.

4. Revise Section 5(2)(f) of Part I of the Interstate Commerce Act which now requires that employees of merged carriers not be put in "a worse position with respect to employment" for a period of 4 years after merger. Alternatives to the fixed time period, such as liberalized severance pay, special retraining programs and compulsory retirement should be explored.

5. Continue the policy of preventing all intermodal mergers.

6. Once minimum rate and entry control are removed, amend Section 5, Part I, of the Interstate Commerce Act to remove all restrictions on intermodal mergers. This removal should be accompanied by repeal of Section 5a of the Interstate Commerce Act (Reed-Bulwinkle Act). Transport mergers should be subjected to the full sanctions of the Clayton Act.

7. Exempt all freight forwarder activities from regulation.

G. Operating Rights

(i) Surface Transport

1. Permit freedom of entry to new firms who can obtain adequate public liability insurance and meet safety requirements, as rapidly as rate deregulation is effectuated.

2. Permit existing firms to adjust routes, direction of movements and commodities carried in response to demand.

3. Reduce impediments to exit and to abandonment of facilities and discontinuance of service for all modes.

4. Amend the Interstate Commerce Act to provide similar automatic right to bus companies to discontinue service.

5. Assign to the interagency committee, established under the chairmanship of the proposed Department of Transportation, responsibility to formulate executive branch positions for presentation to the regulatory agencies in important surface transport cases involving operating rights, entry and exit.

(ii) Air Transport

1. Eliminate ultimately all barriers to entry into the industry and to participation on particular routes. Simultaneously, remove all restrictions on exit, abandonment and discontinuance.

2. Permit immediately the trunk carriers to discontinue service on low traffic segments. Transfer these segments to the local service carriers, even if subsidy is transitionally increased.

3. Encourage the Civil Aeronautics Board to lift restrictions against skip-stop operations for local service as well as trunk carriers.

4. Discourage the Board from imposing any minimum number of round trips per day to low traffic points on subsidized carriers. The small, unsubsidized taxi operator serving a few pairs of points offers a much more satisfactory solution.

5. Urge the Board not to certificate a subsidized carrier between points where existing air taxi service is satisfactorily meeting needs.

6. Assign to the interagency committee, established under the chairmanship of the proposed Department of Transportation, responsibility to formulate executive branch positions for presentation to the regulatory agencies in important air transport cases involving operating rights, entry and exit.

H. International Maritime Policy

1. Abandon the present method of computing the operating subsidy.
2. Discontinue the operating subsidy to passenger and combination ships with substantial passenger accommodations. Contract settlement terms should protect operators against losses and a modest portion of subsidy savings may be used to assist displaced seamen.
3. Eliminate the concept of the essential trade route and allow cargo line operators wide latitude in scheduling their operations.
4. Reduce the operating subsidies by the amount of the passenger ship subsidy as quickly as possible in accordance with recommendation 2.
5. Base the amount of subsidies beyond the first six years on the experience of the transition period and set it at a level designed to sustain a volume of U.S. flag service sufficient to exert a beneficial influence on operating efficiency and freight rates.
6. Renegotiate existing cargo liner subsidy contracts so as to transfer operations to the new program without undue hardship or undue windfall benefits to the operators.
7. Reduce new obligational authority for construction subsidies immediately by one-third and the remainder by one-fifth per year so as to terminate in five years.
8. Devote some portion of the remaining obligational authority to facilitate adjustment of yards and workers. The residual should then be used to subsidize "transition-period construction" on terms calculated to provide a real competitive incentive to management and labor.
9. Do not require ship operators to utilize American-built vessels. Operators should also be permitted to have their vessels maintained and repaired abroad.
10. Exclude hovercraft from the foreign bottom provision if they are determined to be marine vessels.
11. Eliminate cargo preference either immediately or in steps of, say 10 percentage points annually.
12. Urge the Federal Maritime Commission to use its power to approve or disapprove conference agreements as a means of influencing conference rate decisions.

13. Require subsidized U.S. carriers that choose to participate in conferences to comply with Federal Maritime Commission guidelines on conference policy as the price of immunity from antitrust prosecution.
14. Continue and enforce the Bonner Act's limitations on dual rate contracts.
15. Eliminate the legal requirement of filing shipping rates 30 days in advance of their effectiveness.
16. Eliminate pooling agreements to the fullest extent practicable--there is a presumption that if they are worth the trouble to establish and discipline they are monopolistic.
17. Clarify the antitrust status of shipper associations to encourage their participation in conference rate making.
18. Avoid U.S. participation in any international organization or discussion directed toward making the conference system more effective.

II. INTRODUCTION

Transport expenditures in the United States exceed \$100 billion annually. The industry consumes nearly half of our total output of energy. It employs directly more than nine million people. In addition, vast supplier industries and the service industries that maintain and regulate the vehicles, highways, airways and terminals which make up the transport complex provide substantial additional employment and claim major shares of our resources. Virtually all other industries -- manufacturing, agricultural, extractive and service industries alike -- are heavily dependent on transport. Consumers depend on transport for much of their recreation and for much of their freedom in choosing where to live. Workers depend on it not only for access to their jobs but for much of their freedom to choose between jobs. The economic health of the transport industry is, therefore, of vital concern to the U.S. Government.

Increased demand for services will confront the industry, say by 1980: a population of more than 250 million, the most mobile on earth; and a gross national product likely to exceed \$1 trillion, requiring fast, economic and widespread distribution. In view of these prospects, it becomes doubly clear that we need to develop a national transport policy consistent with the circumstances and opportunities of a dynamic and highly developed industrial society.

The United States now has a massive, flexible transport system linking all parts of the nation together. That system has been built within the confines of present policy. Why, then, is a new policy needed? First, present policy is internally inconsistent -- it is not a policy but many fragments of policy. It includes inefficiencies which retard growth,

impair the ability of American industry to compete abroad, and depress the standard of living at home. Its deep entanglement of governmental agencies as advocates, promoters, protectors and regulators of private interests conflict with our liberal international policies and contravenes the precepts we advance to the less developed and the non-free nations. Finally, it will save Government funds needed to achieve real social benefits but now flowing into unproductive channels.

Thus there is need for drastic revision of national transport policy; geared to contemporary realities.

A. A Look at the Past

Current policies reflect convictions that long ago became rigid. They derive from an appraisal of the transport industry as it was in the nineteenth century, and as it was believed to be in the pre-war years, not as it is now and has been for at least 25 years.

The policy of the nineteenth century had a deeper motive than simply the desire for a commercially efficient transport system. Throughout that period, the most compelling domestic need was to advance the settlement, development and unification of the vast territories of the United States. For more than one hundred years the response of our Government has been promotion of transport, with more and more regulation superimposed to protect the public against monopolistic exploitation.

No other instrument of public policy then seemed to promise as prompt, sizeable and widely diffused returns in economic development and social betterment as subsidy of transport.

Whether the resulting policies and programs, on balance, were best for the United States in the nineteenth century need not be answered here. The question of alternatives would have to be weighed. In any event, no

reasonably good alternative seems to have occurred to nineteenth century leaders. For us, the more important question goes to the appropriateness of these time-honored policies to the solution of mid-twentieth century problems.

For three main reasons the answer is "no":

(1) The transport industry has been transformed by technology, growth of market, massive investments and competition. A nationwide system is in operation. In some instances there is physical redundancy. Virtually all shippers and travellers have a wide range of choice of modes, routes and destinations. The old notion that transport is a natural monopoly is no longer relevant and hence the basic rationale for direct regulation of the monopoly type is gone.

(2) The extension of the number and variety of transport alternatives makes comprehensive regulation administratively infeasible and this in turn creates serious and growing distortions between the regulated and unregulated segments of the transport industry.

(3) The problems of the nation are now vastly different. We are a highly developed country experiencing accelerated technological change. A prime requisite of further progress is flexibility in management to respond to the accelerated growth of technology. Detailed and complex regulations which serve to obstruct the promptness and effectiveness of responses to market signals are, therefore, obsolete as a means of encouraging general economic expansion or specific regional development.

B. The Transportation Message of 1962 and its Effects

Policy obsolescence was recognized by President Kennedy in his special message on transport when he said that "Federal policies must be re-shaped in the most fundamental and far reaching fashion. . . ." He emphasized

urgency: "If direct and decisive action is not taken in the near future, . . . undesirable developments that confront us now will cause permanent loss of essential services or require even more difficult and costly solutions in the not-too-distant future."

The new national transport policy consisted of: (1) "reliance on unsubsidized privately owned facilities, operating under the incentives of private profit and the checks of competition to the maximum extent practicable . . .", (2) "less reliance on the restraints of regulation . . .", and (3) "users of transportation [to pay] the full cost of the services they use, whether those services are provided privately or publicly."

To make a practical beginning on policy reforms, President Kennedy listed specific recommendations for some 50 administrative and legislative actions. Legislation was for the most part embodied in three major bills promptly submitted to the 87th Congress: The Urban Mass Transportation Act of 1962 (dealing with Federal aids for public mass transit development), the Transportation Act of 1962 (dealing with rates), and H.R. 11584, and omnibus bill incorporating other major legislative recommendations. A few proposals were in bills already before the Congress or were submitted separately (e.g., in the Federal-Aid Highway Act of 1962).

Hearings begun during the latter part of the 87th Congress were continued in the 88th Congress when the major bills were reintroduced, but no further action was taken, possibly because testimony evoked such strongly hostile, though conflicting views.

In July 1964, however, Congress passed the Urban Mass Transportation Act authorizing \$375 million in Federal grants-in-aid over a three-year period to assist urban areas in revitalizing and expanding public mass transport systems. The Congress has just appropriated \$60 million for grants and \$5 million for loans for the mass transit program.

During 1963 and 1964, Chairman Harris of the House Commerce Committee made efforts to salvage parts of the other two administration bills, but his efforts (reflected in H.R. 9903, 88th Congress, 2nd Session) have been frustrated by the intransigent opposition of the water and motor carriers, joined by certain large shippers and some local public agencies, principally port authorities.

Other legislation fared better. The investment credit provisions of the Internal Revenue Act of 1962 gave transportation companies, among others, substantial tax savings as an incentive to increase capital investments. The railroads alone have received benefits totaling several hundred million dollars already. Also in 1962, Congress increased from 5 to 7 years the period for applying prior year losses to reduce current income for tax purposes. This change, applicable to all regulated public utilities, has particularly benefitted the railroads. At the same time the Treasury Department revised its depreciation guidelines, affording transport companies, especially the railroads, substantial additional assistance through more realistic tax write-off terms for vehicles and facilities.

The Federal-Aid Highway Act of 1962 incorporated four additional Presidential proposals: (1) relocation aids for families and businesses displaced by highway construction, (2) earmarking of additional highway trust funds revenues for research and planning, (3) more extensive use of secondary funds for urban roads, and (4) tightened requirements for coordination of highway and other transport planning in urban areas.

In the time available, we have not been able to ascertain the precise extent to which recommended administrative actions have been carried out. There has been clear evidence of progress. For example, the chairmen of the regulatory agencies have been meeting regularly on common problems. The Interagency Committee on Transport Mergers developed new merger criteria

and has been advising the Department of Justice on merger applications being presented to the regulatory agencies. We believe this Committee should be strengthened, its scope greatly enlarged, and its powers of initiative increased as indicated later.

In the remaining paragraphs of this introduction, we have distilled from the succeeding chapters, where issues and findings are developed in detail, a statement of objectives and an overall policy statement highlighting important assumptions and implications.

C. Transport Objectives

The principal objective of transport policy reform is economic because transport is, first of all, the servant of our commerce and industry. Its impact is made largely through other economic activities. Its duty is to carry goods and people swiftly, safely and as cheaply as the quality and variety of services demanded will permit. In fulfilling this objective well, the transport system will, under most circumstances, also make its maximum contribution to the mobility of people in their social, recreational, and other non-economic pursuits, and to the special tasks of Government, including national defense and delivery of the mail.

Thus directed, transport will also make respectable contributions toward the achievement of other national goals, both economic and non-economic. These purposes, however, should seldom be allowed to deflect the transport industry from the efficient accomplishment of its primary mission. Exceptions should be tolerated only (1) on convincing demonstration that non-transport purposes cannot be served by more direct and less costly means, and (2) when any burdens in higher transport costs or poorer services can be shown not to exceed the benefits accruing to other objectives.

D. Statement of Policy

To meet the core objective of efficiency, national transport policies should give greater freedom to the forces of the market which have shaped other industries so effectively and place less reliance on Government regulation and promotion. This is true for three main reasons:

(1) As already stated, transport is now sufficiently competitive to protect the public interest without detailed regulation.

(2) Even if the inconsistencies of present policies should be removed by increasing the scope of regulation, it is administratively infeasible to regulate many thousands of firms operating under widely differing and rapidly changing circumstances.

(3) The next step forward is to simplify, rationalize, and largely liquidate direct intervention and substitute a few overall policies in place of the growing mesh of detailed and direct ones. Detailed Government intervention in transport grew up during a period in which the railroads, in particular, were expected to act as spearheads in developing our economy, its regions and industries. Now that our economic welfare no longer depends on one means of transport, our complex transport system will best serve the Great Society if it operates generally with highest attainable efficiency. Government influence on it, therefore, is most fittingly exercised by general and pervasive policies rather than administrative and regulatory interference with individual business decisions.

The transport system that develops under this policy will have strength and flexibility. Successful enterprises will be cost- and service-conscious. Profits will depend on management ingenuity and customer satisfaction rather than on the props of public subsidy and regulation. Jobs will be secure and rewarding as they cannot be in inefficient and declining industries.

E. Underlying Assumptions

Three assumptions underlying the basic policies and specific actions recommended in this report must be emphasized: (1) The reformulation of Government policy and consequent changes in Government programs and in the transport industry itself, cannot be accomplished overnight. Changes must be staged; they will be evolutionary. Some will generate relatively minor dislocations and can be initiated promptly; others must be carefully planned, introduced gradually or postponed, and may require transitional public aids. (2) The specifics of this new transport policy are integral parts of a program to which only total commitment can assure success. For example, relaxation of public restraints on mergers can be accepted only if preponderant weight is given public interest criteria in evaluating merger proposals and if parallel and progressive relaxation of public regulation -- particularly of entry, operating rights and rates -- is vigorously supported. Similarly, the retrenchment of rate regulation recommended here cannot be vigorously endorsed unless new attitudes and standards on mergers are adopted. (3) Transport policy must be the dynamic response of Government to the constantly changing conditions in the transport industry and in the whole economy. Policy is not made "once and for all," but demands continuing review as policy changes take effect and as new problems arise, demanding new or revised policies and programs. A permanent organization for continuous policy formulation and revision should be built up in the Office of the Under Secretary of Commerce for Transportation. It can at any time become a core element in a Department of Transportation which this report earnestly recommends.

The members of the transportation task force are impressed by several statements made by President Kennedy concerning the future. "No simple

Federal solution," he said, "can end the problems of any particular company or mode of transportation . . . no just and comprehensive set of goals . . . can be quickly or easily reached . . . research and analysis, going far beyond our present findings, will be required before we know enough about the costs and other characteristics of various forms of transportation to guarantee the achievement of these objectives in full."

In this spirit, we have reviewed the principles of the 1962 Message and we endorse them. We have also reviewed all of its major recommendations. Our findings and conclusions are stated in the following chapters of this report.

III. INVESTMENT POLICY

A. General Considerations

The appropriate policy goal for public transport investment is a "transport plant" that will perform economically all socially needed transport services. It is a long jump, however, from a statement of this goal to its implementation.

Among other difficulties is that of determining how much transport investment should be undertaken in the public and how much in the private sector. A distinction must be made between the procedures by which optimum investment is likely to be achieved in each of the two sectors. Private transport companies are subject to very different conditions when making investment decisions from those faced by public authorities or governmental agencies. The most fundamental difference is that private companies must normally meet more stringent financial and profit tests than Government. While considerations of economic efficiency should not be absent from Government decisions, it seems highly probable, and quite properly in many instances, that efficiency will play a less critical role in public than in private evaluations.

