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SUMMARY OF REPORT

on

TRANSPORTATION AND THE NATIONAL GOVERNMENT

Prepared by

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This report is in two volumes. The first contains the recommendations of the study and the general overall analysis on which they are based. The second volume presents the factual material on which the analysis and recommendations are based. This summary will deal almost exclusively with the first volume, but a brief outline of the contents of the second volume is advantageous.

The first part of the second volume deals with the promotional activities of the Government in the field of transportation. Air, water, and transport are treated separately. The policies and practices of all agencies engaged in promoting each form of transportation are considered.

In the second part, the regulatory activities are analyzed. Control of the right to enter into business, regulation of discrimination and rate competition, rate regulation and earnings, coordination and integration, and railroad consolidation are included.

I

Critical Defects of National Transportation Policy

Within the last 30 years the Federal Government has spent more than 30 billion dollars on the development of transportation facilities, and in the fiscal year 1949 it will spend at least \$1,200,000,000. The federal role in transportation has grown to the point "where federal policy exerts a dominant influence on the future role of transportation in the national economy." As a result of such federal intervention the physical development of transportation agencies has been impressive. The variety of transportation has greatly increased and effective and almost universal competition has supplanted monopoly.

But in the execution of this joint venture of government and private enterprise there have developed numerous frictions, areas of relative inefficiency, and uneven rates of progress. Some of the most critical and prospective weaknesses in the transportation system are a result of defects in the policy and administrative organization of the national government.

"The provision of a dependable and adequate supply of transportation services is so vital to economic health and national security that any failure on the part of government and private enterprise working jointly to supply adequate service would necessarily lead to the assumption of full responsibility by government."

A. Defects in Programming and Public Expenditure Policies

The major weakness in federal policy is the failure to recognize that its ultimate objective is to achieve the best possible transportation system for the movement of persons and goods. In actuality there has been a preoccupation with the problems of individual fields of transportation. There has been a failure to think or act in terms of over-all transportation requirements, and as a result no individual agency is in a position to evaluate the net results of all the federal transportation undertakings.

Revisions are imperative in federal transportation programming and procedure. The role of the Government must be clearly defined and the relative importance of projects must be determined. There has been a diversity of procedures in the development and programming of transportation. This is notable in the field of waterways and highways. The problems of national defense have not been adequately considered in planning.

Revision in financial policy is imperative. A major difficulty in our transportation policy results from private ownership and financing of railroad and pipeline facilities, whereas in air, water, and highway transportation, basic facilities are provided by the Government. In this latter group the charges made to the user for services reflect only a part of the cost. This places the privately financed sector at an economic disadvantage. To facilitate the economic development of transportation and a productive use of resources, it is imperative that facilities be financed through charges levied on the users where feasible.

The failure of the Federal Government to give due consideration to the physical condition of the railroads has precluded effective programming. The effect on railroads of large public expenditures on highways, airways, and water transportation has not been considered.

B. Conflict Between Promotional Action
and Regulatory Program

The major objective of the regulatory program of the Federal Government is the maintenance of fair competition among transport enterprises. Nevertheless the Government has failed to provide the economic environment and administrative machinery essential to the successful operation of this system. Mere competition on the basis of rates does not produce an economic allocation of traffic among transportation facilities. For this to result, rates should reflect the true economic cost of operation of each service. Carriers that use publicly owned facilities actually are able to offer services at rates which reflect only a portion of the actual cost. Where some facilities are subsidized, a carrier striving to recoup its total costs will obviously be at a disadvantage.

Under the present program of subsidizing some forms of transportation activities, government regulation is unable to prevent unfairness and discrimination. Although Congress has uniformly sought to prevent discrimination "in effect, government-created discrimination has been substituted for that formerly exercised by private monopoly."

The government policy toward aviation has been carried on in an administrative vacuum, and has consequently created many obstacles to the realization of declared objectives. The major objectives in general transportation policy are:

- (1) To prevent overexpansion;
- (2) To allot to each form of transportation the type of work for which it is best fitted;
- (3) To permit integration and coordination of the several types of transportation facilities.

