

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

C.F.

FG 600/T*
FG 11-1

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.

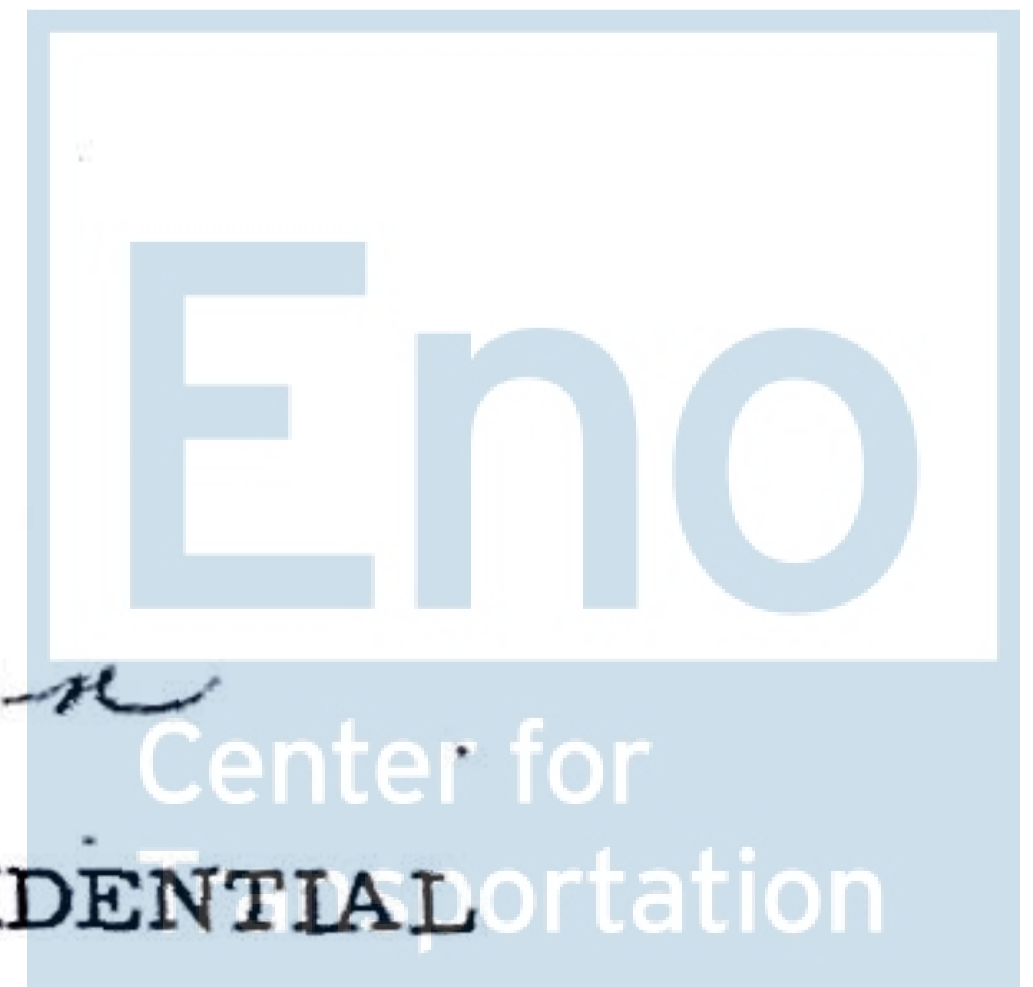
Kermit Gordon
Kermit Gordon
Director

Attachment

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Task Force on Transportation

ADMINISTRATIVELY CONFIDENTIAL



Task Force Issue Paper

TRANSPORTATION

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Eno

Center for
Transportation

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.

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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).

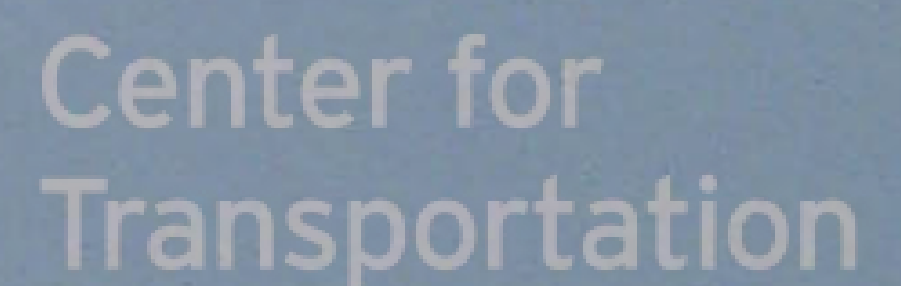
Benjamin Chinitz, University of Pittsburgh (Economist with work in regional resource development and transportation).

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 logo for the Eno Center for Transportation, featuring the word "Eno" in a large, bold, blue sans-serif font.The logo for the Eno Center for Transportation, featuring the text "Center for Transportation" in a smaller, blue sans-serif font, positioned below the "Eno" logo.