Public investments in transport development are enormous. Including expenditures on development of military standby capacity, they are estimated to be \$7 billion annually, possibly more. Even without the military expenditures, they come close to \$6 billion per year.

Obviously, Government is a major decision maker in U.S. transport investment. The direction of Government investment expenditures can shape the development of the U.S. transport system in crucial ways.

If not made with care, these expenditures can defeat objectives sought by other Government programs and policies. Inadequately conceived or poorly executed, they can weaken or even prevent the healthy development of a transport system suited to the nation's growing needs.

Public investment in transport should be made primarily on the basis of a showing that the benefits to the United States exceed the investment costs. There are, however, several problems in making these calculations. First, there are indirect, secondary or diffused benefits from investment in transport, such as contributions to economic growth, national unity, safety, defense, etc. These are often intangible and always hard to quantify. Their definition depends on the point of view. In a nation well provided with transport, these benefits can easily be overstated and usually are, by those advocating the particular expenditures.

Second, expansion of some federally supported transport investments may also entail social costs which must be deducted from benefits. For example, the undesirability of being "across the tracks" may now be matched by "near the expressway or the airport." Transport investment may dislocate families and cause other disruptions which must be counted against expected benefits.

Third, most relevant benefits and some relevant costs accrue only in the future and must, therefore, be discounted for proper comparison with costs and benefits arising immediately and, equally important, for comparison with alternative uses of the same funds. This involves the difficult problem of selecting an appropriate rate of discount. Often the present value of future benefits is exaggerated by the use of too low a rate.

Most transport benefits derive directly from the economic advantages accruing to or through the direct users of transport. Consequently

estimated revenues from the prices charged or chargeable to individual users are the best general measures of benefits.

In some instances, however, transport investment may be justified by social benefits in the form of reduced unemployment or redistribution of income. These are best evaluated by a full systems analysis, i.e., an analysis comprehending all direct and indirect benefits as well as alternative means of achieving them. In general, evaluation procedures for transport, as well as other Government investments, should move toward greater reliance on this approach and less upon calculations restricted to particular projects.

At present, there is no comprehensive review or comparative evaluation of Federal investment programs in transportation. Each program agency formulates expenditure plans in terms of the needs of the mode or area for which it has responsibility. Its plans reflect the desires of its industry clientele, previous year appropriations, and budget targets established in reference to the agency's overall program. Although these plans are analyzed, agency by agency, by the Bureau of the Budget, there is no effective process of inter-program comparison and evaluation. How do we know that Federal expenditures of \$3 billion on highways, \$750 million on the merchant marine, \$300 million on the inland waterways, \$780 million on the airways are equally well spent? Does the last dollar or the 1 billionth dollar spent on highways produce as much benefit as the last of the \$780 million spent on the airways? We do not know. And even if all are worthy, we do not know what priorities should be established to use best the limited funds available for public investment in transport.

B. Special Investment Problems

A number of specialized problems arise in this area because of the extreme diversity of transport investment and the great variety of investors, public and private, who are expected to carry out national investment programs.

(1) The largest Federal transport investment is made in the Interstate Highway System. The present program for the Interstate System, involving investments until 1972, entails the completion of an articulated structure of highways which had already been planned, except for relatively minor details, before any construction or financing were undertaken. Post-1972 highway needs provide an opportunity to avoid certain weaknesses of the present program, as well as to shift the emphasis away from basic structure toward refinements and improvements. The standards of the present program have been too inflexible, especially in sparsely-settled areas, for a "first round" program. This defect may be alleviated by the growth of future traffic with respect to highways now existing or planned, but should not be repeated in a new program. Conversely, there is a need for more attention to the existence of bottlenecks--especially in urban and suburban areas where growth is expected to be rapid--and for careful attention to the relative costs and timing of programs to eliminate them.

(2) This last observation has specific relevance for the Highway Trust Fund. We believe that this Fund should be continued, in spite of the forceful arguments which can be made against earmarking of revenues. Our argument for earmarking, in the form of the Highway Fund, is that this device underscores the fact that so-called taxes whose proceeds are used to maintain and improve the highway system are, in fact, prices charged to users of highway service and not sources of support for general Government

expenditures. But we are aware of the danger that ever-larger receipts of the Highway Trust Fund might be devoted automatically to highway construction even when other uses should have higher public priority. Therefore we support the idea of a Highway Fund only as an interim method of financing the Federal contribution to highway investment. Moreover, we do not believe that the payment of the costs of highways should, in and of itself, absolve motor vehicle owners from contributions to the cost of related or general government activities.

(3) Toll roads present a special problem within the general highway classification. Most toll roads were built, or at least financed, before construction of the Interstate System was well under way. For the time being at least, toll roads seem to be more interesting as a historical survival than as a popular method of financing new highway construction. Indeed, it can be argued that holders of toll road bonds have already made their bargains and should receive their interest, or take their losses, without recourse to the Federal Government.

But this conclusion does not take account of a number of complications:

(a) The least successful toll road in the United States, the West Virginia Turnpike, cuts through the heart of Appalachia. As long as the Turnpike continues to earn less than its debt service, prudent management must try to set tolls with the sole objective of minimizing losses, even at the expense of maximum utilization of the highway. This is obviously inconsistent with the President's Program for Appalachia. (b) Where toll roads are successful, this very success may indicate a volume of traffic in need of additional facilities. Presumably these facilities would often be provided free as part of the Interstate System. The expenditures that

would maximize the usefulness of the System, therefore, might also jeopardize the earning capacity of existing toll roads. (c) In a few instances, toll revenues have been far more than adequate to service bond issues. Toll roads which yield such returns are in effect earning monopoly profits.

(d) In States that built toll roads in advance of the Interstate System, users are now effectively paying twice: in tolls, and by payments of Federal excise taxes toward the support of the Highway Trust Fund and hence, eventually, toward defraying the costs of the Interstate System.

(4) Although we have expressed our opposition to the inclusion of intangible, generalized benefits in analyses of the value of transport investments, we believe that exceptions do exist. For example, in evaluating such major projects as the highway program for Appalachia, transport analysis must be extended to recognize that the dominant purpose of the whole program, including its highway component, is a direct attack on chronic regional poverty. Therefore the deliberate intention is to provide transport facilities which are beyond the financial capacity or immediate traffic needs of the region. Transport expenditures may be warranted in such circumstances if alternative expenditures have been analyzed and found to be more costly relative to anticipated results.

(5) We have already noted that we do not believe in the doctrine, appropriate to a sparsely-populated pioneering society, that transport improvements necessarily bring net indirect advantages. In particular, in a country as crowded, and as prosperous, as ours, the Federal Government should be willing to find at least some funds for protecting social and aesthetic values from the destruction which may result from least-cost transport investment. Even moderately more costly alternatives without deleterious side effects should be carefully considered in preference to less expensive

construction. Non-economic values cannot be quantified in this instance; but they should not, on that account, be ignored.

(6) Passing from highways to rails, the most urgent immediate investment problem involves the future of all rail passenger transport in the Northeast Corridor. We believe that a satisfactory solution to this problem, with its attendant effects on needs for highway and airport facilities in the area, may require new forms of operation and even of ownership. These might include: (a) leasing of the appropriate facilities to one or more private operators, not excluding the railroad companies now owning and operating the properties; (b) an interstate authority or authorities; (c) direct Federal operation. Moreover, with reference to existing rights-of-way and other permanent facilities, Government acquisition for conversion to non-railroad uses should be encouraged in many cases.

(7) With respect to airways, present user charges do not serve as a measure of the desirability of the service. Both commercial and general aviation provide benefits mainly to those at the upper end of the income scale. Often both are exceptionally wasteful of investment funds, as well as destructive of the peace and quiet of the public. New investment is a close substitute for many operating expenditures in airways and even in airports. So the airways subsidy problem cannot be examined solely in terms of investment. Users of airways should be permitted to have a voice in the level of facilities provided and maintained, but only to the extent that they are willing to pay for them.

(8) The major investment problem on the waterways derives from a combination of massive over-investment on improving river channels and under-investment, or misallocated investment, in certain major ports.

contrast between billion-dollar river projects to provide navigation benefits to sparsely-settled areas, on the one hand, and the forlorn and archaic appearance of many basic port facilities, on the other, is indeed striking. Technical obsolescence of many port facilities repels traffic, drying up sources of funds for improvement. The dual objective of a Federal program should be increased efficiency of ports and reduced terminal costs for the waterborne commerce of the United States. These goals are hard to achieve under present conditions because the problem of funds has been vastly complicated by the fragmentation of responsibility among local authorities, the States, various Federal agencies, and private interests.

Recommendations

1. Establish a Federal Transport Investment Review Board, to coordinate the Federal transport investment budget and long-run transport investment planning; to eliminate inconsistencies in the methods now employed to determine the extent and distribution of transport investment; and to provide a means of efficiently adjusting transport investment to economy-wide objectives of reducing unemployment or redistributing income.
2. Instruct the Secretary of Commerce to participate in any study of post-1972 highway needs with a view to assuring implementation of the criteria of (a) least-cost elimination of bottlenecks; (b) possible shrinkage in total size in view of the prior completion of the basic structure of the Interstate Highway System; (c) greater flexibility, in terms particularly of avoiding the application of the most advanced principles of high-volume design to light-density routes in sparsely-settled areas, as well as the application of excessive geometric design standards in urban areas, especially where impairment or destruction of neighborhoods or esthetic values would otherwise result.
3. Continue the Highway Trust Fund, but be alert to the prospect that a combination of increasing revenues and reduced benefits derivable from continuing highway investments may make possible a diversion of some of the Fund's resources as at least part payment for the indirect costs thrust upon governments by the existence and use of the Interstate System. Furthermore, because of the close connection between the use of highways and the use of recreational facilities, some of the Highway Trust Fund should be diverted immediately to the new Federal fund for the development of outdoor recreational facilities. The task force would suggest that this diversion be at least 1 percent immediately, and rise to 5 percent or more within five years' time.

4. Place interstate toll roads on an economic and financial parity with those portions of the Interstate System now financed by the Highway Trust Fund. This could be achieved immediately by Federal purchase of all existing toll roads. In any event, money in the Highway Trust Fund should be used to purchase toll roads whenever needed additional free highway capacity could be provided less expensively in this manner than by new construction. Also, the Federal Government could offer to purchase toll roads whenever it appeared that efficiency in the use of existing highways or in the allocation of new highway investments was suffering from the need to protect bondholders.

5. Make an exception to the criteria of summing benefits to individual private users in cases where transport investment is an indispensable tool for changing the whole face of the economy, as in Appalachia. But carefully restrict these exceptions--to exclude, in particular, such investments in high-income areas as those that may be contemplated for the Northeast Corridor Project.

6. Instruct the Department of Commerce to examine the appropriateness of present forms of transport ownership and control in cases where the transport investment problem may be complicated by organizational weaknesses or fragmentation and overlapping of responsibilities. For example, some form of public ownership or operation may prove to be essential, along with public investment, in case it should be decided to make a public commitment to the Northeast Corridor Project; moreover, the economic problems of some of our ports may prove to be insoluble unless lines of authority are more clearly drawn and more closely related to over-all investment responsibilities.

7. Begin immediately to relate investment in the Federal airways to revenues that can be obtained from user charges.

8. Give greater attention to the rehabilitation and improvement of major ports. Some of the funds now devoted to additions to the inland waterways could profitably be diverted to this objective.

IV. RATE POLICY

A. General Considerations

Rate regulation stands at the very heart of relationships between different modes of transport, crucially affecting the division of traffic between modes and thereby the overall efficiency of the transport system. An eventual goal of public transport policy should be the elimination of most or even all minimum rate regulation and the use of market forces rather than regulation to establish most transport charges. Certain practical economic, social and political problems, however, preclude the early achievement of this objective or hasty movements in its direction.

The problems that have been built into the transport system cannot be solved at one stroke. Even their gradual solution, step by step, will not be possible without painful disruptions, both inside and outside the transport industry. Wherever long-prevailing regulation has built up a rate structure substantially different from free market rates, industrial location patterns are likely to have developed which would be seriously disrupted by an abrupt change in rate policy. Moreover, some rate regulation can be used to protect carriers with "inherent advantages" from short-run rate cutting of less efficient carriers. In each situation the short-run interests of consumers and shippers must be balanced against the longer-term interests of consumers and the more efficient carriers.

We state, therefore, a price policy toward which the Federal Government should strive as an ultimate goal. Practical problems prohibit the immediate achievement of this goal but, at the least, public action should move in the proposed direction.

B. Freight Rates

We believe it possible to begin now a program of legislative reform that by successive steps will approach the long-run goal of greater reliance on competitive forces to determine transport rates. "Value of service" rates based on the value of the commodity are obsolete now that the effective ceiling on rail value of service is established by the costs of moving goods by road and inland waterway, and especially by private and unregulated truck. This is particularly true in respect to large differences in rates between commodities. Rates imposed on some commodities return revenues much higher than costs in order to permit the transport of others at rates much below costs. This is largely outmoded in an economy that has achieved ubiquity of transport service and a high level of diversification in both geographic and product sense. Accordingly, we should reorient our national transport policy toward the elimination of rates based on the value of commodities, moving toward rates more closely related to the costs of efficient transport.

The task force also finds that legislative and regulatory change is badly needed to improve equipment utilization, particularly in rail transport. At the present time freight car utilization (movement) averages well below three hours a day. Yet crippling freight car shortages are faced by many regions of the country during parts of the year. We believe this is partly the result of the system of individual carrier ownership of freight cars which does not provide incentive for investment in new equipment. Often cars are off owners' lines for many months. The supply of rolling stock is not a function that necessitates regulatory controls, and consequently payment for the use of rolling stock does not need to be

included in regulated rates. Neither the demand nor the supply side of the market for rolling stock exhibits public utility characteristics. Moreover, the present system, whereby shippers who provide their own freight cars are required to pay regular tariff charges based on the commodity or commodities being shipped, and then in return are paid mileage allowances by the carriers, is unnecessarily cumbersome and discourages shippers from the use of specialized equipment appropriate to their needs.

Before making and explaining specific recommendations, we wish to emphasize that we would for the present make no changes in Sections 2 and 3 of the Interstate Commerce Act, or in similar provisions of Parts II, III and IV of the Act, which afford protection against personal and place discrimination.

Recommendations

1. Eliminate the authority of the Interstate Commerce Commission to regulate minimum rates of all carriers under its jurisdiction. This freedom should be achieved gradually--for example it might be subject to the proviso that during the first five years, the Commission may, upon protest in specific cases, limit reductions to a cumulative amount of 15 percent per year of any rate in effect on January 1, 1965. In this case, immunity from regulatory review would apply to actions reducing rates to not less than 85 percent of base rates in the first year, not less than 70 percent of base rates in the second year, not less than 55 percent in the third, etc. Rates reduced by this means, i.e., without regulatory review, should not be permitted to be increased under any circumstances for two years and thereafter only if, following an Interstate Commerce Commission hearing, it is found that proposed increases rest upon changed conditions other than the elimination of competition from other modes. These limitations on rate increases amount, in effect, to an extension of the present limitations on railroad rate setting in water-competitive situations contained in paragraph (2) Section 4 of the Interstate Commerce Act. *Section 2+3 and to be proposed to be eliminated in the future.*
2. Repeal paragraph (1) Section 4 (the "long haul, short haul" provision) of the Interstate Commerce Act. This provision was designed to protect intermediate points without competitive services from higher rates than are enjoyed by more distant points having transport alternatives.

