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BUREAU OF THE BUDGET
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MEMORANDUM FOR MR. CALIFANO

Subject: Transportation Organization

Bureau staff have reviewed the memorandum sent to the President on June 30 by Mr. Halaby concerning transportation organization in the executive branch. Because of rapidly developing issues in the international air transport area, we have not yet prepared comments for the President on all of the points discussed in the Halaby letter. We expect to do so after further clarification of some of the international aviation issues. In the meantime, this memorandum outlines our current thinking on the problems raised in the memorandum to the President.

Mr. Halaby's letter highlights an important problem, the diffusion of transportation responsibilities among Government agencies, which was of great concern to two of the 1964 Presidential task forces -- the Task Force on Government Reorganization and the Task Force on Transportation. Both groups pointed out that transportation activities are widely dispersed among agencies, including the regulatory commissions. Policy making is consequently difficult and often ineffective.

The Secretary of Commerce and the Under Secretary for Transportation have important transportation functions. The Secretary is the President's principal adviser on transportation policy. Because of the existing statutory division of transportation functions, however, the Department cannot exercise effective leadership in all Government transportation activities, not even in the policy area. To remedy this diffusion, both task forces recommended the creation of a Department of Transportation. I am in agreement with the task forces and Mr. Halaby that this represents the best long-run solution to this organization problem. Since it may not be expedient at this time to take such a far-reaching step, the President may wish to consider certain transitional moves that might facilitate ultimate creation of a new Department of Transportation and meanwhile produce better solutions for some current pressing problems.

National Transportation Council

We have serious reservations concerning Mr. Halaby's suggestion that the President establish a National Transportation Council or committee. We understand that Under Secretary Boyd is already considering the formation of both a broadly based interagency transportation committee and a public advisory committee. Given the existing statutory diffusion of authority in the transportation field, we doubt that meaningful agreement on significant policies can be achieved by interagency consensus. More likely, any "policy" statements from such a group will be compromises stated in language geared to the most acceptable common denominator.

If Mr. Boyd establishes such an interagency committee it should be only after careful consideration of such questions as:

- (1) What kinds of issues are to be considered by the group?
- (2) How is agreement to be reached -- majority vote, consensus?
- (3) Is the committee advisory to the Secretary of Commerce or to member agencies?

If the committee is to be established we believe it is preferable that it serve in an advisory capacity to the Secretary. This would facilitate the President's reliance primarily on a single officer for policy views in the transportation area and enhance the role of the Secretary as the President's principal transportation adviser.

Although we have doubts concerning the efficacy of an interagency group with a broad general charter, there is a definite role for interagency consultation and action with respect to certain specific transportation functions. Enlarging the charter of the existing Interagency Committee on Transport Mergers, as discussed in the following section, would be preferable to establishing a new group with broad, and correspondingly vague, responsibility.

Interagency Committee on Regulatory Policies

Regulatory agencies generally and transportation regulatory agencies in particular take the position that policy can only be made on a case by case basis through formal proceedings. The Bureau of the Budget, other agencies in the executive branch and many experts,

in the transportation field at least, have long believed that policy should be the result of a continuing planning and review process based on general economic, political and other considerations related to national objectives. Certain Federal agencies, however, lend support to the ad hoc method of policy formulation by participating in a wide variety of regulatory cases where their parochial interests are involved; the Department of Defense, the Department of Agriculture, the General Services Administration, the Tennessee Valley Authority and the Atomic Energy Commission are among such agencies.

A more effective approach, consistent with executive leadership in the formulation of transportation policy, is exemplified by the Interagency Committee on Transport Mergers established in 1962. This Committee, under the chairmanship of the Under Secretary for Transportation was charged with (a) developing criteria, relevant to the contemporary scene, for the evaluation of transport mergers proposed by carriers, and (b) evaluating individual merger proposals and recommending an executive branch position to the Department of Justice for presentation in regulatory proceedings. Within the limits of its charter, this Committee has functioned well. Its effectiveness, however, has been circumscribed in two ways: First, the Committee was restricted in the development of criteria to the framework of existing antitrust policy. We believe this framework badly needs review in the light of modern economic conditions. Second, the Committee's scope was limited to (a) intra-model mergers and (b) mergers proposed by carriers. It was thus estopped (a) from initiating proposals for merger that might be more in the public interest than those proposed by the carriers and (b) from preparing non-merger alternatives which might achieve all the good results predicted for mergers without the risk of side effects adverse to the public interest. The Bureau of the Budget believes that serious consideration should be given to lifting these limitations on the Committee's activities.