Faulty organization and policies are working against the achievement of these objectives. The governmental activities to promote commercial aviation by specialized regulatory treatment and financial subsidies has led to overexpansion and financial instability of that industry. The division of regulatory authority works against attaining economy through integration.

If the Government is to rely upon competition as the keynote of its transportation program, certain basic revisions in policy and procedure are required:

- (1) Explicit and consistent economic standards must govern legislative programming of public expenditures in transportation;
- (2) Major costs of providing and maintaining services must be assessed directly against the transportation agencies;
- (3) The regulation of all major competitive transport agencies must be administered under uniform standards.

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C. Intrusion of Regulation into
Functions of Management

The Interstate Commerce Commission, through its rate making power, has assumed most of the important functions of private management. It has gone far beyond the rate making activities that are necessary to prevent discrimination. The Commission has attempted to protect the carriers against the possible consequence of unsound managerial judgment on their part. The delays that inhere in the regulatory procedure have greatly damaged the railroad's financial position. As a consequence this study urges that "a larger measure of discretion over general pricing policy should be restored to railroad management." The Commission should be relieved of authority to consider the "effect of the rates on the movement of traffic" and it should be mandatory for the Commission to grant increases "on the simple showing by the carriers that substantial increases in operating costs have been incurred."

D. Railroad Consolidation and the
Role of the National Government

For over a quarter of a century the Federal Government has unsuccessfully tried to promote railroad consolidation through voluntary means. Some form of compulsion will be necessary if systematic railroad consolidation is to be realized.

The study recommends seven major revisions in transportation policy:

1. "Transportation programs undertaken or financed by the Federal Government should be limited to projects of national importance which can best be carried out through federal action."

Many river and harbor projects have no economic justification; the development of secondary roads should be left to local authorities; federal aid for small airports should be abandoned; and the activities of the Inland

Waterways Corporation should be terminated.

2. "The users of transportation facilities, rather than the general taxpayer, should meet the major cost of providing domestic transportation facilities."

In some cases general fund expenditures for transportation might be advantageous, but as a general rule charges should be levied upon the users to recoup costs. This means that tolls should be imposed upon waterway traffic. Airline subsidies should be divorced from air mail pay, and they should be terminated at an early date. In the field of international air and maritime transport the need for subsidies is recognized.

3. "Proposals for the development of each form of transportation should be evaluated in the light of the entire transport program to determine proper emphasis and desirable priorities."
4. "Primary administrative responsibility for maintaining an adequate national transportation system should be centralized in the executive branch of government."
5. "The national program of transport regulation should be administered by an 'independent' commission."
6. "Regulation should be applied uniformly to all forms of transportation."
7. "Initiative and responsibility should be restored to private management."

II

Reorganization of Federal Transportation Agencies

A. Past Reorganization Proposals

During the past 15 years no less than 9 studies of the reorganization of transportation activities have been made. All of these have come to naught, largely because of restricted terms of reference and because of a failure to recognize that mere regulation is not an effective administrative vehicle for

long-term transportation programming.

This study proposes the following administrative organization in the field of transportation:

B. A Department of Transportation

A Department of Transportation headed by a Secretary with Cabinet rank should be established. The creation of a unified Department has four objectives:

- (1) To facilitate the application of uniform standards in the development of physical facilities for the various forms of transportation;
- (2) To provide appropriate machinery for strictly administrative, operating and policing functions;
- (3) To provide a continuing authoritative source of information on transportation activities
- (4) To supply a going organization to assume responsibility for wartime administration of transportation.

1. In the Office of the Secretary of Transportation the following powers and duties should be lodged:

(a) Office of Water Transportation

This would be headed by an Assistant Secretary and it would have four major duties:

- (1) Promotional, administrative, and subsidy responsibilities transferred from the Maritime Commission. It would have all the promotional, administrative and subsidy activities of that body.
- (2) The Inland Waterways Corporation should be transferred to it for liquidation.
- (3) Programming of waterway improvements should be transferred from the Corps of Engineers in the Department of Army. "All navigation projects and multiple-purpose projects having navigation features should be reviewed by the Transportation Department to determine the economic desirability of such navigation proposals from the standpoint of transportation requirements."