3. Eliminate the "rule of three" and any similar limitation on the number of bulk commodities that may be transported on the waterways in a single tow without loss of the exemption. (A mix of not more than three exempt commodities per tow now enjoys the exemption.)
4. Repeal the provision limiting the bulk exemption to commodities handled by water carriers on June 1, 1939.
5. Establish, under the chairmanship of the proposed Department of Transportation, an interagency committee to formulate executive branch positions for presentation to the regulatory agencies in important rate cases as well as to formulate and present executive branch positions on other important regulatory issues.
6. Amend the Interstate Commerce Act to eliminate the requirements in Parts I, II, III, and IV that carriers maintain rates based on "reasonable classifications". This will make unnecessary the introduction of evidence in rate cases pertaining to the value of the commodity as a justification of rates above appropriate costs. It will also foster so-called "FAK" or freight-all-kinds rates, a major achievement in rate simplification.
7. Amend the Interstate Commerce Act to require rail and road carriers to accept shipper-owned or -leased equipment for transport. Moreover, the law should permit shippers to lease equipment among themselves and to and from car-leasing companies freely and without regulation of leasing terms. Rates charged for hauling shipper-owned or leased freight cars or trailers should be commensurate to the service being provided and should not take account of the nature of the commodities being hauled. Plan IV TOFC already provides a precedent for rates of this kind.
8. Instruct the Department of Commerce to initiate proceedings before the Interstate Commerce Commission to eliminate from TOFC tariffs, either specifically or by reference, the requirement that Plans III and IV TOFC rates be applied only on mixed loads. This is to permit the application of Plans III and IV to trailers and containers regardless of contents.
9. Amend the Interstate Commerce and Federal Aviation Acts to provide that in rate cases where the complainant is a carrier, the burden of proof as to the reasonableness of the rate shall be on the complaining carrier. In the past, the burden of proof has been imposed on those proposing changes in rates. This has enabled competing carriers to impede rate changes unnecessarily.
10. Amend the Interstate Commerce and Federal Aviation Acts to deny carriers the right to request suspension of proposed rates. Carriers did not have this right before 1940; since then the overwhelming majority of suspensions have been instigated by competing carriers opposing rate reductions. Suspension proceedings are costly and inordinately time-consuming. Thus, suspension procedure works in most cases to the disadvantage of shippers. The right of shippers to request suspension would remain unimpaired.

C. Passenger Rates

During the past 70 years, the travelling public has shifted from virtually complete dependence on railroad trains to almost equally complete dependence on the privately-owned automobile for intercity transport. About 95 percent of intercity trips were made by train in the late 19th century; about 90 percent are now made by automobile. Barring an important change in the variety of means of transport available, the public seems likely to continue to move predominantly by automobile in the foreseeable future. Consequently, intercity public passenger transport no longer has important problems of monopoly, and increasing reliance can safely be placed upon the price system in allocating resources.

(1) Railroads - The long decline in rail passenger volume, together with rising costs and the difficulty of dropping passenger trains, involved the railroads in their greatest single source of losses. The passenger deficit reached a peak of \$723,670,000 in 1957 and regularly throughout the postwar period absorbed between 35 and 49 percent of net railway operating income from freight. The Transportation Act of 1958 has facilitated, though perhaps not sufficiently, the discontinuance of passenger trains.

Recommendation

Amend the Interstate Commerce Act to give the railroads complete freedom in setting intercity passenger fares. We urge that the States be encouraged to follow suit. It cannot be argued that maximum rate regulation protects the public from excessive fares, nor can it be argued that minimum rate regulation assures profitability of intercity passenger service to the carriers under modern competitive conditions.

(2) Busses - Among intercity common carriers, bus service seems assured the dominant role in surface passenger transport for the foreseeable future. Even though many States have granted motor carriers

of passengers exclusive rights on certain routes, and even though there are only two major national bus networks, there are so many alternatives to bus service that the industry presents no serious problems of monopoly. In addition, this is not an industry of heavy fixed costs or the other usual characteristics of technological monopoly.

Recommendation

Amend the Interstate Commerce Act to allow management complete freedom in setting intercity bus passenger fares.

(3) Airlines - Air transport is characterized by exceptionally dynamic growth and does not involve the large geographically fixed investments of the railroads. Consequently, the task force does not see need for continued rate regulation, except for the carriers still receiving subsidy.

Recommendations

1. Amend the Federal Aviation Act to eliminate rate regulation of all unsubsidized domestic air passenger transport.
2. Urge the Civil Aeronautics Board to encourage the setting of rates for subsidized air transport at the highest level compatible with maximizing carrier net revenue.

V.. USER CHARGES AND DIRECT SUBSIDY POLICY

A. General Considerations

If economic demand for transport is to be the primary guide for transport decision making, in the public as well as the private sector, users of transport facilities should be required to pay for them in amounts commensurate with the costs incurred in their provision and use. The presence of subsidies (whether direct or in the form of user charges below Government costs) favors some carriers and regions at the expense of others, and results in higher than necessary total cost for the provision of transport service. Subsidy and user charge policies, therefore, should be designed to bring private outlays and total costs of transport closer together.

B. Problems of Implementation

In moving toward a more nearly pervasive equivalence of private outlays and social costs, we must recognize that part of past public transport investment was not based on this test, part was designed to produce benefits beyond the realm of transportation, and part has become obsolete as a result of economic and technical change. In many situations, therefore, the assignment of costs to current users is inherently arbitrary. Charges to be assessed against users of these facilities should at least fully reflect the costs of current operation and maintenance. Future public investments in transport facilities should be predicated on eventual full recapture of capital costs as well as maintenance and operating costs.

The imposition of user charges for the first time, an increase in

existing user charges, or a reduction in special benefits to particular modes of transport or categories of users may well result in hardship. To facilitate adjustment, it may be desirable to raise user charges (or reduce special benefits) to appropriate levels over a period not exceeding five years.

C. Airways

Enough work has been done on estimating amounts that may fairly be charged special beneficiaries of investments in aviation facilities to start on a comprehensive program to equate private outlays and social costs. User charges can be imposed where none now exist, and existing charges can be moderately increased without fear of doing injustice. As charges are further increased and revenues approach full recoupment, more precise determinations will be required both as to appropriate total charges and as to division of charges among categories of users. The following recommendations reflect this situation.

Recommendations

1. Instruct the Department of Commerce with the assistance of the Federal Aviation Agency, the Civil Aeronautics Board, the Treasury, and the Bureau of the Budget to continue efforts to quantify benefits received by various categories of users of aviation facilities, to explore alternative collection techniques and to devote more research to incremental costs incurred on behalf of certain users who create peak traffic.
2. Renew recommendations to the Congress for airway user charges. As a beginning, the 2 cents per gallon tax on aviation gasoline should be extended to jet fuels for commercial aviation and the 5 percent tax on passenger travel by air should be continued and extended to air freight. Business and recreational flying (general aviation) pays only the 2 cents per gallon gasoline tax and thus pays only a minuscule portion of its share of system costs. Initially, the gasoline tax for general aviation should be increased to 10 cents a gallon and extended to jet fuels and supplemented by annual license fees averaging \$1,000 per aircraft (varying with weight).

3. Create an Airways Trust Fund with provisions for ultimate linking of user charge revenues and new Federal expenditures on additions and improvements to the Federal airways similar to the Byrd Amendment in the highway program. Transfer existing aviation gasoline taxes to this fund from the Highway Trust Fund. We do not believe that this earmarking of Federal revenue is a sound long-run device but as an expedient for bringing public expenditures in this area into an appropriate relationship to benefits received it should be adopted.

D. Airports

Since World War II, the Federal Government has made substantial grants-in-aid to localities for the construction of airports in order to develop a national airport system. Further extensions of this system now redound almost exclusively to the benefit of local communities and should be financed by them. General aviation airports which in the past have also been federally supported are not, in our view, sufficiently beneficial to the general public to warrant Federal aid.

Recommendations

1. Terminate the Federal Aid Airport program.
2. Urge greater cooperation between the Civil Aeronautics Board and the Federal Aviation Agency in relating changes in commercial aviation operations, especially of the subsidized local service carriers, to the development of airports and related airways system improvements. Policy can only be fully implemented by the creation of a Department of Transportation and the transfer of the operating subsidy program (until it has been phased out) from the Civil Aeronautics Board to this Department as the 1961 reorganization did with respect to maritime subsidies.

E. Airline Operating Subsidies

An efficient and dynamic local air transportation system responsive to public and private demand, requires a progressive reduction of Federal operating subsidies. We believe that the 50 percent reduction in operating subsidies envisioned by the CAB in its 1963 report, "Airline Subsidy Reduction Program" can be substantially bettered.

Recommendations

1. Terminate subsidies for helicopter operations. The benefits of this long-continued experiment are largely confined to upper income travellers well able to pay the full costs of such services.
2. Urge the Board to continue the evolutionary development of its Class Rate Plan for subsidies to local service airlines so as to relate subsidies more closely to actual deficit segments, and to develop similar plans for Alaska and Hawaii subsidized operations. The Board should also be urged to enforce its use-it-or-lose-it policy and to revise use-it-or-lose-it standards progressively so that deficit operations will be eventually eliminated unless benefitting localities are willing to make up the deficits.

F. Waterways

Sufficiently detailed information is also available to initiate waterways user charges. A beginning should be made by imposing a small tax on all fuel used on the waterways. This will not materially affect users and will not recoup more than a fraction of system operating and maintenance costs.

New waterways investments, however, should be allowed to go forward only if full incremental costs can be recovered.

Recommendations

1. Levy an initial tax of 2 cents per gallon on all fuel used on the inland waterways.
2. Instruct the Department of Commerce to update and elaborate its studies of inland waterway costs and revenues and to develop a more nearly compensatory schedule of charges.
3. Create a Waterways Trust Fund with provisions for ultimate linking of user charge revenues and new Federal expenditures on additions and improvements to the inland waterways system similar to the Byrd Amendment in the highway program. (See further comments concerning the Airways Trust Fund above.)

G. Highways

Highway users in the aggregate come closer to reimbursing the Federal Government for its initial facilities investment than do either airway or

waterway users. Particular categories of highway users, however, clearly do not pay an equitable share of Federal-aid highway expenditures. Many peak-hour users of urban streets and highways pay substantially less than a fair share of the costs incurred on their behalf. Nevertheless, urban highway users in general are subsidizing the construction of Federal-aid roads in rural areas.

Another category of users not paying its full share of costs is intercity trucks operating on diesel fuel, taxed only 4 cents per gallon. Increased user charges to this category should be obtained in connection with any increase in size and weight limits or permission to operate multiple bottoms of the Interstate System. These changes will yield public benefits through fuller utilization of the capacity of the Interstate System.

Recommendations

1. Recommend increases (a) in the tax on diesel fuel from 4 to 7 cents per gallon, (b) in the weight tax on trucks over 26,000 pounds gross weight by an additional \$2 per thousand pounds, and (c) on tread rubber by an additional 5 cents per pound. This will restructure highway user charges in the direction of equity, but it will not produce revenues adequate to meet expected increases in the cost of completing the Interstate System.
2. Instruct the Department of Commerce to continue its studies of accelerated highway wear likely to result from liberalized truck size and weight limits and to recommend any necessary further adjustments in user charges on heavy trucks by December 31, 1965.
3. Instruct the Secretary of Commerce to assure, by participating in any study of highway needs for the period beyond 1972, a proper relationship between costs and user charges.
4. Instruct the Department of Commerce to explore the possibilities of developing schedules of differential user charges to control peak traffic loads (congestion).

VI. GOVERNMENT PURCHASE OF TRANSPORTATION

Carriers of all modes vie with each other for the transport business of the United States Government. Rivalry has increased in pace with the expansion of Government activities, especially since World War II. Inevitably, pressures have developed in the carriers' efforts to retain a "fair share" of the Government's business or to increase it. The argument has been made repeatedly that each mode, and in some instances each carrier, is entitled to a share of the Government's business for the same reasons advanced in defense of public subsidies: to keep the carriers strong during peacetime so that they can be of maximum service to the nation in times of national emergency; to assure facilities and services adequate to the requirements of the Postal Service; to build national prestige, or to make a contribution toward balancing our international accounts.

These arguments, in extreme form, are a distorted interpretation of the national transport policy expressed in almost identical terms in all basic transport legislation. For example, the statement of National Transportation Policy in the Interstate Commerce Act directs regulation "all to the end of developing, coordinating, and preserving a national transportation system . . . adequate to meet the needs of the commerce of the United States, of the Postal Service, and of the national defense." Obviously the intent of the law is that the national transport system meet the needs of the Postal Service and of the national defense, not that the use of transport by the Postal Service and the national defense be modified in order to support the transport system or any of its elements.

Our present national transport system has ample capacity to meet the changing needs of commerce, the Postal Service and national defense, with possible minor and transitional exceptions. The Task Force does not subscribe to the argument that the needs of the two governmental activities require the allocation of the Government's transport business in a manner designed to foster the industry.

The United States Government is the largest user of the nation's transport facilities. More than \$4 billion is expended annually to transport goods and people on Government account. The Department of Defense alone spends \$2 billion annually on transport; the Post Office Department, more than \$700 million and the Department of Agriculture, \$350 million. As in the case of Government expenditures generally, maximum shares of the revenues stemming from them are looked upon by transportation companies and their organized employees, and by counterpart Government program agencies, as being of critical importance to their economic well-being. This, in no small measure, accounts for the distortion of the statutory statements of purpose.

The important effect has been that the Government, over a long period of time and increasingly, has paid more for transport services. Moreover, many of the services obtained have been of lower quality (and some of higher than needed quality) in terms of speed, frequency of schedules, alternative routings, protection of goods, and ancillary services than would have been the case if the Government had directed its transport procurement to the lowest cost adequate service available.

Finally, in a discussion of Government procurement something needs to be said about the controversial provision of the Interstate Commerce Act (Section 22) under which the United States Government obtains transportation

of its personnel and property at rates below those published by the carriers for non-Government traffic and without regulatory proceedings. The Task Force believes that the arguments advanced against this provision do not have sufficient merit to justify a policy change, either in the present context or in the context of the policies recommended elsewhere in this report. One important argument in favor of retaining Section 22 is the freedom which it gives to the carriers and the Government to experiment with rates, services, documentation and related practices.

Recommendations

1. Direct all Government agencies to procure transport at the lowest cost compatible with adequate service.
2. Resist efforts to make any major change in Section 22 of the Interstate Commerce Act.

VII. MERGER POLICY

A. General Considerations

Regulation of mergers should be consistent with the general objectives of transport policy and must, therefore, be considered in that broader context.

We have noted the massive growth of our transport system, the development of new modes and improved methods, and consequent lessened need to use transport as a device for promotion of economic growth and other national objectives. In the future, merger policy should give greater recognition to these changed conditions, and it should also be adjusted to reflect the changes in rate policy and in policy dealing with entry and operating rights recommended previously in this report.

B. Railroads

Public policy questions raised by rail merger proposals are complex. Giving public policy a cast of leniency toward rail mergers might step up the pace of modernization and ease the burden of uneconomic public service obligations still carried by the railroads. Clearly, however, merger must not be evaluated only on the basis of the financial strengths and weaknesses of merger candidates or on possible improvements that would follow merger. Merger will do nothing for areas served by carriers not attractive to merger partners. Moreover, under present circumstances, the benefits produced by mergers through the elimination of duplicative main lines and other redundant facilities and services may not be passed on to the general public because much of the increased cash flow may simply be withdrawn to pay fixed charges and retire debt--debt no longer reflecting

earning power and often little more than a legal and financial encumbrance. In the absence of a close correlation between debt and the economic viability of underlying "assets", the maintenance of this debt via mergers--or by any other means--is contrary to the public interest. Reorganization may be preferable to mergers of weak carriers designed primarily to protect security holders, management and labor.

Alternatives to more lenient merger policy should also be considered. They include giving the railroads greater freedom to discontinue service and abandon lines. This would tend to preserve whatever intra-modal main line competition may exist.

The recommendations made below and elsewhere in this report are designed to bring about conditions more favorable to modernization and cost reduction which will benefit both the railroads and their users.

