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TO : Maj. Gen. Wilton B. Persons, USA (Ret.)
Special Assistant to the President

DATE: December 1, 1953

FROM : The Under Secretary of Commerce for Transportation

O.F.

SUBJECT: Highway Policy Proposal of the Office of the Under Secretary for Transportation

141-B

The attached is a condensed version of the highway policy proposal of the Office of the Under Secretary for Transportation. Mr. Weeks asked me to have this in the hands of each of the members of the special White House Committee, reviewing the legislative program, prior to the meeting scheduled for 4:00 p.m., Wednesday, the 2nd. I hope that you will have the opportunity to review this material before the meeting.

x o.F. 145-D

Robert B. Murray, Jr.

Robert B. Murray, Jr.

x o.F. 2

Attachment

Read by General Persons.
WBP/fh - Dec 7, 1953

Prepared by the Office of the
Under Secretary for Transportation

Administratively Restricted

November 19, 1953

FEDERAL HIGHWAY POLICY

Present Policy

Federal aid highway policy as we now know it was initiated in 1921. Original objectives of this policy broadly stated were:

1. To promote agriculture by getting the farmers "out of the mud" and to facilitate rural free delivery of mail.

2. To encourage the free flow of interstate commerce by aiding the states in constructing a national system of primary highways built to uniform standards.

3. To improve the standards of state highway administration by encouraging the centralization of authority and responsibility of highway administration and finance in a single agency.

To carry out these objectives, the initial appropriation amounted to $75 million per year and its application was limited to 7 percent of the rural mileage in each of the 48 states. By successive steps Federal activity in this field has expanded and now reaches into, and heavily influences, every major aspect of state and local highway administration.

At present, three systems, aggregating about 700,000 miles and constituted as follows, are eligible for Federal aid:

1. The rural primary system, 232,000 miles.
2. The urban primary system, 16,500 miles (included within the mileage of the rural and urban primary system is the 38,000 mile national system of interstate highways).
3. Secondary system, 450,000 miles.

Those rural highways eligible for Federal aid now account for 23 percent of the total rural mileage as compared with the original 7 percent. This expansion of eligible mileage has, of course, been accompanied by a vast increase of authorizations and expenditures for this purpose, from $75 million in 1921 to $575 million currently. As a result the percentage of total funds expended for state and local construction purposes, accounted for by Federal money, has increased from 9 percent in 1921 to 18 percent in 1953.

Proposals of the American Association of State Highway Officals and the Council of State Governors

Despite the fact that the original objectives of the Federal activity in the highway field have been largely attained, heavy pressures are now being exerted for continued and apparently open-end expansion of Federal expenditures for highway purposes.

The American Association of State Highway Officials has just gone on record recommending that the "very minimum" Federal aid program should total $900 million. This would include a great increase in Federal aids for the Interstate System and lesser increase for other Federally-aided highways.

As contrasted to the State Highway Officials' recommendation, the Council of State Governors is advocating the withdrawal of Federal highway aids, from all except 9 specified states with low population densities, accompanied by Federal withdrawal from the gasoline tax field.

As indicated above, the current Federal program authorizes highway aids at the rate of $575 million a year.

In essence, the above three programs would have the following Federal budgetary implications:

1. The Highway Officials' proposals would increase Federal commitments by $325 million a year over the current program.

2. The State Governors' proposal would decrease Federal highway commitments by approximately $545 million a year but at the same time would eliminate approximately $900 million in Federal motor fuel tax revenues. The net effect would be an annual decrease in Federal revenues of at least $355 million.

3. Continuation of current policy would imply further increases in Federal aids as a result of constant pressure by the most vocal highway groups. Point 1 is an example of this.

The proposal of the Highway Officials, plus current policy, run counter to the budgetary policy established by the President, namely, "The 1955 budget will reflect the continued withdrawal of the Federal Government from activities that can be more appropriately carried on in some other way." In transmitting the President's policy statement the Bureau of the Budget stated, "Reductions of the magnitude required cannot be accomplished by mere dollar restriction on present programs. The situation demands a new determination of what the Federal Government should be doing and should not be doing -- not merely the continuation and modification of what it has been doing under previous policies and procedures. Every possible reduction will have to be made; no saving can be considered too small, and no soundly conceived individual reduction too large or too difficult to be attempted." The net effect of the proposal by the State Governors would be to reduce Federal revenues.