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The highly questionable economic justification of a large part of the river and harbor program has led to much waste, and consideration of such projects by a Transportation Department would eliminate much of this.

(b) Office of Civil Aviation

This would have responsibility for all Federal activities involving the promotion of civil aviation, both domestic and international.

- (1) Airway development and maintenance, airport planning, and safety regulations should be transferred from the CAA.
- (2) Safety activities and route pattern development should be transferred from the CAB.
- (3) Air mail subsidies. In the international field some subsidy will probably be required for aviation to maintain American competition with foreign lines, but the subsidy should be divorced from the cost of air mail transportation, and it should be placed in the open.

The Office of Civil Aviation should facilitate the transfer of certain activities from Federal control to state control. This would include the development of small airports and some activities in the field of air safety.

(c) The Office of Highway Transportation

This would be headed by an Assistant Secretary of Highway Transportation and would include:

- (1) Federal aid to highway activities transferred from the Public Roads Administration of the Federal Works Agency;
- (2) Motor carrier safety functions would be transferred from the ICC;
- (3) A war requirements inventory of all motor vehicle equipment and facilities should be made.

(d) Office of Railroad Transportation

This would be headed by an Assistant Secretary charged with the following duties:

- (1) Formulation of a railroad consolidation plan. The responsibility of the ICC in this field would be transferred to it.
- (2) Car service and safety functions transferred from the ICC.

2. The Office of the Secretary of Transportation.

- (a) General research and programming would be concentrated here directed by an Under Secretary. This work would include the study (a) of physical needs of transportation; (b) the priority of these needs; (c) the costs and methods of defraying them.

It would also have responsibility for:

- a. examining promotional programs in order to achieve the most effective system at the lowest cost;
- b. determining civilian transportation requirements and integrating them with military needs;
- c. developing plans and techniques for the operation of the transportation system in war;
- d. determining the feasibility of various programs for financing transportation facilities;
- e. conducting studies on such problems as the feasibility of government ownership of railroad rights of way;
- f. investigating possible consolidation of field operations and physical research activities.

(b) Service Agencies

Consideration should be given to transferring to this Department certain service agencies:

(1) Coast Guard

The location of this agency in the Treasury is not advantageous in peacetime because of its functions.

(2) Coast and Geodetic Survey

Its major function is the provision of aids to navigation for water and air transportation.

These two agencies would be under the direction of a fifth Assistant Secretary.

This department of Transportation would then include the present functions of the Public Roads Administration, Civil Aeronautics Administration, Coast and Geodetic Survey, Coast Guard, the Maritime Commission (except minor regulatory functions), the Corps of Engineers (policy determination only),

and the Inland Waterways Corporation. Safety and route pattern functions of the Civil Aeronautics Board would be transferred to it. From the Interstate Commerce Commission would come the motor carrier safety, railroad safety, and car service activities. It would have the new functions of developing railroad consolidation plans, and of devising an inventory of war requirements for transportation.

C. A Transport Regulatory Commission

A transport Regulatory Commission should be created. Present regulatory practices have two major defects:

- (1) The intermingling of promotional, management, and regulatory activities has resulted in serious problems, both for the Commissions and the executive branch of government;
- (2) There is an undesirable administrative diffusion in the regulatory program. It is divided among the Maritime Commission, the Civil Aeronautics Board, and the Interstate Commerce Commission.

Consequently, it is recommended that a national Transportation Regulatory Commission should be established to administer a revised program of public regulation applicable to all forms of transportation. This would involve the following major changes in regulatory statutes:

- (1) The legal authority for some of the controls exercised by the Maritime Commission should be consolidated in Part III of the Interstate Commerce Act. This would include the following: control over shipping in noncontiguous territories, settlement of reparation cases, supervision of rate conferences, and the allocation of subsidies declared necessary by the Department of Transportation.
- (2) Add a new Part V to the Interstate Commerce Act covering the present provisions of the Civil Aeronautics Act dealing with rates, operational rights, security issues, and investigations. From the present act there should be deleted the present Declaration of Policy and the provision for using air mail payments as a subsidy device.

