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## REORGANIZATION OF FEDERAL TRANSPORTATION ACTIVITIES

The reorganization of Federal transportation activities deserves serious consideration, but not merely in terms of regrouping Federal responsibilities around major purpose nor in terms of a better coordination of Federal programs, even though these are laudable objectives. The real impetus for reorganization should stem from certain basic difficulties in the Nation's transportation situation. These difficulties affect seriously the economic well-being of the country and the general fiscal stability of the national government. Rather than generalize about organization then, it is wiser first to examine and understand these specific problems of transportation--and then, and only then, consider how Federal reorganization might contribute to a solution. themselves out of an important part

No extensive proof is needed to document the assertion that transportation is vital to a healthy, national economy. The railroad, water, motor vehicle, and air carriers are likewise important as the vital bloodstream of a successful war effort. Whatever else this Nation may do for national security is meaningless if these essential arteries of war mobilization are allowed to deteriorate. Yet the facts reveal that the Nation's common carriers are weak from a business or investment point of view.

The Federal Government is spending a lot of money on transportation. Much of this spending, however, is to promote one form of transportation without regard to others. Much of the money has been spent on a rescue or salvage basis to stave off economic collapse; it has not always been calculated to achieve a financially solvent, progressive and well-balanced transportation service. The result has been a steadily increasing Federal



expenditure with the end not yet in sight. For those who are concerned with the size of the Federal budget, this too is a serious problem.

What are the facts about the various categories of transportation?

The railroads handle approximately 64 percent of total domestic freight traffic. They have large amounts of debt in the hands of institutions and the public. During the war and into 1946 they were able to reduce debt and improve their properties by reinvesting earnings. In 1946 the financial structure was sounder than ever before. Yet the resurgence of competition, together with rapid increases in wages and prices, caused earnings to fall sharply in 1946. Rates have since been increased to the point where the railroads are pricing themselves out of an important part of the transportation market. Competing modes continue to gain at their expense and the total volume of traffic available for all forms has fallen. Subsidized competition, which has diverted much of the better paying traffic, is in part responsible for the decline in traffic which has affected earning power drastically.

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The securities markets, reflecting largely the fear of increasing subsidy to other forms of transportation, have greatly discounted the value of the railroad industry. As of mid-November the total market value of all outstanding railroad securities was some \$8 billion, compared with a par of \$15 billion and a depreciated property value of \$23.5 billion. Railroads are unable to market stock to finance improvements and betterments. With few exceptions they are unable also to market bonds.

In the face of this situation, railroad service has not, in many instances, been restored to pre-war levels. Considerable maintenance of way and structures has been deferred. Railroad executives are beginning to feel that, since subsidy to other forms of transport is growing, the railroads must also be subsidized. Some believe we are well along the road to Government ownership.

The traffic of common carrier motor vehicles has shown a tendency to decline. It is generally agreed that heavy trucks are subsidized in that their contributions to user tax revenues are not proportionate to their physical effect on highways. Even with the aid of subsidy, however, common carrier truckers are having a difficult time. In most states their tax burden



is greater than that placed upon private trucks. Common carriers are caught between the competition of the more heavily aided private trucks for the high paying traffic, and the railroads for lower paying traffic. Although subsidized through the provision of free waterway improvements, no true common carrier barge line has ever operated successfully on the inland rivers. Federal Barge Lines, the only existing common carrier, last year lost some \$1,500,000. The few private lines keep going by selecting only a limited variety of paying traffic. Most of the traffic is private bulk tonnage, taken from the railroads by these subsidized private carriers which extend no benefit to the general shipper, but find themselves in financial difficulty. Largely because of a breakdown of public policy in respect of port facilities, cargo handling costs have become so high that coastwise and intercoastal shipping services have not been restored since the end of the war. Over 60 percent of the total costs is absorbed in the loading and unloading of cargo and in other port costs.