Recommendations

1. Enlarge the authority of the Interagency Committee on Transport Mergers. This should permit the Committee to develop and present before the regulatory alternatives to mergers proposed by the carriers and to evaluate and suggest alternatives to merger.
2. Endorse railroad mergers when merger appears to be the best means of achieving improvements or disinvestment.
3. Revise Section 20b, Part I, of the Interstate Commerce Act to give greater influence to equity and other junior security holders in bringing about reorganization.
4. Revise Section 5(2)(c) of the Interstate Commerce Act to provide that in evaluating any proposed merger the Commission must give dominant weight to the effect of the merger upon adequate transport service to the public, with special reference to the effect upon the public interest of the inclusion, or failure to include, other railroads in the territory involved in the proposed merger. The Commission should also be required to consider the interest of the carrier employees affected.

5. Revise Section 5(2)(f) of Part I of the Interstate Commerce Act which now requires that employees of merged carriers not be put in "a worse position with respect to employment" for a period of 4 years after merger. Alternatives to the fixed time period, such as liberalized severance pay, special retraining programs and compulsory retirement should be explored. Care should be taken to make these programs consistent with similar programs being undertaken to meet similar problems elsewhere in the economy.

C. Trucking

Merger in the trucking industry does not constitute a critical problem. The industry characteristics are such that mergers are unlikely to present problems of monopoly. In any case the trend towards mergers of a decade ago has slowed because of the limited opportunities for improving efficiency of trucking by enlarging the firm. If the recommendations for freedom of entry and greater freedom of rate making are adopted, it should not be necessary to place any special restrictions on truck mergers.

D. Air Transportation

The task force believes that the number of air carriers providing domestic trunk line service is not excessive and that the number should not be reduced by merger. For the time being improvements in the route structure of the carriers should take place mainly through certification and decertification procedures rather than through mergers.

E. Intermodal Mergers and Acquisitions

In the present context of Government regulation of common carriers, the task force considers intermodal mergers to be generally contrary to the public interest. We believe this to be true because such mergers would tend to fortify any tendency to monopoly that may inhere

in a more relaxed policy toward intra-modal mergers, and also because they would tend to make the regulatory process more complex and burdensome. Some of the advantages of transport integration for users might also be achieved without intermodal mergers by encouraging the concentration of non-transport functions in the hands of freight forwarders.

We also believe that carriers should be permitted to enter non-transport activities. This open door policy seems especially desirable to the extent that particular transport sectors, such as the railroads, face a problem of disinvestment in connection with presently redundant transport facilities.

Once entry controls and minimum price regulation have been eliminated, our objections to intermodal mergers would no longer be pertinent. If anyone in the United States can enter the common-carrier trucking industry, subject only to appropriate standards of safety and public liability, it would seem illogical and contrary to the goals of flexibility and experimentation which are stressed throughout this report to forbid railroads to operate trucks.

Recommendations

1. Continue the policy of preventing all intermodal mergers.
2. Once minimum rate and entry control are removed, amend Section 5, Part I, of the Interstate Commerce Act to remove all restrictions on intermodal mergers. This removal should be accompanied by repeal of Section 5a of the Interstate Commerce Act (Reed-Bulwinkle Act) which grants carrier rate associations immunity from antitrust prosecution for collusive rate making. Transport mergers should also be subjected to the full sanctions of the Clayton Act.
3. Exempt all freight forwarder activities from regulation.

VIII. OPERATING RIGHTS

A. Entry and Exit in Surface Transport

The present restrictions on operating rights are largely the result of public regulation of other aspects of transport. These restrictions have been heavily influenced by the historical problems of the railroads. There is little chance that new rail carriers will appear. Entry, in any event, is restricted not so much by regulation as by the economics of the industry itself. In trucking, and inland and coastal waterway operations, on the other hand, entry is severely inhibited by regulation rather than by the economic characteristics of the industries themselves. Economically there is no limitation on the mobility of capital from one route or service to another in motor and water transport. It is the institution of the certificate of public convenience and necessity which serves effectively to prevent such mobility.

In particular, restriction of entry has been a consequence of rate regulation. Rates held high, across the board or for specific commodities or routes, generate either excess profit or excess capacity or other forms of misallocation of resources. These in turn encourage illegal and so-called grey area operations, leading to pressures for intensified regulation. In the absence of restrictive regulation, resources would flow both in and out of the industry, keeping rates reasonably close to the cost of efficient operators.

We again emphasize the interrelationship of our policy recommendations. Specifically, entry control should not be completely dismantled in the absence of commensurate reductions in rate control. Dropping entry regulation would only aggravate excess capacity.

Exit is a potential problem in transport wherever regulation compels the continuation of unprofitable activities. In its extreme form exit means the total disappearance of a transport firm; more commonly it means the withdrawal of capital through abandonment of facilities and discontinuance of services with related reductions in employment.

The problem of abandonment is concentrated in the railroad industry, where an estimated 35 percent of the national mileage is so lightly utilized that abandonment should be contemplated. The problem of discontinuance is found in less aggravated form, at the State level, in bus operations.

Public policy should aim to facilitate required disinvestment and to increase utilization of capacity where abandonment or discontinuance is not required. This reference to disinvestment is to be understood in terms of a dynamic transport system in which substantial new investment will continue to be necessary both to meet expanding demand and to assure rapid absorption of new technology. We expect large net additions to investment in highway transport. The railroad industry can be expected to continue making large cost-saving investments, but it also needs considerable disinvestment as already noted.

Recommendations

1. Permit freedom of entry to new firms who can obtain adequate public liability insurance and meet safety requirements, as rapidly as rate deregulation is effectuated. (In dealing with problems of highway use, no distinction should be made between private and public, or between new and existing carriers.) This implies repeal of the Jones Act which restricts domestic shipping to U.S. built, owned and crewed vessels. Repeal would benefit Alaskan, Hawaiian and Puerto Rican trade as well as important segments of the U.S. lumber industry.
2. Permit existing firms to adjust routes, direction of movements and commodities carried in response to demand. In highway transport, carriers are usually limited by regulation to a few commodities on rigidly fixed routes and sometimes even to direction of movement. This leads to aggravation of the imbalance in traffic flow, i.e., the "back-haul" problem and the inflation of costs and rates. The "back-haul" problem is a striking example of regulation preventing full utilization of capacity in an effort

to preserve archaic value-of-service structures. Competitive forces would tend to break down value-of-service rates and fill up capacity as a consequence. If necessary, legislation should be introduced to prohibit the Interstate Commerce Commission from limiting truck operations to one direction, to a limited number of commodities, to rigidly restricted routes or through limited gateways.

3. Reduce impediments to exit and to abandonment of facilities and discontinuance of service for all modes. This problem is now mainly important for the railroads because of their relative decline and because of restrictions on abandonment. At present a railroad must secure a certificate of public convenience and necessity to abandon a line. The concept of public convenience and necessity is vague. The Commission is typically confronted with reasonably specific data on losses, but by only general statements concerning demand. Moreover, since the investment in a railroad's right-of-way is mainly irrecoverable, abandonment is the last resort. The ubiquity of truck transport is at once the principal cause of railroad abandonment and the principal reason why abandonment of rail service will no longer leave communities without transport. Consequently, we recommend that railroads be granted the right to abandon lines with adequate notice--presumably 90 days. The ICC's current policy of establishing priority of purchase for anyone wishing to acquire abandoned facilities for further operation should be continued.

4. Grant to the railroads a similar right to discontinue trains and ferries. The Transportation Act of 1958 represented a distinct advance over existing State jurisdiction by placing complete and final authority in the ICC. The present system is not intolerable. There have, however, been examples of long delays in authorization to discontinue hopelessly uneconomic passenger trains.

5. Amend the Interstate Commerce Act to provide similar automatic right to bus companies to discontinue service, regardless of the opposition of State regulatory authorities. If the present ICC regulation of passenger train discontinuance is retained, bus companies should be provided with a procedure parallel to Section 13a(2) whereby they might appeal to the ICC for discontinuance of services required by State authorities.

6. Establish, under the chairmanship of the proposed Department of Transportation, an effective, permanent instrument by which the transport policy of the executive branch can be presented in such regulatory cases involving operating rights as occur after adoption of other recommended policies. This should be the same instrumentality recommended in connection with rate cases.

B. Entry and Exit in Air Transport

At present, virtually all domestic air carriers require a certificate of public convenience and necessity from the Civil Aeronautics Board. The Federal Aviation Act authorizes the Civil Aeronautics Board to issue a

certificate but only on a finding that the public convenience and necessity requires the contemplated service.

A carrier's certificate usually specifies the routes and the precise points to be served, and in effect, denies the right to provide scheduled service to any other points. The number of carriers regularly serving any market is rigidly limited for long periods. The certificate not only protects the carriers' markets but also usually requires that he serve all points in his protected markets.

Consequently, monopolistic profits can exist in one market while sub-marginal returns are realized in another and management is prevented from shifting resources so as to avoid losses and provide the public with additional service where it is needed. Since no regulatory agency can be promptly responsive to the changing needs of the economy, major distortions in the use of the nation's aviation resources are inevitable. Uneconomic markets are served at the expense of the most lucrative markets whose earnings are devoted in part to cross-subsidization. Management is denied the opportunity to develop the most efficient route patterns.

These problems are complicated by the arbitrary division of air service between trunk and local carriers adopted by the Civil Aeronautics Board in 1945 and by the large operating subsidies still being paid to the local service carriers. The continuation of subsidies and the segmentation of operating rights can only be justified in terms of the "infant industry" doctrine which now seems clearly inappropriate with respect to both the local service carriers and the domestic trunk lines.

Recommendations

1. Eliminate ultimately all barriers to entry into the industry and to participation on particular routes. Simultaneously, remove all restrictions on exit, abandonment and discontinuance. These measures may create or aggravate pressures for subsidized service, but progressively more rigorous standards of subsidy eligibility should help to meet this problem.
2. Permit immediately the trunk carriers to discontinue service on low traffic segments. Transfer these segments to the local service carriers, even if subsidy is transitionally increased. A tightened use-it-or-lose-it policy and additional tests of public convenience and necessity (such as the proximity of all-weather highways permitting travel to other airports served by trunk carriers) should mitigate this problem.
3. Encourage the Civil Aeronautics Board to lift restrictions against skip-stop operations for local service as well as trunk carriers.
4. Discourage the Board from imposing any minimum number of round trips per day to low traffic points on subsidized carriers. Development of these markets depends not so much on the number of round trips performed as upon the timing of arrivals and departures. In many instances the major carriers cannot meet this problem taking into account total system requirements. The small, unsubsidized taxi operator serving a few pairs of points offers a much more satisfactory solution.
5. Urge the Board not to certificate a subsidized carrier between points where existing air taxi service is satisfactorily meeting needs.
6. Assign to the interagency committee, established under the chairmanship of the proposed Department of Transportation, responsibility to formulate executive branch positions for presentation to the regulatory agencies in important cases involving operating rights, entry and exit. (See Chapter IV, Recommendation 5.)

IX. INTERNATIONAL MARITIME POLICY

A. General Considerations

International transport policy faces problems crucially differing from those encountered domestically--mainly for two reasons:

1. American carriers in international service compete with foreign carriers whose cost structure is determined largely by the economic structure of their home countries, typically involving far lower wage levels. American aircraft producers and operators, like producers of many agricultural and industrial goods exported on a large scale, have been able to offset the wage differential by higher productivity and generally have lower unit costs than their foreign competitors. In shipbuilding and operating, however, the United States has been at a severe disadvantage ever since sailing ships became outmoded.

2. As international transport is conducted largely outside the territory of any one nation, unilateral Government regulation of it is narrowly limited and involves complex problems in international relations. Governments often attempt to influence international transport through subsidies, restriction of traffic rights, tax measures and by support of international cartels. Many of these interventions interfere with the functioning of the market, reduce the efficiency of transport, increase tax burdens, and give rise to political friction with friendly nations, including our closest allies.

In air transport, restrictions arise primarily abroad. In maritime transport, U. S. Government interference exceeds that of any other major maritime nation, except the U.S.S.R., and beclouds the posture of the United States as promoter of relatively free and competitive enterprise and of increasing international commerce, economic integration and

political cohesion among free nations.

Practices which lead to inefficiencies and increased international tension should be reduced by all countries to the minimum compatible with overriding national interests. To make progress in this direction should be a major objective of the U.S. international transport policy. In pursuing this objective, we should seek maximum opportunity to exploit our superior capability in aviation and to decrease inefficient employment of resources in maritime activities. This policy will bring the benefits of more efficient international transport to American and foreign shippers and travelers.

Maritime policy has been a source of continuous concern since the recovery of the merchant shipping capabilities of principal maritime nations after World War II. Every administration has initiated studies of maritime policy with a view to making revisions which would improve the position of U.S. flag carriers and, at the same time, reduce subsidies being provided unavailingly by the U.S. taxpayer. Maritime policy is accordingly scrutinized in considerable detail in this report.

B. International Relations Implications

It must be recognized that our maritime policy has been a significant source of friction in relations with friendly nations. Although some of the policy changes recommended will further irritate some major shipping countries, notably proposed efforts to bring pressures to bear on the conferences, most of the policies proposed below will provide powerful bargaining counters for international negotiations.

The shipping nations which will resent a U.S. policy of limiting conference power over freight markets will highly welcome the withdrawal

of cargo preference and passenger service subsidies and the limitation of cargo operating subsidies. The shipbuilding countries will equally welcome the termination of construction subsidies. Some important nations will benefit on both counts. Indeed, such benefits to foreign countries are great enough to give rise to the idea that the proposed policy changes might be used in outright bargaining for concessions on other fronts.

It cannot be emphasized too strongly that every one of these changes is proposed because it is in the interest of the United States and for no other reason. At the same time advantages in foreign relations should be sought by a broad-gauge emphasis on the economic principles guiding U.S. policy, challenging our friends to base their own international economic policies on similarly enlightened principles in areas where their comparative disadvantage is equally clear, as it is, for example, in the construction of aircraft and provision of air service, or in the production of low-cost farm products, coal and electronic equipment. An appropriate international forum should be chosen to further these ends. If enabling legislation is required to permit representatives of the United States to bargain on these matters, it should be recommended.

The Department of State must explain the purposes and powers of the United States Government and, if possible, negotiate accommodations with the principal nations concerned. We have, of course, the wherewithal to maintain a large position in shipping and shipbuilding but, recognizing our comparative cost disadvantage, we should refrain from using this potential power. We should leave leadership in these fields to nations better equipped to supply vessels and maritime transport at lower cost

especially if they in turn eliminate barriers which obstruct full participation of the United States in their commerce.

At the same time, we cannot reasonably be expected to let other nations exploit their advantage in shipping by cartelization without restraint, at the expense of the trade of the United States and other countries largely dependent on services of the leading maritime nations. Indeed the lowest freight rates compatible with competitively controlled costs and a reasonable return serve the interest of the entire community of free nations.

On this basis we should be able to rally other nations to our position, especially the new nations who have been complaining about exploitation by maritime conferences, and also to extract a return from the benefits which our maritime policy changes will bring to others. Their primary justification, however, remains in the fact that they free our own budgetary and economic resources for more productive employment.

C. Support of Maritime Industries

A number of U.S. Government programs are designed to support the shipping and shipbuilding industries. The present programs provide one ship for the price of two and one ton-mile of transportation on an American liner for the price of two ton-miles in a foreign bottom.

At the core of present programs are the operating and construction differential subsidies, maintained in substantially their present form since 1936. In recent years, these programs have become more costly. In addition they have been supplemented by others, notably flag preference for Government and certain Government-financed traffic, loan guarantees, tax abatement for ship replacement reserves, and vessel trade-in privileges.

Reservation of domestic shipping to the U.S. flag, which has long existed, also is designed to support the maritime and shipbuilding industries.

The entire complex of programs attempts to offset the disadvantage arising from American costs. The methods of subsidy computation, however, tend to increase rather than reduce this disadvantage as they eliminate incentives for adjustment of ship and yard operations to American cost conditions. Consequently, the burdens imposed on the budget and the national economy have increased sharply and threaten to increase further. At the same time, benefits originally sought have become and are becoming more and more questionable because of military, technological and economic changes to which the program is not sufficiently adapted.