On the basis of the budgetary test above, and the desirability of adjusting Federal-State responsibility, our proposals as described below more nearly meet the President's budgetary requirements and the express policy of returning to the states those activities they are better able to perform. Of equal importance in the long run is a highway policy directed to the attainment of sound transportation policy.

<u>The Proposal of the Under Secretary's Office</u>

The need to continue large expenditures on highway construction is not in question. The question is how the funds necessary for continuation of improvements can best be secured.

The only sound method of deciding how much to spend on highway improvement is, in the final analysis, relating this decision to what users are willing to pay.

The States through long experience have developed a sound system for collecting the cost of highway programs from the users. This technique has involved taxes on motor fuels, motor vehicle fees and carrier taxes. However, many states have successfully demonstrated a new technique for meeting the cost of modern highways through the collection of tolls.

The combination of these forms of user charges adequately depict the ability of the states to meet their highway needs, contrary to the major justifications advanced for Federal aid, namely, that many states today are incapable of financing essential improvements.

Necessary improvement of the highway system, based on the users' ability to pay is the only sound way the Federal Government can, in the long run, coordinate its highway policy with the requirements of sound national transportation policy.

In essence our proposal would involve the following:

1. The abandonment of present Federal aid policy.
2. Limitation of Federal participation to those segments of the National system of Interstate Highways which are certified as essential for national defense by the Department of Defense. This is based on the premise that the Interstate System includes all mileage of interest to national defense and fully discharges Governmental responsibility for the free flow of interstate commerce.

Objective analysis shows that Federal highway aids are now being used for the purpose of enforcing uniform standards and supplementing revenues of state and local agencies. That these are not necessary activities for the Federal

Government is attested to by the facts that (1) state financial administration for highways is capable of providing all but a small part of state needs, and (2) state highway departments are technically competent to determine their own requirements.

The states are financially able to provide for their highway needs. The states in common with the highway users on which their highway revenues are based have both the ability and the willingness to finance their highway needs. State ability to finance highway construction is based more and more upon revenues collected from highway users. In 1921, less than 12 percent of the total revenues contributed for highway purposes came from highway users, while at present 63 percent comes from this source.

The ability of the highway user to finance improvements is measured by the demonstrated stability of his demand for motor fuels, in the face of price and tax increases. Studies have indicated that increases in state gasoline taxes have had no measurable effect on net gasoline consumption and that increases in sales prices have had no apparent effect at all. Further, detailed study has indicated that the need for highway transportation has not been satisfied to the point that gasoline price increases, or tax increases within reasonable limitations, will have any effect on the amount of gasoline consumed.

The willingness of highway users to pay for superior facilities is demonstrated by their enthusiastic acceptance of the burden of high-cost toll facilities. Moreover, experience has demonstrated that these facilities generate between 20 and 25 percent more traffic than would have been expected had the toll roads not been built.

Since 1945, the rapid growth in expenditures for state highways has been largely met by state highway revenues, exclusive of borrowing. Since 1945, state expenditures have increased from $643 to $3,361 million while revenues have increased from $1,185 to $3,132 million.

It is estimated that this year the states will have collected 63.6 percent of all revenues for highway and street purposes. This is contrasted to collections of local rural units of 10.3 percent and urban places of 14.1 percent. The contributions of the Federal Government will have amounted to only 12 percent of all revenues. The attached chart illustrates the relative amounts contributed by each level of government.

A very important element of state financial strength results from the fact that the states have hardly tapped the potentialities for raising capital through issuing highway bonds. It is estimated that at the end of 1953, state highway obligations will aggregate $3,876 million, including $2,179 million applicable to toll roads, bridges and tunnels, as contrasted to revenues of $3,132 million, exclusive of Federal aids. While the potential for state highway borrowing cannot be measured precisely, it can be observed that existing debt is only a little more than one year's revenue.

In this connection, for example, the voters of Ohio just approved a $500 million revenue bond issue for major highways and urban extensions. The proceeds of the issue are to be expended only "to provide adequate highways" including the acquisition of rights-of-way. The bonded indebtedness is to be secured by a pledge of state motor vehicle registration fees, taxes levied for the use of vehicles on public highways, and state motor fuel taxes.