- (3) Amend the rules for rate making along the lines previously indicated.
- (4) Impose upon the Secretary of Transportation the authority to appear before the Commission to present his views.

"If, as recommended here, the functions that are of a strictly executive and managerial nature are restored to the executive branch of the government and provision is made for executive representation before the regulatory commission, there would appear to be no justification for further direct control of the executive branch over the regulatory phases of national transportation policy."

III

The Special Problems of National Security

The creation of a Department of Transportation is an obvious necessity if the peacetime goal of developing a high quality service at minimum cost is to be achieved. It is also important from the standpoint of national defense.

After reviewing the role of civil aviation, railroads, highways, and water transport in wartime, seven major conclusions relative to defense and national transportation are presented:

1. Since all methods of transportation are essential in wartime, federal policy must provide for maintaining the entire system in satisfactory condition.
2. In general, a land transportation system adequate for peacetime needs will ordinarily suffice for the physical requirements of war, but this is not equally true of air and maritime transport. Therefore, it is necessary that methods should be devised by which air and water transport facilities can be provided in peacetime at levels above actual peacetime needs. It is also necessary to take steps to minimize or compensate for the impacts of air and

water subsidies on other forms of transportation.

3. Efforts must be made to view our national transportation needs in time of war as a whole, including both military and civilian requirements.

4. At present the transportation activities of the Government are so disorganized as to make impossible effective programming for defense.

5. The creation of a Federal transportation department is imperative. It will maintain a current evaluation of the transportation situation, and will direct steps necessary to assure the proper maintenance and development of all transportation facilities for war.

6. The National Security Resources Board must provide liaison between military agencies and civilian transportation agencies. Where military requirements for transportation are found to be in excess of what would ordinarily be supplied, these facilities should be provided for out of the national defense budget.

7. Failure to establish a single federal agency with undivided responsibility for our transportation system in time of war "might well result in deficiencies that would constitute a fatal weakness in the economy."

PROBABLE OVERLAPS OF RECOMMENDATIONS IN THE TRANSPORTATION REPORT

WITH OTHER REPORTS :

Some of the recommendations in this report will probably involve overlaps with the recommendations to be contained in other reports as yet not received.

Recommendations of
Transportation Report

Policy function of Corps of
Engineers to Transportation
Department

Inland Waterways Corporation
should be liquidated

Reports Involving
Probable Overlaps

National Security

Revolving Funds

Abolition of:
Interstate Commerce Commission
Maritime Commission
Civil Aeronautics Administration
Civil Aeronautics Board
and functions to be redistributed
between new Department and new
Commission.

Independent Regulatory
Agencies

CONFLICTS WITH RECOMMENDATIONS OF OTHER TASK FORCES

Recommendations of Transportation
Task Force

Public Roads Administration to
Transportation Department

Policy functions of Corps of
Engineers to Transportation
Department

CAA construction and operation work
to Transportation Department

Coast and Geodetic Survey to
Department of Transportation

Grants-in-aid for secondary
roads should be terminated

Grants-in-aid for small airports
should be terminated

Assigns specific functions to Under
and Assistant Secretaries

Under Secretary should be in charge
of research

Major divisions of Department of
Transportation are called offices

Recommendations of Other Task
Forces

Public Works -
to Department of Works

Public Works -
All river and harbor work of the
Corps of Engineers to Department
of Works

Natural Resources would transfer
all of its river and harbor and
flood control functions to Natural
Resources Department

Public Works
airport construction to Department
of Works

Public Works to Department of Works

Federal-State Relations imply
continuation

Federal-State Relations imply
continuation

Departmental Management -
departmental head should be free
to organize top management as he
sees fit.

Departmental Management - under
secretary should be top management
official of department

Departmental Management -- should be
called bureaus or services. Term
"office" to be reserved for staff
functions.