According to Maritime Administration estimates, a direct Government outlay of some \$400 million per year for operating and construction subsidies and for freight rate differentials on some of the preference cargoes provides at present about 12,000 shipyard jobs and "considerably less than full-time employment" for 50,000 men in the seafaring labor force; that is an annual cost to the Government of about \$7,000 per job. These expenditures are said to enable U.S. flag ships to carry about 25 to 30% of U.S. general cargo trade (exports and imports) plus 5% of dry bulk cargo trade.^{1/} The Maritime Administration further estimates that the cost of these programs, if unchanged, will mount to about \$800 million by 1985 and the number of ships and jobs and the American share in U.S. trade will drop substantially.

^{1/} In 1962 this added up to about 13.5 percent of total ocean-borne dry cargo exports and imports, but only 7 percent of total non-preference cargo.

Moreover, these estimates do not include direct costs to the Government from high rates paid for its own cargoes, from ship trade-in allowances, mortgage guarantees and tax abatement. Nor do they take account of the substantial burden arising for the American economy directly from high rates paid in cabotage trades and indirectly through other reverberations of the subsidy policy, including the retardation of technological progress in foreign and domestic shipping. Estimates of the total cost to the Government and the economy from other sources vary widely but uniformly are much higher than those of the Maritime Administration. Its figures on cargo volume of U.S. flag ships, on the other hand, include a large proportion retained only because of cargo preference. In 1962 this was 54 percent of all dry cargo carried by U.S. flag ships.

Yet, even the Maritime Administration's data provide ample justification for the conclusion that the merchant marine and shipyard support programs should be cut back and so revised as to reduce the burden on the American economy and to yield more value for each dollar spent by the Government.

D. National Security

The prospective need for ship capacity to support military action was the most important force behind the Merchant Marine Acts of 1916 and 1936. Military needs are still asserted by many who propose to maintain or enlarge the present programs. This claim is not supported, however, by the relevant facts of today, the most important of which may be summarized as follows:

1. Strategic planning increasingly emphasizes early and rapid deployment as the best means to limit conflicts and reduce casualties and other costs. This is to be achieved by prepositioning of equipment and supplies and by an already large and rapidly expanding airlift capacity designed to

carry virtually all personnel and substantial proportions of dry cargo movements for even a sizeable military confrontation.

2. Even in the relatively improbable event of a large and prolonged overseas war, the U.S. military capability would not depend on a U.S. merchant marine of present size, let alone a larger one, because --

- a) through commercial charter, cooperation of allied governments and, if necessary, seizure, the United States and its allies could employ by far the major part of the world fleet, regardless of flag;
- b) personnel movement still would rely almost entirely on airlift;
- c) present U.S. flag dry cargo tonnage (including the reserve fleet) is itself far larger than probable peak needs; for example, it is several times larger than the peak needs experienced during the Korean War;
- d) U.S. flag tanker capacity can be supplemented by U.S.-controlled tonnage under foreign flags, with most of the crews retainable.

3. In an unlimited nuclear war, ship capacity is not likely to be the major bottleneck.

4. Shipping needs for supply of war industries and of civilian requirements during an emergency are reduced by existing stockpiles.

5. There is no military need for subsidy of commercial shipyard capacity because --

- a) the availability of ship capacity described above makes it unlikely that new ships will be needed rapidly even in

- the improbable event of a large and prolonged war;
- b) subsidized merchant ship construction accounts for less than 20 percent of current shipyard activity;
 - c) experience during World War II shows that new shipbuilding capacity and work forces can be provided very rapidly from scratch.

In view of these facts, there is no longer any general military justification for continuation of ship operating or shipbuilding subsidies.^{1/} If there is any specific military need, it cannot be of large proportion and it should be met under the administration and budgetary responsibility of the Department of Defense. Vague assertions of defense requirements should no longer be permitted to "justify" general merchant marine programs not required by other national interests.

E. Non-Military National Interests

The second reason for support of a U.S. merchant marine always has been the desire to have some sizeable part of the U.S. foreign trade carried by American ships. To burden the economy with expenditures for this purpose would be irrational if less expensive sea transport under foreign flags was unquestionably available to carry U.S. trade promptly and efficiently. By and large, it is available and actually carries by far the larger proportion of U.S. exports and imports.

^{1/} Current programs do not support the one type of sea transport which is of the greatest military significance--tanker movement of liquid fuels--and yet there is no Defense Department indication that access to such capacity is inadequate.

Generally, there is no reason to expect discrimination against American trade for nationalistic or competitive purposes. Foreign importers (or exporters) are as vitally interested in efficient and economical movement of goods from (or to) the United States as are the American exporters (or importers). Moreover, carriers of various foreign nations are in competition on virtually every significant route, including carriers of nations far more importantly concerned with the shipping business itself than with production of or trade in the goods carried:

Limitations on the effectiveness of this competition arise, however, from the conference system and from impediments to technological progress and efficiency in the U.S. merchant marine. The conference system is in direct conflict with the basic antitrust position of U.S. economic policy and it can be tolerated only with adequate safeguards. While there is little prospect that the conference system can be abolished, its abuses can be curtailed and American interest in efficient sea transport can be safeguarded.

The power to influence conference behavior and to accelerate the adoption of cost reducing techniques can direct U.S. maritime progress to the service of real national interests. Achievement of these interests does not depend so much on the size of the U.S. merchant fleet as on its efficiency, flexibility and enterprise. The subsidy program should be so redesigned as to stimulate more efficient operating practices and the adoption of cost-reducing technical improvements. This would serve the real purpose of facilitating our foreign trade. It would also more effectively contribute to national prestige which often is cited as a separate reason for the maintenance of U.S. flag shipping. No matter on

how many masts it raises the flag, the American merchant marine damages the nation's prestige because of its heavy dependence on subsidy rather than efficiency and excellence of performance. Our efforts to negotiate reduced barriers against international travel and trade are severely handicapped by our protectionist policies.

Finally, reference must be made to one more aspect of national interest in the merchant marine--the creation of jobs for American workers. Under the present system, this involves a subsidy of more than \$7,000 per man-year. Clearly, this is an uneconomic way of providing jobs and the equivalent of the, in fact modest, volume of employment at stake can be provided elsewhere at less cost as improvements of maritime programs reduce maritime employment.

F. The Operating Differential Subsidy

The shipping lines covered by operating differential subsidy receive each year cash payments equal to the difference between (a) whatever they have spent for crew wages and subsistence, maintenance and repairs, certain supplies and insurance, and (b) what they would have had to spend for the same purposes and for the same size and manner of operation if wages and prices paid had been equal to the estimated average wages and prices paid by the specific foreign competitors on each specific route served. This procedure has a number of highly uneconomic consequences:

1. The costs which the operators bear are largely independent of their own actions. If they spend more, the Government pays any major difference; if they spend less, the Government gets the major benefit. The operators have little incentive (a) to resist increases in wages and prices of subsidized items, (b) to employ subsidized cost factors as

efficiently as possible, and (c) to adjust their operating methods to the American cost structure. Recapture and re-recapture provisions further weaken the tie of operators' profits to efficiency.

2. To avoid unpredictable Government liabilities, the operating differential subsidy can be paid only to the most nearly predictable type of shipping--the regular liner operation which, throughout the world, carries far less dry cargo than the more flexible irregular tramp trades and specialized bulk carrier operations.

3. To discharge its responsibility as dispenser of Government funds, the administering agency supervises (as best it can) business decisions which normally are the sole responsibility of management. Its approval--at least formal--is needed specifically for:

- the routes to be served ("essential trade routes");
- the ports of call;
- the minimum and maximum number of sailings;
- the specifications of vessels;
- the manning scale and crew wages; and
- numerous other operating and financial matters.

The fact that the administering agencies have usually endorsed most of the operators' decisions has not prevented this system from hampering a business which should be operated flexibly and from obscuring the true division of responsibility between Government and operators to the detriment of effectiveness and efficiency in the discharge of both governmental and management functions.

4. With wage differentials on the average accounting for approximately 85% of the subsidy, the Government is a silent partner in wage bargaining and all other labor-management disputes.

5. Since passenger and combination liners require a large catering staff (about two-thirds of the crew as against one-fifth for cargo ships), they absorb about one-third of the operating subsidy (equivalent to about \$250 per passenger) without making any significant contribution to the real or supposed purpose of the program.

6. The intimate involvement of administering agencies in the affairs of the industry has led them to identify the operators' interest with the national interest. As a result, they have, at least until recently, required or encouraged subsidized operators to adhere to conferences so as to help keep freight rates relatively high at the expense of the U.S. economy whose freight payments go predominantly to foreign operators.

To eliminate some of these weaknesses and minimize the others, the operating differential subsidy program needs to be radically improved. Design of a substitute program involves numerous and intricate details that cannot be worked out by a temporary task force of part-time consultants. Some basic guidelines, however, can be defined.

Recommendations

1. Abandon the present method of computing the operating subsidy. Any new method should be designed to allow wider scope for management initiative, reward efficiency and penalize inefficiency, and should require much less Government involvement in ordinary business decisions.

Three general alternatives to the current subsidy formula are under discussion: determination of the subsidy by competitive bidding; determination of subsidy on the basis of the difference between average costs of American and foreign operators in amounts related to dollars of revenue and ton-miles of cargo; establishment of a "capital subsidy" by providing vessels free or at very low prices.

The possibilities of basing subsidies on competitive bidding are promising, but neither of the other methods seem promising to the task force. Much further analysis is needed to develop a completely workable bidding system, but in general, we would suggest contracts of several years' duration for successful U.S. bidders who agreed to: (a) employ U.S. citizens as seamen,

(b) serve broadly defined trade areas (e.g., Atlantic Ocean) and (c) provide some minimum annual capacity (say in ton-miles) within the area to be served. In revising the subsidy formula, the existing recapture, tax preference and mortgage guaranty provisions should be eliminated.

2. Discontinue the operating subsidy to passenger and combination ships with substantial passenger accommodations. No new subsidy contracts for such ships should be made and existing contracts should be renegotiated to terminate them as speedily as possible with compensation for undue hardship otherwise imposed on operators and crews. Contract settlement terms should protect operators against losses and a modest portion of subsidy savings may be used to assist displaced seamen. A significant number of them can readily qualify for skilled jobs on shore, but others may need retraining or relocation or both, and for some early retirement might be the best solution.

3. Eliminate the concept of the essential trade route and allow cargo line operators wide latitude in scheduling their operations. Relieve them of the requirement to operate American-built vessels exclusively and to use only American yards for repair and maintenance.

4. Reduce the operating subsidies by the amount of the passenger ship subsidy as quickly as possible in accordance with recommendation 2. During the first six years of the new program, the remainder of the operating subsidy should not be permitted to exceed this amount. The subsidy should be apportioned biennially by the administering agency among broadly defined areas so as to assure, as far as possible, the maximum beneficial influence on freight rates payable by American exporters and importers. The total volume of operations subsidized will depend on the improvements in operating efficiency for which the program provides incentives and which will affect the subsidy required.

5. Base the amount of subsidies beyond the first six years on the experience of the transition period and set it at a level designed to sustain a volume of U.S. flag service sufficient to exert a beneficial influence on operating efficiency and freight rates but not larger than necessary for this purpose.

6. Renegotiate existing cargo liner subsidy contracts so as to transfer operations to the new program without undue hardship or undue windfall benefits to the operators. Compensation which may have to be made to achieve a fair transition should be of a one-time rather than continuing nature so as to preserve the basic characteristics of the new program.

G. The Construction Differential Subsidy

To be eligible for subsidy or to serve in domestic trades, operators must now utilize only vessels built, maintained and repaired in American

shipyards.^{1/} After World War II, the Government sold war-built vessels to them at favorable prices. Where these are unusable (notably in passenger service) or need to be replaced, acquisition of new vessels is subsidized so as to reduce the operator's cost to the world market level. U.S. yards have been assured of the business without real foreign competition; hence management and labor have had little incentive to adjust operations so as to reduce costs.

The estimated cost differential has now risen to 55% of construction cost (60% for passenger vessels); annual subsidy requirements have mounted to about \$120 million per year and will continue to increase substantially under present programs for replacement of war-built ships. Construction is also supported by Government allowances on the trade-in of replaced vessels, mortgage guarantees and tax concessions on operators' funds.

Where a vessel was built has no bearing on the shipping services performed. The construction program's sole function is to support the shipbuilding industry. It is intended to preserve active shipyard capacity for national security. National security needs for this capacity have disappeared, as was shown above. Consequently, this expenditure of public funds to support grossly uneconomic operations should be terminated as quickly as possible, subject only to honoring contractual obligations and avoiding or compensating for undue hardship to shipyard owners and workers.

The hardship problem is not of large proportion. About two-thirds of private shipyard activity is supported by Navy and some other Government

^{1/} Special legislation permits foreign vessels to carry West Coast lumber to Puerto Rico if U.S. vessels are not available at competitive rates. This exception might well be broadened.

orders. Work on merchant vessels sustained by subsidy supports only about one-fifth of private shipyard work and the employment of about 12,000 to 15,000 workers, and work for domestic services supported only by cabotage is substantially smaller.

Transition and termination measures will have to be worked out in detail. Meanwhile the following suggestions may serve as guidelines.

Recommendations

1. Reduce new obligational authority immediately by one-third and the remainder by one-fifth per year so as to terminate in five years.
2. Devote some portion of the remaining obligational authority to facilitate adjustment of yards and workers. The residual should then be used to subsidize "transition-period construction" on terms calculated to provide a real competitive incentive to management and labor. The vessels to be built under this transition program should be procured by the Maritime Administration and sold or leased to U.S. operators by competitive bidding. Any individual vessel that could not be procured on the reduced subsidy terms from U.S. yards should be ordered abroad.
3. Do not require ship operators to utilize American-built vessels. Operators should also be permitted to have their vessels maintained and repaired abroad.
4. Exclude hovercraft from the foreign bottom provision if they are determined to be marine vessels. Their construction and operation should be free from economic regulation or subsidization.

H. Cargo Preference Provisions

Approximately \$150 million a year (about as much as either of the two subsidies) is now being paid by the Government for Government-sponsored cargoes which under cargo preference laws must be shipped by U.S. flag vessels. About one-third of this amount is normally recovered by charging recipient countries with freight at world market rates payable in their own currencies of which the United States already holds excessively large amounts. The arrangement has a number of serious disadvantages and

does not make a useful contribution to U.S. merchant marine policy. Specifically:

1. The principle of cargo preference contradicts the basic U.S. position in favor the freedom of the seas and elimination of international trade restrictions, offends major shipping nations who are among our close allies, and encourages other countries to follow the same policy.

2. While at present providing employment for U.S. flag ships, cargo preference undermines the basic purpose of merchant marine policy because --

- a) the U.S. tramps, which carry over half of preference dry cargoes, are war-built ships with high operating cost, do not add to the competitive strength of the merchant marine, and are obsolete;
- b) the U.S. liners which carry the remainder (at least 40 percent of their overall 1962 tonnage and considerably more outbound) are thereby diverted from competing with foreign operators for non-preference cargo, especially U.S. export cargo, so that the real purpose of the operating differential subsidy is to some appreciable extent nullified.

3. Cargo preference raises the cost to the Government of transporting aid cargo and Government-owned cargoes because, insofar as shiploads are involved, U.S. tramp operators are the only ones who can bid and they operate inefficient vessels of wartime construction.

Recommendation

Eliminate cargo preference either immediately or in steps of, say 10 percentage points annually. Owners of tramps that are no longer employable should be allowed to sell their vessels on the world market. Some of the budgetary savings might be devoted to retraining and placement of displaced seamen in other jobs or to retirement.

I. Maritime Rate Policy

Assuring economic pricing of maritime services is made difficult by the interaction of three elements:

1. The interests of other sovereign states which are importantly involved;
2. The concept of freedom of the seas which is essential to the broader interests of the United States; and
3. The conference system which is well established and invulnerable to frontal attack by the United States.