Actually, the financial position of the states is even stronger than indicated above. Some of the most costly highway needs are being met through construction of self-liquidating projects. One fifth or more of all money spent for highway construction in the United States this year, estimated at a record breaking

$3.5 billion, will be for toll projects. These projects not only cost the states nothing, but through generation of traffic, as a result of superior highway facilities, they serve to increase state highway user revenues.

In addition, the states have the potential for increased gasoline taxes which could add hundreds of millions, or perhaps even billions, of dollars more to existing highway revenues without materially affecting the use of motor vehicles. Indeed, with additional revenues and the provision of superior facilities, motor vehicle use can be expected to increase.

The individual states, which account for most of the motor vehicle mileage and most of the expenditures for highway construction and maintenance, have always depended on local sources of revenue to provide funds for highway purposes. Included below are some examples of what is currently being done by a few of the states.

California. The 1953 legislature approved a 10-year improvement program based on an additional $692 million for state highway construction, and $500 million for local roads. This program is to be financed by a 1½¢ increase in the gasoline tax, 2½¢ increase in the diesel tax and approximately a 33 percent increase in registration and weight fees. A new law authorizes the toll bridge authority to build a second bridge across San Francisco Bay.

Ohio. A long-range program was approved in 1953 to bring in $23 million a year, as the result of a 1¢ increase in gasoline tax rate, and $20 million more as the result of an axle-mile tax on trucks. In addition, the voters approved a $500 million bond issue to be financed from increased highway user taxes.

New York. The state is building a $500 million, 427-mile toll road and has authorized an additional 113 miles of connecting roads. Increased appropriations for town roads have been made under a special 10-year plan.

Pennsylvania. The Turnpike Commission is authorized to build extensions to Erie, to the Maryland border, and from Philadelphia to the New York line near Binghamton. The latter project is expected to get underway in 1954.

<u>The Federal Government possesses no technical superiority over the states in performance of highway functions</u>. Indeed, the National Government does not even engage in the same technical activities as do the states. The engineering personnel of the state agencies are responsible for all original highway planning, the establishment of design standards and the actual construction and maintenance of the highways. The various state highway departments have acted in unison to establish nation-wide highway standards.

It has been argued that elimination of Federal aids would ultimately result in uncoordinated highway improvements among the several states. This is hard to substantiate. Economics of highway planning necessitate coordination of routes at state boundaries. That this is being done with highways outside of the Federal aid programs is demonstrated by the coordinated planning for toll road routes between the states of New Jersey, Pennsylvania, Ohio, and now Indiana.

An argument is made that some of the states, without the disciplines imposed by the Bureau of Public Roads under existing programs, would not apply their funds on the basis of relative highway needs but rather on the basis of the personal desires of the state officials. This argument is based on the fallacious assumption that the Federal Government is more responsive to the desires and needs of the people of a state than are the designated state officials. The technical competence of the state highway departments has been demonstrated and any lack of political responsibility on the part of state highway leadership can be expected to be corrected at the polls.

<u>Present highway policy violates sound transportation policy by subsidizing one form of transportation in competition with another.</u> The Secretary of Commerce is responsible for the coordination of Federal transportation programs and the

development of a sound transportation policy for the Executive Branch of the Government. A basic objective of Federal policy is the assurance that each form of transportation will have the opportunity to compete fairly for the movement of the Nation's goods and the traveling public. This means that the price of services offered by the Nation's carriers in competing for the transportation market should reflect the total costs of making the service possible, including the cost of underlying facilities provided at Government expense. Transport agencies should reimburse the Government for their (special) use of these public facilities.

Under these conditions the shipper's choice of competitive transport could be based on rates which represent the true costs of performance and the comparative service advantages. Taxpayer's funds would not be used unfairly to favor one form of transportation at the expense of a competing form. Under present conditions where public funds are so used, the Nation's transportation bill is raised to the extent that traffic does not move in the most economic channels.

Federal highway policy must be consistent with the above objectives of a sound national transportation policy. We must be sure that any justifiable extension of Federal aid for highway improvements does not upset or thwart development of a competitive and balanced transportation system.