Before the war, the domestic trades accounted for a major part of our operating merchant fleet. At present, however, there are fewer than one-third as many ships as prewar in the trades, and even these do not generally operate profitably. If we are to maintain in service a merchant marine large enough for defense purposes it will become highly important to restore these services at least to prewar levels. Already subsidy is actively suggested as the solution.

Proportionately, air transport is more heavily subsidized than any other form. Aids to navigation, traffic control and other airway facilities are furnished largely free of charge and, since no large airport is self-



Federal Expenditures for Transportation Promotion and Regulation

sustaining, airlines are benefiting also from the use of such facilities

without full payment. Moreover, almost all the scheduled lines are the

recipients of direct subsidy through mail pay. Despite this assistance,				
Promotion of the merchant marine	44	375	126	167
several crises have arisen, postwar, because of the precarious financial				
Provision of highways	177	70	129	508
position of most of the carriers. In the present year all but one of the				
Regulation of transportation	13	22	16	15
airlines show a profit, but in most cases this has been possible only				
because of large retroactive increases in mail pay.	652	1,060	1,306	

Adding up the foregoing, we have the railroads and water carriers in a generally unhealthy position, the motor carriers in a far from satisfactory position, and the airlines temporarily in good shape but find themselves in financial difficulty. with no certainty that they will not again need special Federal assistance. aid specific The Federal Government has been spending large sums of money to deal with forms of transportation. this situation. Given the present state of affairs, the costs to the Federal Government can go much higher. sum total of these expenditures

Annual expenditures for Federal promotion and regulation of transportation have risen from \$457 million immediately before the war, and \$652 million immediately after the war, to an estimated \$1,306 million during the current fiscal year. As indicated in the following table, this increase has occurred in all of the Government's promotional programs. Expenditures for merchant marine promotion have increased by 280 percent since 1941; for marine navigation facilities, 141 percent; for aviation facilities and promotion, 226 percent; and for highway grants-in-aid, 182 percent. Further increases in the near future are in prospect for some of these programs. of \$450 million per year to \$810 million; they also propose that the Federal percentage contribution be increased above



**Federal Expenditures for Transportation Promotion and Regulation**

for the development of new transport plans—at an annual cost of

	1941	1946	1949	1950
Promotion of the merchant marine	44	375	126	167
Provision of navigation aids and facilities	162	93	309	391
Provision of highways	179	90	429	505
Promotion of aviation	57	98	143	187
Regulation of transportation	13	22	14	15
Other services to transportation	2	-26	39	41
<b>Total</b>	<b>457</b>	<b>652</b>	<b>1,060</b>	<b>1,306</b>

The present dispersion of transportation responsibility within the Government has tended to encourage large and growing expenditures in the absence of any over-all Federal policy direction in this field, the above increases have reflected the separate promotional efforts of various agencies, each sponsoring aggressively—and competitively—the interests of one particular form of transportation. It would be little more than a fortunate accident if the sum total of these expenditures represented a program best suited to the needs of the total transportation system.

Notwithstanding the substantial increases in expenditures which have already taken place, new proposals are continually being advanced for new types of assistance to the several media of transportation. Merchant shipping interests have proposed the extension of maritime subsidies to portions of the shipping industry not now covered; the cost of such broadened subsidies might amount to \$200-300 million per year. State officials are now recommending that Federal aid for highways be increased from the existing level of \$450 million per year to \$810 million; they also propose that the Federal percentage contribution be increased above



the 50-50 matching basis. In the field of aviation, Federal assistance for the development of new transport planes—at an annual cost of perhaps \$40-50 million—has been actively proposed.

Most such new proposals can be strongly justified if viewed solely from the standpoint of the respective form of transportation concerned;

it is essential, however, that they be critically judged in terms of the broader public interest in a balanced over-all transportation system.