It does not follow, however, that the United States is powerless in this area. A number of available policy devices may serve to exert pressure on the maritime rate structure so as to bring and keep it more nearly in line with the cost of efficient service, which would stimulate international trade and thus serve the primary interest of the United States in this field.

Eliminating the restriction of subsidized carriers to their own "essential trade route," a measure already proposed above because of its intrinsic merits, would also reduce the power of conferences to exclude outsiders from their markets. Flexible operation of independent liners, bulk carriers, and other tramps likewise would reduce the power of conferences to maintain uneconomically high rates and should be encouraged. Permitting U.S. operators to buy vessels abroad, another measure recommended above for other reasons, would work in the same direction. So would opposition to collusive agreements among berth operators to discourage bulk and tramp operators from topping off with "liner cargo."

Above all, the vulnerability of American conference members, at least,

provides the U.S. Government with decisive power to influence conference action. As long as the problem is to prevent excessive rates, it is not essential that foreign flag operators be subject to these laws. The following recommendations suggest means by which the power stemming from the antitrust laws can be effectively employed.

Recommendations

1. Urge the Federal Maritime Commission to use its power to approve or disapprove conference agreements as a means of influencing conference rate decisions. It could, for example, apply a method similar to that pursued by the Civil Aeronautics Board and, after consultations with other interested agencies, indicate in advance of major conference deliberations that certain results would not be acceptable.
2. Require subsidized U.S. carriers that choose to participate in conferences to comply with Federal Maritime Commission guidelines on conference policy as the price of immunity from antitrust prosecution.
3. Continue and enforce the Bonner Act's limitations on dual rate contracts.
4. Eliminate the legal requirement of filing rates 30 days in advance of their effectiveness (introduced in 1962 and operating often as a bar to rate adjustment). In practice, this requirement discriminates against U.S. flag carriers.
5. Eliminate pooling agreements to the fullest extent practicable--there is a presumption that if they are worth the trouble to establish and discipline they are monopolistic. The Federal Maritime Commission, supported by Commerce, State and Justice, should continue surveillance of existing pools aimed at elimination of those found to be detrimental to U.S. commerce or contrary to the public interest. The State Department through international consultation should continue efforts both to eliminate underlying causes which create demand for pools and to facilitate corrective action.
6. Clarify the antitrust status of shipper associations to encourage their participation in conference rate making. Afford them antitrust immunity if necessary.
7. Avoid U.S. participation in any international organization or discussion directed toward making the conference system more effective.

* * * * *

U.S. policy on international air transport was reviewed in depth only two years ago and therefore has not been reexamined here. This is not to say that all problems were solved. Moreover, in a fast growing industry like international air transport new problems are constantly arising. More detailed investigation of emerging problems may be in order within the next few years.

Memorandum

TO : Mr. Bill Moyers

DATE: December 1, 1964

In reply refer to:

FROM : Robert A. Nelson

R.N.

SUBJECT: Proposed Transportation Message to Congress

Attached is the brief of a proposed transportation message to the Congress which you requested by December 1.

Mr. Gordon Murray of the Bureau of the Budget, Mr. Charles Taff of the Council of Economic Advisers, and Mr. William Hooper of the Office of Science and Technology, were of great help in its preparation. Mr. Allen Ferguson of the Department of State participated in early discussions and made helpful suggestions.

Attachment

FOR OFFICIAL USE ONLY

INTRODUCTION

Transportation:

1. Has contributed to the economic, social and political development of the nation in the past.
 - a. Paced westward growth.
 - b. Relieved rural isolation.
 - c. Encouraged the growth of metropolitan centers.
 - d. Contributed to a sense of national unity.
 - e. Made possible access to recreational facilities over the nation.
 - f. Contributed to the security of the nation.
 - g. Promoted economic growth.
2. Has achieved high levels of safety and efficiency.
3. Must continue to improve and to serve national goals.
 - a. Growing economy.
 - b. Social welfare.
 - c. More equitable distribution of income.
 - d. Improvement of international trade and relations.
 - e. Greater opportunity for individual achievement.
4. Growing economy
 - a. Adoption of new technologies to reduce cost and improve service.
 - b. Assurance that growth will not be inhibited by urban congestion.
 - c. More efficient functioning of the system - may involve greater reliance on the market.

5. Social welfare
 - a. Better access to cultural facilities in metropolitan areas.
 - b. Serve recreational needs.
 - c. Improve safety record, air pollution control.
6. More equitable distribution of income.
 - a. Put emphasis on programs which benefit low income and other disadvantaged groups - children, older people; i.e., urban transportation, highways in Appalachia.
 - b. Require those who can to pay for costs of their programs.
7. Improvement of international trade and relations.
 - a. Encourage international trade and commerce.
 - b. Policies which set standards for international commerce and do not contribute to friction among nations.
8. Greater opportunity for individual achievement.
 - a. Liberalize entry into transportation business.
 - b. Improved availability of low cost transportation.

In the past the Federal Government has used transportation investment and regulatory policy to:

1. Stimulate economic growth. This has been particularly true for the western region of the country. Railroad rates on agricultural commodities and raw materials have been held at depressed levels for many years. The deficit below out-of-pocket cost for the transport by rail of these commodities has aggregated over \$200 million per year in recent years.

Waterway, air transport, and highway investment has also been made extensively in the U. S. for this purpose.

2. Redistribute income. Generally speaking, the rate structure of common carriers has favored the transport of "necessities" and imposed high rates on the transport of "luxuries."

The common carrier rate structure has tended to favor smaller communities and sparsely settled areas at the expense of more densely populated areas. This has had the effect of raising land values in rural areas relative to land values in urban areas.

The rail passenger deficit which totaled over \$10 billion for the period 1946 to 1962 was at the expense of shippers of high value rail freight, as well as holders of railroad securities. This transfer of income has been to the benefit of passengers in all income groups in most areas of the United States. Suburban commuters have benefited greatly.

Much Federal investment in transportation facilities has had regional impact and generally has been made in less developed and less populated areas of the country. Highway investment has favored rural areas. Investment (subsidy) in air transportation has benefited smaller communities; however, overall investment of Federal funds in air transportation has benefited high income groups primarily.

Federal programs to improve metropolitan transportation have benefited low income groups in urban areas, also suburban

commuters, and have tended to raise real estate values in metropolitan areas.

3. Increase social welfare. Federal policies toward transportation have brought recreational and cultural facilities within reach of low and middle income groups. These groups would probably not pay the full transportation cost involved in the use of these facilities. Examples are highways to and from national parks, monuments, etc., urban transportation for education and other cultural activities.
4. International trade and relations. Much of transportation policy has been directed to defense preparation. Insofar as much of the transport system requires large capital investment this has had to be done well in advance of need, and beyond what was economically justified for peacetime purposes.

Maritime cargo preference laws have been justified as necessary to maintain a fleet of U. S. bulk carriers under the U. S. flag for defense purposes. Presently there are about 90 obsolete ships in this fleet. Cargo preference laws have been a source of severe irritation to other nations, particularly U. S. allies, insofar as they tend to restrain trade between U. S. and the rest of the world.

Operating and construction subsidies to the U. S. flag merchant fleet have been justified for defense reasons and also to provide adequate and reliable ocean liner service to U. S. exporters and importers. As the system has worked there

is little evidence that U. S. flag carriers have provided better service to U. S. shippers than could be obtained from foreign flag carriers. The proportion of U. S. trade carried in U. S. ships has steadily declined while the volume of U. S. trade has risen substantially. U. S. ships are probably less efficiently operated than foreign flag ships, at least in part, because of the resistance of employees to the introduction of labor saving innovations.

5. Promotion of opportunity for individual achievement. To a considerable extent regulation has restricted entry into and exit from the business of transportation. In highway, water, and air transportation this cannot be justified by the scale of enterprise. On the other hand, the provision of transportation on widely uniform terms at rates favoring small size shipments has promoted small business enterprise. In that sense, regulatory policy has been consistent with anti-trust policy.

LEGISLATIVE AND ADMINISTRATIVE ACTION

Governmental Organization and Policy

I Legislative

A. Establish a U.S. Department of Transportation /and Communications/

1. Comment - Warranted by the size and impact of the industry. Needed for executive branch programs scattered through more than 30 agencies.

More effective policy formulation, dissemination, and research back-up possible.

Action program coordination - public investment, subsidies, user charges, procurement can be given uniform standards for programs and procedures.
2. For - Some regulatory commissioners, some congressmen, transportation labor, Task Force on Government Organization.
3. Against - Some railroad interests, National Industrial Traffic League, potential component agencies, regulatory agencies.
4. Cost and revenue - Establishment cost uncertain. Continuing costs should not exceed costs of operating scattered programs now.

II Administrative

A. Establish a Transportation Investment Review Board

1. Comment - Needed to advise on consistent policies, coordinate transport budget, review long-run investment plans, develop consistent and meaningful project evaluation methods, relate transport investment to other national objectives.

Set up immediately in Department of Commerce. Reconstitute in Department of Transportation later. Department of Commerce, Council of Economic Advisers, Bureau of the Budget members. Consult FAA, Post Office, Agriculture, DOD, and others as needed.

2. For - Bureau of the Budget, Department of Commerce, Council of Economic Advisers.
3. Against - Large clientele agencies like FAA, Bureau of Public Roads, HHFA, possibly Congressional Committees.
4. Cost and revenue - Absorbed.

B. Strengthen Interagency Committee on Transportation Mergers

1. Comment - Need for initiative to develop merger alternatives to those proposed by carriers and alternatives to merger such as abandonment, reorganization. Need greater flexibility than afforded by carrier initiated proposals.

2. For - New England and some other congressmen, Department of Commerce, Council of Economic Advisers, Justice Department, Bureau of Budget, Department of Labor, weak carriers, railroad labor.
 3. Against - Probably all regulatory agencies, unions.
 4. Cost and revenue - Absorbed.
- C. Establish Interagency Committee on Transportation Rates and Operating Rights
1. Comment - Will provide consistent, coordinated executive branch representation in regulatory cases involving major policy issues. Administration should assert policy leadership.
 2. For - Department of Commerce, Bureau of the Budget, Council of Economic Advisers.
 3. Against - Clientele agencies, especially Department of Defense, Agriculture and GSA.
 4. Cost and revenue - Absorbed.
- D. Instruct Secretary of Commerce to take responsibility for planning and coordinating transportation research and development.
1. Comment - Coordination and balance of a growing program of transportation technology and systems analysis requires consideration of all transport problems and support of broad inquiry unrestricted by modal considerations.

2. For - Scientific community, universities, high technology companies.
3. Against - FAA, possibly NASA, DOD.
4. Cost and revenue - Indeterminate.

E. Strengthen and expand capability for transportation policy formulation in the Department of Commerce.

1. Comment - A policy oriented research program must be maintained to help identify emerging issues, formulate action alternatives, determine attractiveness of alternative facility investments, and evaluate impact of policy decisions. A capability to detect complex transportation system interaction and forecast user response is essential. Policy decisions must be disseminated to operating agencies and interpreted to the general public.

This office should provide staff support for the Inter-agency Committee on Transport Mergers, Transportation Investment Review Board, and Interagency Committee on Rates and Operating Rights.

2. For - The Department of Commerce, Bureau of the Budget, Council of Economic Advisers.
3. Against - Large clientele agencies, including FAA, Agriculture, Department of Defense, GSA, and possibly Department of State.

4. Cost and revenue - Gradual expanding program from present level of \$3.5 million per year could exceed \$5 million in five years, including contract funds.

Regulation - Rates

I Legislative

A. Freight Rates - Greater latitude to management discretion in rate making.

1. Comment - Need to move gradually toward more liberalization in rate regulation due to increased competitive situation. Consumers would benefit by increased flexibility in pricing. Efficient transportation would be encouraged.
2. For - National Industrial Traffic League (a shipper organization), some other shippers, railroads.
3. Against - Motor and water carriers, Interstate Commerce Commission, some small shippers chiefly wholesalers and retailers in small towns.
4. Cost and revenue - Minor reduction in regulatory costs.

B. Repeal of the Long and Short Haul Provision of the Interstate Commerce Act. (Paragraph (1) Section 4)

1. Comment - Provision originally designed to protect intermediate points without competitive services from higher rates than to more distant points. Increased availability of alternative forms of transport reduces need for this provision. Intermediate points with small volume may be extremely costly to serve.

2. For - Western railroads, NIT League, ports.
 3. Against - Shippers, communities, and congressmen in intermountain territory.
 4. Cost and revenue - Indeterminate.
- C. Repeal "rule of three" in Interstate Commerce Act to permit any number of bulk commodities to move exempt in a single tow.
1. Comment - Would make exempt water carriage more economical.
 2. For - Large shippers, exempt water carriers, coal companies, NIT League.
 3. Against - American Waterway Operators, AAR, and railroads.
 4. Cost and revenue - Indeterminate..
- D. Repeal provision limiting bulk exemptions to commodities handled by water carriers on June 1, 1939.
1. Comment - An arbitrary limitation imposed 25 years ago. New bulk commodities should be exempted from regulations.
 2. For - Exempt carriers, large shippers, some congressmen.
 3. Against - AAR, railroads, American Waterway Operators, and regulated water carriers.
 4. Cost and revenue - Indeterminate.
- E. Amend the Interstate Commerce Act to remove requirement that carriers maintain rates based on "reasonable classifications."
1. Comment - Will eliminate freight rate classifications based upon value of commodity, and greatly simplify the freight rate structure.

2. For - Freight forwarders and shippers.
 3. Against - Carriers, carrier rate bureaus, Interstate Commerce Commission, Western agricultural groups, and lumber interests.
 4. Cost and revenue - Indeterminate, could reduce regulation substantially.
- F. Amend the Interstate Commerce Act to require rail and motor carriers to accept shipper-owned or-leased equipment for transport at rates commensurate to the service being provided.
1. Comment - Will alleviate problems of supply and distribution of rolling stock. Permit shipper acquisition and use of specialized equipment. Provide an alternative to shippers to present commodity based rate structure.
 2. For - Shippers, freight forwarders, and car leasing companies.
 3. Against - Railroads, regulated motor carriers, Interstate Commerce Commission.
 4. Cost and revenue - Indeterminate.
- G. Amend the Interstate Commerce Act and the Federal Aviation Act to provide in rate cases where complainant is a carrier that the burden of proof as to reasonableness of rates shall be on the complaining carrier.

1. Comment - Burden of proof is now upon those proposing changes in rates. This had enabled competing carriers to impede rate changes unnecessarily, and has impaired flexibility of rate making and interfered with managerial discretion. Will greatly reduce regulatory backlog.
 2. For - Shipper, NIT League.
 3. Against - Carriers, carrier rate bureaus, Interstate Commerce Commission.
 4. Cost and revenue - Indeterminate.
- H. Amend Interstate Commerce Act and Federal Aviation Act to deny carriers right to request suspension of proposed rates.
1. Comment - Most suspensions are instigated by competing carriers opposing rate reductions. Will greatly reduce regulatory backlog.
 2. For - Shippers.
 3. Against - Carriers, Interstate Commerce Commission.
 4. Cost and revenue - Indeterminate.
- I. Repeal regulation of intercity rail and bus fares.
1. Comment - About 90 percent of all intercity passenger miles is now in private automobiles. Passenger deficits have absorbed about 40 percent of the net railway income from freight in the postwar period. The proposal will encourage railroad and bus management to experiment with competitive fares.
 2. For - Passengers and carriers probably.
 3. Against - Intercity commuters, railroad labor, and probably labor in general.

4. Cost and revenue - Indeterminate.

J. Amend the Federal Aviation Act to eliminate rate regulation of all unsubsidized domestic air transportation.

1. Comment - Recommended as an intermediate step. Generally the Civil Aeronautics Board has permitted airlines to institute flexibility in their fare structure and it is felt therefore that no change needs to be made immediately in this part of board regulation. Furthermore there is some evidence of oligopoly in air transportation and the continuation of fare regulation at present is desirable. For the intermediate future, however, we should eliminate fare regulation.