The Department's contemplated program of domestic airway user charges illustrates the essentiality of policy coordination in the field of transportation. This serious question must be raised. Can the efforts of the Administration to help achieve a sound transportation policy be effective if, on the one hand, the Federal Government embarks on a program of obtaining reimbursement for use of Federally-provided air navigation facilities and, on the other hand, continues to extend expanding amounts of the taxpayer's dollar for highway improvements which provide substantial benefits to one form of our competitive transport system?

The deficiencies on the National System of Interstate Highways are being rapidly overcome in most states. The Interstate System, which serves the primary needs of intercity and interregional highway transportation as well as the needs of national defense, contain all the mileage that is of major interest to the National Government. As a result of carrying very high volumes of local traffic it is also of primary concern to the states and localities.

The importance of the Interstate System has been recognized by the states and much has been done to correct engineering deficiencies. It is estimated that since 1945 more than $1.5 billion in Federal and state funds have been allotted to approved Federal aid projects on the National System of Interstate Highways. In addition, $0.6 billion has been expended on toll roads currently in operation and paralleling the Interstate System. An estimated $1.2 billion more will be spent on paralleling toll roads now under construction. In total, over $3.3 billion, representing $2.5 billion in state funds and $0.8 billion in Federal funds, have either been expended or committed to projects which are actually on the Interstate System or which parallel the System.

It is estimated that this year in excess of $1 billion is being spent on the Interstate System or on paralleling roads. Work under construction, plans, and programs all indicate that this figure will be progressively larger for the next several years.

Apart from and in addition to the above, prospects for self-liquidating projects, toll roads, offer substantial promise of providing some of the most pressing and expensive needs on the Interstate System. It has been found that 30 percent of the rural mileage of Interstate System is potentially suitable for development as additional wholly self-liquidating projects. This mileage carries an estimated 46 percent of the total rural vehicle miles of traffic on the Interstate System. Indications are that the urban potential for toll road development might even exceed that of the rural.

The Department of Defense has gone on record as stating that the Interstate System provides "the principal system of connecting highways to serve the national defense." Most of the states have the ability and desire, as well as plans and programs actually underway to correct the deficiencies on the Interstate System. In view of the above, it is recommended that Federal participation in highway aids be limited to those segments of the National System of Interstate highways that are certified as essential to national defense by the Department of Defense.

It is recommended that as soon as the Federal fiscal program permits, the Federal Government withdraw from the gasoline tax field. In view of the fact that it would take an estimated 2½ years to terminate the Federal budgetary obligations under current highway authorizations, it would appear desirable that the gasoline tax be transferred from the Federal Government to the states at that time.

As administered by the states, motor fuel taxes take the form of user charges and provide the financial basis for most of the nation's highway improvements. The Federal Government, on the other hand, taxes motor fuel as one more means of adding to the general fund of the Treasury. Actually, the Federal Government, by taxing motor fuels, is threatening the sound basis of state user revenues.

There have been proposals in the past to match or "link" the amount of Federal motor fuel taxes with Federal highway aids. These proposals are patently unsound, as Federal excise taxes have no relation to specific expenditures and, even if they were viewed as user charges, the Federal Government would be placed in the untenable position of acting as middle man in what is essentially a state financial transaction. Expressed another way, if Federal automotive excises were viewed as user taxes, the Federal Government would be bound to return the revenues from such taxes to the states from which they were collected.

SUMMARY

The proposal of the Under Secretary's Office:

1. Advocates virtual abandonment of present highway aid program except for those improvements on the Interstate System certified as essential for defense purposes. This proposal is based on the fact that the needs of interstate commerce and national security are being met by the present highway systems. In addition the states are increasingly demonstrating their financial ability to provide for highway needs.

2. Accomplishes a major administrative objective of returning a basic state function and responsibility to the states.

3. Integrates Federal highway policy with objectives of a sound transportation policy.

4. Removes from the Federal budget a heavy financial obligation which is the primary responsibility of the states.

5. By allowing for Federal aid payments for the next 2½ years of obligations incurred under the Federal Highway Act, the states will have adequate opportunity to prepare their highway administrations for the discontinuance of Federal aid. Simultaneously, the proposal would temporarily retain the gasoline tax for Federal revenue needs, but with a clear understanding that the Federal Government will withdraw from this field of taxation when Federal aid payments come to a close.