The Bureau also looks favorably on further expanding the responsibilities of the Committee to include regulatory policy issues other than those involving mergers. There is the same urgent need for development of coordinated executive branch positions on major regulatory issues involving rates, operating rights, financing and rate of return, entry and exit, and other aspects of the economics of regulated transportation. This view rests on the proposition that transportation policy is made not only by legislation but also, and perhaps to a greater extent, by regulatory proceedings and subsequent court actions thereon. At the present time, insofar as the executive branch is concerned, these policy developments often occur by default.

Transportation Investment Review Board

One of the major problems in transportation results from Federal investment decisions being made by specialized or narrowly oriented program agencies with little or no regard for (a) the Nation's overall transportation requirements; (b) their impact on overall economic growth; (c) the effects of facilities and services provided for the benefit of one mode on other transportation modes; and (d) the relationships between costs and benefits of individual investment proposals or between different proposals. There is no effective process for comparative evaluation of the investment programs of various operating agencies like the Federal Aviation Agency and the Bureau of Public Roads in terms of their contribution to the achievement of national transport goals and other national objectives. The Department of Commerce does not have the authority to assess, for example, the value of Federal funds being invested in airport construction as compared to more active assistance to the railroads, nor does any other Federal instrumentality -- not excepting the Bureau of the Budget.

To provide a sounder basis for decision-making on Federal transportation investments, the Bureau proposes that steps be taken to create a Transportation Investment Review Board. This Board would be advisory to the Bureau of the Budget and the President. Its chairman should be the Secretary of Commerce with membership from the Council of Economic Advisers, the Treasury, and perhaps the Office of Science and Technology. For maximum effectiveness this Board should be established by legislation.

The Bureau of the Budget should participate as an observer and adviser. If additional representation is desired, it might be drawn from among the Nation's experts on public investment analysis. Members should probably not be representatives of the various transportation industries nor of Federal agencies with major transportation investment programs. They can be heard in connection with the Board's deliberation on investment proposals. The Board's major function should be to apply objective evaluation standards to individual agency investment proposals and to make recommendations for the approval, revision, or disapproval of such programs.

Before such a Board is created, however, a comprehensive set of objective investment criteria should be developed. This is a difficult task which will require a period of concentrated effort by knowledgeable individuals both within and without the Government of whom there are now a substantial number. The Bureau proposes to take the lead in establishing a task force to develop the criteria to be used in future transportation investment analysis by the proposed Transportation Investment Review Board. The Board's

Joe: whether we ought to take the lead, or allow Boyd, should be considered an open matter. We don't need to decide it now.

analysis in turn will provide invaluable experience for any future Department of Transportation.

Interagency Committee on International Aviation Policy

The question of organization for international aviation problems was studied by the Bureau in 1963. The Interagency Committee on International Aviation Policy (ICIAP) was established by President Kennedy as a result of that study to ensure that international aviation problems were considered as part of the process of conducting our foreign relations.

Unfortunately, this organizational approach has not proved effective. There has been considerable difficulty within the State Department in focusing necessary top-level attention on this area. The ICIAP is now under the chairmanship of Under Secretary Mann. Because of the press of other vital problems there have been few meetings of the committee. Staff within the Department have not been able to bring urgent issues to the top level for expeditious resolution. As a consequence, ICIAP has not kept U. S. international aviation policy under the continuing review envisaged at the time of its establishment. Moreover, there has been no effective followup on the issues raised in the few meetings of the committee. These deficiencies assume increased importance in light of the recent White House meeting on a possible need for reviewing certain aspects of our international aviation policy.

In light of the failure of the State Department adequately to carry out its assigned role, we believe that consideration should be given to shifting responsibility for ICIAP to the Secretary of Commerce. The Under Secretary would be in a better position to assure that international aviation issues are considered within the context of overall U. S. transportation policies. Under the present Under Secretary of Commerce for Transportation, the Commerce Department is more likely to provide the kind of leadership we want for this effort than the Department of State. The State Department would, of course, continue as a member of the committee and make use of it in preparing U. S. positions for meetings with foreign nations.

The proposed transfer of responsibility should be considered in the light of the review of certain international aviation issues discussed at the recent White House meeting. The Bureau will transmit further recommendations on this matter in the near future.

Charles L. Schultze

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Director