2. For - Passengers.

3. Against - Trunk line carriers.

4. Cost and revenue - Indeterminate.

K. Amend existing Federal law and enact similar legislation for common carriers by air to authorize the limitation of liability by common carriers of all commodities.

1. Comment - Regular insurance procedures are preferable and less costly to including insurance in common carrier rates.

2. For - Carriers, insurance companies.

3. Against - Some shippers.

4. Cost and revenue - Indeterminate.

L. Amend the Interstate Commerce Act and the Federal Aviation Act to provide that rates become effective upon filing and cannot be suspended for 90 days. Requests for suspension must be filed during this period.

1. Comment - The proposal would inject a greater degree of flexibility to meet competitive conditions in both the regulated and non-regulated areas.

2. For - Most shippers.

3. Against - Carriers except possibly railroads.

4. Cost and revenue - Indeterminate.

M. Repeal the provision of the Interstate Commerce authorizing reparations to be paid by carriers subject to Part I to shippers in cases where rates are found to be unlawfully high.

1. Comment - Very often reparations awards are paid to parties other than those actually incurring loss.

2. For - Carriers.

3. Against - Shippers, TAA, ICC.

4. Cost and revenue - Indeterminate.

II Administrative

A. Urge the Civil Aeronautics Board to encourage the setting of fares for subsidized air transport at the highest level compatible with maximizing carrier net revenue.

1. Comment - Passengers should make a larger contribution to local service airline revenues.
 2. For - Bureau of the Budget, carriers.
 3. Against - Some passengers, communities served.
 4. Cost and revenue - Some contribution to subsidy reduction.
- B. Instruct Commerce to initiate proceedings before IOC to eliminate from TOFC tariffs the requirement that plans III and IV rates be applied only on mixed loads.
1. Comment - Will contribute to elimination of rates based on value of commodity.
 2. For - NIT League, shippers, some railroads.
 3. Against - Interstate Commerce Commission, truckers, some railroads.
 4. Cost and revenue - Indeterminate.
- C. Instruct Department of Commerce to initiate proceedings before the ICC if necessary to require railroads to offer Plan I service to regulated motor carriers on terms comparable to Plans III and IV.
1. Comment - Railroads should not be permitted to discriminate against for hire motor carriers in TOFC service.
 2. For - Motor carriers, shippers.
 3. Against - Teamsters, railroads.
 4. Cost and revenue - Indeterminate.

Regulation - Operating Rights

I. Legislative

A. Amend Parts II and III of the Interstate Commerce Act to provide that after January 1, 1966, all operating rights will be granted or converted to irregular routes with elimination of commodity, point, and direction restrictions. Further amend Parts II and III to provide that grants of operating rights will be made on the basis of a determination that such grants are in the public interest.

1. Comments - Moves in the direction of eliminating restrictions on certificates and permits by which many carriers are limited to specified commodities and in some instances to points and direction of movement. Motor and water carriers have been granted certificates and permits as a means of limiting the number of firms in the field (currently over 5,000 motor carriers with such rights). We should move toward more flexibility in granting operating rights and ultimately toward eliminating them. Their ultimate elimination would inject more competition into the field and rates would be kept reasonably close to the cost of efficient operators.
2. For - Most shippers, National Industrial Traffic League, prospective operators.
3. Against - All regulated carriers, regulatory bodies, Association of American Railroads, certain conferences of the American Trucking Associations:

4. Cost and revenue - Indeterminate.
- B. Amend Part I of the Interstate Commerce Act to authorize unrestricted abandonment of lines and facilities and discontinuance of service. Provide for option to public agencies to acquire railroad property by condemnation or to provide for continuation of operation by subvention of out of pocket deficits.
1. Comment - There are many instances of train and ferry operation years after public need has disappeared. Proceedings for discontinuance and abandonment are time consuming and costly to all parties.
 2. For - Railroads, large shippers, National Industrial Traffic League, some agricultural groups.
 3. Against - Small communities, organized labor, state public utility commissioners.
 4. Cost and revenue - Indeterminate.
- C. Amend Federal Aid Highway Acts to increase size and weight limits on the Interstate Highway System as recommended by the Department of Commerce.
1. Comment - Size and weight limits have an effect upon the economy of motor carrier operations. Preliminary evidence indicates that specifications to which the Interstate System has been built permit the raising of size and weight limits.

2. For - American Trucking Association, motor carriers, freight forwarders.
 3. Against - American Automobile Association, railroads.
 4. Cost and revenue - Indeterminate.
- D. Amend the Interstate Commerce Act to permit private carriers to lease equipment with drivers to authorized carriers for return hauls to point of origin.
1. Comment - Reduces uneconomic operation by private carriers.
 2. For - Shippers.
 3. Against - Regulated common carriers, railroads, ICC.
 4. Cost and revenue - Indeterminate.

II Administrative

- A. Urge the Civil Aeronautics Board to permit trunk line carriers to discontinue service on low traffic segments by transfer to local service carriers.
1. Comment - Trunk line carriers are still serving many low traffic points.
 2. For - Some trunk airlines, some local service lines.
 3. Against - Cities losing trunk service, possibly airline labor, CAB.
 4. Cost and revenue - Indeterminate.
- B. Encourage the Civil Aeronautics Board to liberalize - skip - stop - authority.

1. Comment - Skip-stop restrictions, increase costs of operation, and add little to revenue.
 2. For - Air carriers with such restrictions
 3. Against - Air carriers adversely affected, CAB, middle size and small communities.
 4. Cost and revenue - Indeterminate.
- C. Urge the Civil Aeronautics Board not to impose a minimum of two round trips per day to low traffic points on subsidized carriers before making additional studies of traffic response and considering alternative means of meeting need.
1. Comment - Prescription of minimum number of round trips per day may be uneconomical.
 2. For - Air taxi operators, local service airlines.
 3. Against - Communities served, CAB.
 4. Cost and revenue - Indeterminate.
- D. Urge the Civil Aeronautics Board not to certificate a subsidized carrier between points where existing air taxi service is satisfactorily meeting needs.
1. Comment - Air taxi operators are presently rendering service in many localities. They should not be forced to terminate as a result of new authorization of subsidized competition.
 2. For - Air taxi operators, Council of Economic Advisers, Bureau of the Budget, Department of Commerce.
 3. Against - Local service airlines.
 4. Cost and revenue - Indeterminate.

Regulation - Mergers

I. Legislative

- A. Revise the Interstate Commerce Act to give greater influence to junior security holders in bringing about voluntary reorganizations.
 - 1. Comment - At the present time, it is necessary that 75% of each class of security holders approve voluntary reorganization. This results in senior security holders being placed in a position to frustrate recapitalization.
 - 2. For - Railroads, most security holders.
 - 3. Against - Senior security holders.
 - 4. Cost and revenues - None.
- B. Revise the Interstate Commerce Act to provide that the ICC give dominant weight to the effect of mergers upon adequate transportation service. Consideration should be given to the effect of mergers upon other roads in territories served.
 - 1. Comment - Statutory criteria do not give sufficient weight to the effect of proposed mergers upon the adequacy of transportation service.
 - 2. For - Weak railroads.
 - 3. Against - Strong railroads and Interstate Commerce Commission.
 - 4. Cost and revenue - None.
- C. Revise the Interstate Commerce Act regarding employees not being placed in a worse employment position for four years after a merger.

1. Comment - This provision was instituted during the depression. Should be replaced by provision for special retraining programs, and compulsory retirement.
 2. For - Railroads and shippers.
 3. Against - Organized railroad labor.
 4. Cost and revenue - None.
- D. Amend the Interstate Commerce Act to prohibit intra-modal mergers of trucking, water carriers, and freight forwarders when the effect is to lessen competition substantially.
1. Comment - At the present time there is very limited attention given by the Interstate Commerce Commission to mergers in the trucking, water, and freight forwarder fields. Similar provisions to general anti-trust standards should be enacted.
 2. For - Railroads, some shippers.
 3. Against - Large motor carriers, larger water carriers, large freight forwarders, and the Interstate Commerce Commission.
 4. Cost and revenue - None.
- E. Amend the Interstate Commerce Act and the Federal Aviation Act to prohibit inter-modal mergers.
1. Comment - In particular this will prevent merger of competitive and monopolistic firms increasing complexity of regulation.
 2. For - Motor carriers, water carriers, airlines, Civil Aeronautics Board, ICC.
 3. Against - Railroads.
 4. Cost and revenue - None.

II. Administrative

A. Endorse railroad mergers where merger appears to be the best means of achieving improvements or disinvestment.

1. Comment - Substantial reductions of cost can be achieved by reductions in the extent of the rail network.
2. For - Railroads.
3. Against - Railroad labor, communities affected.
4. Cost and revenue - None.

Federal Transport Facilities Program

I. Legislative

- A. Relate Federal investment in airways to revenues from user charges. Establish user charges for air carriers, increase ticket tax to 7%, impose freight waybill tax of 5%, abandon gas tax of 2 cents per gallon. Establish user charges for general aviation - 10 cents per gallon fuel tax, and annual license fee averaging \$1,000 (varying with weight).
1. Comment - Need to relate private outlays for transport more closely to total costs, both public and private. Charges should fully recoup operation and maintenance costs now, capital costs as soon as possible for all new investment. Exceptions can be made where other national objectives are overriding.
 2. For - Railroads, Transportation Association of America, Bureau of the Budget, Civil Aeronautics Board, Federal Aviation Agency at least in part.
 3. Against - All air carriers, general aviation, trade associations of carriers and general aviation. Many Congressmen.
 4. Cost and revenue - User charge revenues should be about \$208 million from air carriers; \$127 million from general aviation.

B. Phase out the Federal-Aid Airport Program

1. Comment - Grant program has been \$75 million annually.
Program goes more and more to general aviation airports.
Commercial airport system is virtually complete, benefits urban communities and upper income groups. Could reduce grants by \$25 million annually, stop in three years, or combine smaller grants with guaranteed loans with termination in 5 years.
2. For - Department of Commerce, Bureau of the Budget, Council of Economic Advisors, Railroads.
3. Against - Federal Aviation Agency, Chambers of Commerce, recreational and business flyers.
4. Cost and revenue - Ultimate savings of \$75 million annually.

C. Terminate eligibility of domestic trunk airlines for subsidy.

1. Comment - Carriers are enjoying increasing profitability.
In eligibility needs to be established clearly.
2. For - Civil Aeronautics Board, Federal Aviation Agency, Bureau of the Budget, Council of Economic Advisors, Department of Commerce, Railroads.
3. Against - Possibly one or two weaker trunk carriers.
4. Cost and revenue - No immediate saving since no trunk carrier is now receiving subsidy.

D. Terminate helicopter subsidies.

1. Comment - Federal aid exceeding \$50 million to three small carriers has not produced reasonable hope of subsidy-free operations. Subsidy-free operation now exists in San Francisco. Benefits of subsidy go to upper income travelers.
2. For - Railroads, Bureau of the Budget, Council of Economic Advisors.
3. Against - CAB, Air Transport Association, helicopter operators, some local service carriers, possibly Federal Aviation Agency.
4. Cost and revenue - Savings approximately \$4 million annually on present program.

E. Rehabilitate deep-water ports.

1. Comment - Technical obsolescence of major port facilities discourages traffic and dries up sources of funds for improvement. Need to improve efficiency of ports and reduce cost of terminal facilities for US waterborn commerce.

Intergovernmental relations problems make effective action difficult.
2. For - Long-shore labor, Maritime labor, Bureau of the Budget, Council of Economic Advisors, Department of Commerce, shipping companies, port authorities, many shippers, railroads.

3. Against - River valley interests, inland water carriers, some shippers.
 4. Cost and revenue - None.
- F. Enact a waterways' user tax of 2 cents a gallon on all fuel used on the inland waterways.
1. Comment - Public investment is excessive on cost/effectiveness basis. Recoups a small portion of operating and maintenance costs.

User charges should eventually relate new investment to benefits.
 2. For - Department of Commerce, Bureau of the Budget, Council of Economic Advisors, Railroads.
 3. Against - Inland waterway carriers, Congressmen from Gulf States, large shipper-carriers in Mid-west and South.
 4. Cost and revenue - About \$8 million annually.
- G. Increase highway user charges by raising diesel fuel tax from 4 to 7 cents per gallon, weight tax on trucks over 26,000 pounds by \$2 per thousand pounds, and add 5 cents per pound on tread rubber.
1. Comment - This will restructure user charges in the direction of equity.
 2. For - Bureau of the Budget, Council of Economic Advisors, Department of Commerce if size and weight limits are allowed, railroads.

3. Against - Truck manufacturers, trucking associations, road builders, petroleum producers.
 4. Costs and revenue - User tax increases will produce \$150 million additional revenue in first year, more later.
- H. Provide that Federal funds now allocated to the Secondary Roads Program be used for highway safety, scenic roads, and highway beautification.
1. Comment - The purposes of the secondary road program viz construction of farm to market roads have now been largely met. Funds not used for urban extension of secondary roads could be directed to safety, scenic roads, and highway beautification.
 2. For - Civic groups, outdoor and recreation groups, Department of Commerce.
 3. Against - Agricultural interests, possibly municipal groups and HHFA.
 4. Cost and revenue - Diversion of funds.
- I. Provide that 1/5 of income from automobile and truck excise tax be used for highway safety, scenic roads, and highway beautification.
1. Comment - Excise tax on automobiles and trucks should support highway safety and other highway improvement programs.

- 2.- For - Department of Commerce, BOB, civic groups, parent groups.
3. Against - Automobile Manufacturers.
4. Cost and revenue - Diversion.

II. Administrative

- A. Instruct the Secretary of Commerce to assure that the study of post-1972 highway needs be directed to (a) least-cost elimination of bottlenecks, (b) more refined methods of determining need, (c) engineering standards of design more appropriate to the traffic being served.

1. Comment - See discussion of need for better integration of highway and other transport planning and of both with other development planning in urban areas. (Urban Transportation)

Better methods of highway needs projections are needed.

More rigorous cost/effectiveness analysis needed.

Allocation formula in existing laws should be critically reviewed.

Alternatives to Interstate System as a solution of urban congestion problems needed.

2. For - Bureau of Budget, Council of Economic Advisors, railroads, possibly AAA and some trucking groups, Department of Commerce.

3. Against - Highway interest groups.
 4. Cost and revenue - Indeterminate.
- B. Instruct Secretary of Commerce with assistance of FAA, CAB, Treasury and Bureau of the Budget to continue efforts to quantify benefits received by various categories of users of the airways, waterways, highways; to explore various charging and collection techniques and to devote more research to incremental costs incurred on behalf of users who create traffic peaks or require large investment in low-density situations.
1. Comment - See comment A above.
 2. For-- Department of Commerce, Bureau of the Budget, Council of Economic Advisors, FAA, railroads, many local planning agencies, local governments in congested areas, airport authorities.
 3. Against - Peak load and low-density users, carrier associations, congressional committees.
 4. Cost and revenue - Indeterminate.
- C. Urge greater cooperation between CAB and FAA in relating changes in airports and airways to changes in air operations, especially of subsidized carriers.
1. Comment - In past new airports, airport improvements have been made before certification of service or after CAB has suspended commercial service. Service has been certificated where airports are clearly inadequate.

2. For - Bureau of the Budget, Council of Economic Advisors, Department of Commerce.
 3. Against - Local service airlines and general aviation Congressional committees, local chambers of commerce, airport builders and authorities.
 4. Cost and revenue - Indeterminate.
- D. Urge CAB to continue development of Class Rate Plan to control local service airline subsidies; develop similar plans for Alaska and Hawaii; enforce Use-it-or-lose-it policy and tighten standards.
1. Comment - The Class Rate Plan does not reflect well enough cost of deficit operations. Board must require more refined cost and revenue data by route segments.
 2. For - Department of Commerce, Bureau of the Budget, Council of Economic Advisors, Railroads.
 3. Against - Local service airlines, Chambers of Commerce, CAB, congressional committees.
 4. Cost and revenue - Eventual subsidy reduction.
- E. Instruct the Secretary of Commerce to continue studies of highway wear, especially accelerated wear likely to result from liberalized size and weight limitations on the Interstate System with a view to adjusting user charges.