The present dispersion of transportation responsibility within the Government has tended to encourage large and growing expenditures for individual forms of transportation. With the increasing budgetary impact of these expenditures, and the deteriorating financial condition of large sectors of the transportation industry, we can no longer afford a segmented approach toward this industry. Clearly what is needed is a consolidation of the promotional functions relating to transportation in a single agency where these strands of policy can be woven together into an integrated promotional policy which makes sense from the national point of view. Such consolidation would assist in the development of balanced promotional programs. By establishing a focal point within the Government for general transportation planning, it would also provide a strong staff which could advise the President on matters which cut across the several forms of transport.

Important first steps toward the consolidation of transportation functions have already been taken in line with the proposals of the Hoover Commission. The recent transfer of the Public Roads Administration to functions already brought together in Commerce. Thus, Coast Guard maintains



Commerce has brought together in that agency the responsibility for highway and aviation promotion, in addition to the more general transportation functions of the Weather Bureau and the Coast and Geodetic Survey. These functions provide a nucleus, around which a coordinated transportation agency could be developed.

The effectiveness of a central transportation agency will depend directly upon the extent to which its authority in the promotional field is complete. As yet, nothing has been done to bring into the Department of Commerce the maritime functions exercised by the Maritime Commission and the Coast Guard. If the Department of Commerce is in fact to move in the direction of achieving unified programs in the best interests of the over-all transportation system, it must be given these functions in the maritime field.

An important part of the promotional functions of the Government is the provision of the necessary aids to navigation and communications facilities used by several of the types of transport. These are necessary for air and marine operations to make all-weather performance possible as well as to facilitate safety. ~~Various other functions are directly and solely concerned with safety but, because safety is expensive, they have repercussions upon the economics of carrier operations.~~ The Coast Guard has become overwhelmingly a transportation agency concerned primarily with promotion in these areas. Its work is closely related to, and sometimes impinges upon, the work of numerous other transport agencies.

Many Coast Guard functions are directly related to transportation functions already brought together in Commerce. Thus, Coast Guard maintains



weather observation stations at sea in cooperation with the Weather Bureau. It maintains electronic aids to navigation and radio communications used by air as well as water navigation. Indeed the Coast Guard maintains most of the aids to navigation used by aircraft at sea, though CAA maintains such aids in the territories and possessions and in some foreign areas. Double representation at international conferences and upon coordinating committees has been necessary. The Coast Guard also maintains air-sea rescue service and provides planes to assist the aerial mapping activities of the Coast and Geodetic Survey.

Much work of the Coast Guard is linked closely with that of the Maritime Commission (an agency logically to be included in the transport organization). Some activities overlap, duplication of records and of personnel occurs, and maximum efficiency is made impossible while the two agencies are under separate administration. The more important vital related functions are:

a. Coast Guard prescribes safety standards for ship construction and equipment, and passes upon the plans of new American ships, including those being built by Maritime Commission, for compliance with these standards.

b. Coast Guard inspects all American ships under construction and in operation for compliance with safety requirements. Maritime Commission inspects subsidized ships in construction and operation for proper construction and maintenance. Thus, both inspect subsidized ships, though from different standpoints.



c. Coast Guard prescribes minimum manning scales and standards for crew quarters for all American ships. Maritime Commission regulates manning scales and working conditions on subsidized ships.

d. Maritime Commission trains men for the merchant marine. Coast Guard examines and licenses or certifies officers and seamen and revokes licenses for misconduct.

By contrast with these important transportation functions which must tie in at many points with various of the agencies which should be included in a transport agency, the functions which Coast Guard performs for agencies of the Treasury Department are few and of limited importance. They include the control of smuggling, the provision of guards on request of the Customs Bureau and the air spotting of stills for the Alcohol Tax Unit on request. It is important to bring the vital promotion and safety functions of the Coast Guard in marine and air transport together with related functions of other agencies if the transport organization is to be afforded a sufficiently comprehensive base to enable it to achieve its designed purposes.