1. Comment - Existing inequity of cost sharing as between heavy trucks and other highway users may be further aggravated.
2. For - AAA, railroads, Council of Economic Advisers, Department of Commerce, Bureau of the Budget.
3. Against - Trucking associations, heavy truck operators.
4. Cost and revenue - Indeterminate.



Safety

I. Legislative

A. Request congressional authorization of Federal support for driver education programs in public schools.

1. Comment - Many communities have insufficient educational resources to support driver education programs.
2. For - Parent groups, U.S. Education Association, Council of State Governments, American Municipal Association.
3. Against -
4. Cost and revenue -

B. Amend the Interstate Commerce Act to make safety standards uniform as between regulated for-high motor carriers and private and exempt motor carriers.

1. Comment - As the volume of private and exempt carriage increases on major highways differences in safety standards are no longer justifiable.
2. For - Regulated carriers, insurance companies.
3. Against - Some shippers, exempt carriers, agricultural groups.
4. Cost and revenue -

II. Administrative

A. Instruct the Secretary of Commerce, Labor, and Health, Education and Welfare to intensify efforts to cope with the

problem of highway safety and air pollution caused by highway and other transportation motive power.

1. Comment - Last year (1963) 48,000 persons were killed and 1,800,000 injured in motor vehicle accidents in the United States. The economic cost of these accidents is estimated to be more than \$10 billion per year. The increasing number of automobiles on the highways augurs an increase in the number of fatalities and injuries.
2. For - General public, parent groups, the American Municipal Association, the Council of State Governments.
3. Against - American Petroleum Institute, Automobile Manufacturers Association, American Automobile Association.
4. Cost and revenue -

B. Direct that more effort be put into research on the safety characteristics of highway vehicles, research on the relationship of the vehicle to the highway, and its effect on safety, study of behavioral factors associated with traffic accidents, and research on the environment in which highway vehicles are operated.

1. Comment - Most Federal support of safety research has been for highway design. Vehicle design has lagged behind and needs a coordinated effort.

2. For - General public, parent groups, the American Municipal Association, the Council of State Governments.
3. Against - American Petroleum Institute, Automobile Manufacturers Association, American Automobile Association.
4. Cost and revenue -

C. Continue safety programs in aviation and make them more effective. Instruct the Federal Aviation Agency to inaugurate safety clinics for general aviation, tighten up requirements for licensing of non-commercial pilots, increase minimum standards of communication and navigational equipment in non-commercial aircraft.

1. Comment - The great increase in non-commercial flying requires increased attention to assure safety to all users of the air space.
2. For - General public, insurance interests.
3. Against - Some aviation groups.
4. Cost and revenue -

Research and Development

I. Legislative

A. Request congressional authorizations of a research program to advance the technology of high speed ground transportation.

1. Comment - Greatly improved intercity transportation efficiency and service will remove a constraint upon economic growth in the Northeast Corridor and other densely populated regions of the United States. New concepts generated may be applicable to many transportation problems here and abroad. In order to forecast passenger and freight facilities needs through 1980, environmental determinants of transport needs must be explored. Estimates of the impact of new services on the development of regions and urban centers are required. Technological improvements in all modes will be analyzed and new institutional requirements studied.
2. For - Research firms and universities, railroads, aerospace industry, passengers and shippers in the Corridor.
3. Against - Air carriers, possibly some bus operators.
4. Cost and revenue - \$20 million provision rigid in 1966 budget.

B. (Assuming forthcoming SST report is favorable) Request congressional authorization of an SST development program.

1. Comment - The opportunity exists to safeguard our position of leadership in commercial aircraft construction and introduce a new era of passenger travel. The magnitude of costs involved requires Federal participation in partnership with industry.
2. For - Aerospace industry, some air carriers, air passengers.
3. Against - Some carriers, some urban residents.
4. Cost and revenue - Indeterminate.

II. Administrative

- A. Encourage colleges and universities to participate in far-reaching interdisciplinary attacks on complex transportation problems.
 1. Comment - In addition to the conduct of basic research leading to new technological opportunities, universities must be depended upon for the development of needed systems analysis methodology.
 2. For - Universities, scientific community.
 3. Against -
 4. Cost and revenue - Indeterminate.
- B. Instruct the Secretary of Commerce to proceed with the broad exploration of alternatives to present highway systems.
 1. Comment - Automated highways and other point-to-point transportation system components may permit more rapid, higher density travel with greatly increased safety to travelers and pedestrians.

2. For - Automobile owners, some automobile manufacturers, municipalities, other high technology companies.
 3. Against - Some automobile manufacturers, some insurance companies.
 4. Cost and revenue - Indeterminate.
- C. Instruct the Secretary of Commerce to prepare long term research plans for meeting major technical needs in transportation.
1. Comment - Readily visible needs include a more economic short haul aircraft, air traffic control for all weather flying and more intensive use of airspace, new ship cargo hauling, better construction techniques for building future ships, more efficient movement of urban freight.
 2. For - Department of Commerce.
 3. Against - FAA.
 4. Cost and revenue - Indeterminate.
- D. Instruct Department of Defense to continue and strengthen efforts to obtain more efficient service and explore implications of system innovations in cooperation with shippers and carriers.
1. Comment - The purchasing power of Department of Defense is sufficiently great to permit meaningful tests of new rate arrangements, shipping systems, and operating practices.

2. For - Most railroads.
 3. Against - Some unions, some carriers.
 4. Cost and revenue - Indeterminate.
- E. Urge regulatory agencies to obtain the advice and assistance of outstanding scientists, engineers, and business executives in order to improve further the environment for innovation within the transportation industry.
1. Comment - Regulation must not inhibit shippers and carriers from cooperatively developing and utilizing promising new transportation ideas.
 2. For - Railroads, shippers, equipment manufacturers.
 3. Against -
 4. Cost and revenue - Indeterminate.

Urban Transportation

I Legislative

A. Strengthen the planning requirements of the Federal-Aid Highway Acts.

1. Comment - Transportation planning coordination was made a requirement in the Federal Highway Act of 1962. Greater emphasis is needed on (a) integration of transport planning and general community development planning, (b) participation of local, especially metropolitan-wide, general planning agencies in comprehensive transport planning.
2. For - Bureau of the Budget, Council of Economic Advisers, Department of Commerce, HHFA local planning agencies, American Municipal Association and U.S. Conference of Mayors.
3. Against - State highway departments, city highway departments, highway interest groups.
4. Cost and revenue - Indeterminate.

II Administrative

- #### A. Urge HHFA Administrator and Secretary of Commerce to develop fully their responsibilities for consulting on coordination of all transport developments in urban areas.

1. Comment - Federal transport aids need to be coordinated internally and with other Federal aids for urban development. Federal transportation aids to different metropolitan areas should be coordinated and made consistent where common transport systems are involved, e.g., the New Haven Railroad as between New York and New Haven.
 2. For - Housing and Home Finance Agency, Department of Commerce, Bureau of Budget, Council of Economic Advisers.
 3. Against - Highway interest groups.
 4. Cost and revenue - Indeterminate.
- B. Restate the possibility of using highway funds for mass transit right-of-way and related facilities, e.g., bus turn-outs and shelters.
1. Comment - No positive action has been taken by the Bureau of Public Roads to implement existing authority. Physical coordination of mass transit, particularly express buses, with highway development is highly desirable. Lanes can be reserved for exclusive bus use during rush hours.
 2. For - HHFA, BOB, Council of Economic Advisers, metropolitan planning agencies.
 3. Against - AAA, State and city highway departments.
 4. Cost and revenue - Highway Trust Fund and Urban Mass Transit Program will meet needs.

- C. Instruct all Federal programs aiding urban transport to consider integration of freight movements with passenger movements in urban areas, evaluate projects on the basis of coordination to be achieved and improvement in efficiency and economy of freight transport within urban areas.
1. Comment - Neither mass transit nor highway programs have given consideration to this problem.
 2. For - Local planning agencies, Housing and Home Finance Agency, Department of Commerce, Bureau of the Budget, Council of Economic Advisers, carriers.
 3. Against - AAA.
 4. Cost and revenue - Indeterminate.

Maritime Transportation Policy

I. Legislative

A. Amend Merchant Marine Act of 1936 to provide for a change in the method of computing operating subsidy. This change should move in the direction of allowing wider scope for management initiative; it should reward efficiency and should require much less government involvement in ordinary business decisions of steamship companies. The subsidy should compensate operators for the higher wage levels generally in the United States as compared to the rest of the world. It should be paid on the basis of specific shipboard wages.

1. Comment - The present subsidy decision distorts the operator's use of labor in relation to other inputs.
2. For - Bureau of the Budget, Council of Economic Advisers, Department of Commerce.
3. Against - Maritime Unions, operators.
4. Cost and revenue -

B. Repeal the statutory provisions for recapture of excess profits of subsidized carriers, tax preference to preserve funds of subsidized carriers, and the guaranty of ship mortgage.

1. Comment - Greater freedom to operators to retain profits on the one hand and removal of special treatment under the tax law and in procurement of loans which are no longer justifiable.

2. For - Bureau of the Budget, Council of Economic Advisers.
 3. Against - Steamship operators.
 4. Cost and revenue - Some additional tax revenues.
- C. Amend Merchant Marine Act of 1936 to change the concept of the essential trade route to broad trade areas. Require the Department of Commerce in certifying US flag operators for subsidy to make a finding that US trade and commerce will be significantly advanced by the provision of US flag carrier service.
1. Comment - Steamship operators should have greater latitude in scheduling their operations. The need for US flag carrier service ought to be based on requirements for the stimulation of trade.
 2. For - The steamship operators, Bureau of the Budget, Council of Economic Advisers, Department of Commerce.
 3. Against - Some congressmen, maritime labor.
 4. Cost and revenue - Reduction of subsidy.
- D. Amend the Merchant Marine Act of 1936 to relieve subsidized and domestic trade operators of the requirements of (a) operating US built ships in subsidized service and domestic trade and (b) using only US yards for repair and maintenance. Permit some freedoms in domestic trade.
1. Comment - US steamship operators should be free to buy ships at lowest costs.
 2. For - Ship operators.

3. Against - US shipyards and shipyard labor.
 4. Cost and revenue - About \$10 million first year.
- E. Instruct the Maritime Subsidy Board to discontinue operating subsidy to passenger operations (except for ships specifically required by the Department of Defense).
1. Comment - Current availability of unsubsidized US flag transportation makes continued operating subsidy of passenger ships unnecessary. Need for troop carrying capacity should be determined by the Department of Defense.
 2. For - Bureau of the Budget, Council of Economic Advisers, Department of Commerce,
 3. Against - US passenger ship operators, maritime labor.
 4. Cost and revenue - \$15 million annually.
- F. Instruct the Secretary of Commerce to contract for the construction of vessels in US shipyards only when warranted by technological improvements in ship design and construction which cannot be obtained abroad on acceptable terms. Require the excess of the cost of a US built ship over the price at which it is sold to US operators to be borne by the Department of Commerce.
1. Comment - The maintenance of shipyard capability with Federal funds is justified for defense and the encouragement of innovation in ship design and construction.
 2. For - Bureau of the Budget, Council of Economic Advisers.

3. Against - US shipyards and US shipyard labor.
4. Cost and revenue

G. Repeal cargo preference laws.

1. Comment - The purpose for which cargo preference laws were originally established is the maintenance of an adequate fleet viz. the maintenance of an adequate fleet of bulk carriers is no longer important. The present fleet is obsolete. A large proportion of preference cargo is now being transported in subsidized liner vessels. The existence of cargo preference is a serious source of friction with maritime nations throughout the world.
2. For - Department of Agriculture, Department of State, Bureau of the Budget, Council of Economic Advisers, agricultural groups, exporters.
3. Against - US flag tramp and subsidized liner operators, maritime labor.
4. Cost and revenue - Savings might total \$100 million annually.

H. Repeal the requirement of US liner operators for filing rates 30 days in advance of their effectiveness.

1. Comment - This provision works against American carriers, need greater flexibility in rate making.
2. For - Some US shippers and carriers, US steamship operators.
3. Against - Some shippers.
4. Cost and revenue - None.

II. Administrative

- A. Instruct the Department of Commerce to intervene before the Federal Maritime Commission in opposition to steamship carrier pooling agreements where the effect is to limit competition unduly.
1. Comment - The suppression of carrier competition through pooling agreements is adverse to the trade and commerce of the United States.
 2. For - US shippers.
 3. Against - Some US steamship operators.
 4. Cost and revenue - None.
- B. Instruct the Department of Justice to clarify the anti-trust status of shipper associations to encourage their participation in steamship conference rate making. Afford anti-trust immunity by law if necessary.
1. Comment - A continued complaint of shippers is that they are unequal to the strength of the steamship conferences. Shippers groups should be strengthened accordingly.
 2. For - Shippers.
 3. Against - Nobody.
 4. Cost and revenue - None.

OMISSION OF TASK FORCE ITEMS

A. Investment Policy

1. Proposal to divert highway user revenues (initially 1%, increasing to 5%) for recreational facilities dropped in favor of diversion of secondary roads fund to safety, scenic roads, and highway beautification.
2. Proposal to create an airways trust fund dropped. Earmarking of Federal revenues is not a sound practice.
3. Proposal to create a waterways trust fund dropped for same reason.
4. Proposal to place interstate toll roads on an economic and financial parity with portions of the Interstate System financed by the Highway Trust Fund rejected as an unwarranted expenditure of Federal funds.

B. Rate Policy

1. Proposal to deregulate minimum rates dropped for immediate implementation. Would be unworkable and would give railroads opportunities for discrimination.
2. Proposal to eliminate rate regulation of all unsubsidized air passenger transport dropped. Might create unnecessary instability of rates and service.

C. Government purchase of transportation.

1. Action is being taken now.

D. Merger Policy

1. Proposal to exempt all freight forwarder activities from regulation dropped in favor of delay until Department of Commerce study of transport coordination is completed.

2. Proposal to permit intra-modal mergers changed to prohibit all mergers between trucking companies and between water carriers where the effect is to lessen competition substantially. Anti-trust standards ought to be applied to industries where competition is workable.

E. Operating Rights Policy

1. Proposal to permit freedom of entry of new firms into transportation dropped in favor of proposal to liberalize motor and water carrier certificates, and recommendation that private motor carriers be permitted to lease to regulated motor carriers on back hauls.

F. International Maritime Policy

1. Proposal for operating subsidy calculation dropped in favor of a subsidy formula which would give operators maximum freedom and would compensate for differences in wage levels between other nations and the United States.
2. Proposals for construction differential subsidies dropped in favor of putting responsibility for determining U. S. built ship requirements on Department of Defense.

FUNDAMENTAL ISSUES

A fundamental issue involved in transportation policy today is the extent to which government transportation investment and regulatory policies should be used to promote economic growth, social welfare, better distribution of income, greater opportunity for individual achievement, international trade, and better international relations.

A second fundamental issue is the extent to which reliance can be placed on less regulated private enterprise in transportation.

These basic issues can be expanded into a series of questions which constitute the major concern of policy makers in transportation.

1. Is a Department of Transportation essential to better coordination of transportation programs?
2. Can the benefits of technological progress be accommodated expeditiously within the transportation environment?
3. How can public demands for improvement in safety, reduction of air pollution, and improved access to educational, recreational, and cultural facilities be met?
4. Do densely populated areas of the nation need special attention in transportation policy?
5. In determining Federal investment in transportation can greater reliance be placed on user ability to pay without causing disadvantage to low income and other disadvantaged groups?

6. Are there economic grounds to justify the encouragement of a revitalization of the railroads in the United States. To what extent can this be done through Federal merger policy?
7. Within Federal policy objectives how can greater efficiency of the transportation system be achieved?
8. To what extent is a Federally supported merchant marine essential to the trade and commerce and the defense of the United States?
9. What provision must be made to assure labor of fair treatment in the face of technological advance?