

MEMORANDUM

THE WHITE HOUSE
WASHINGTONWednesday, 7:30 p.m.
September 22, 1965LE
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FG155
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FG999-15

TO: THE PRESIDENT

FROM: Joe Califano *Joe*

I have just been over the first cut of the proposals and ideas in the area of transportation for the 1967 legislative program. The proposals are not imaginative enough and will not give you the opportunity to select a variety of alternatives. In my opinion, this is an area where there are major things to be done that will not cost a lot of money. Charlie Schultze agrees, as does Art Okun of the Council of Economic Advisers. Furthermore, it is my understanding that you have asked Secretary Connor and Secretary Boyd to come up with an imaginative transportation program.

Unless you have some objection, therefore, I am planning to have a meeting with Secretaries Connor and Boyd on Saturday morning and ask them to consider and prepare papers on the following ideas:

1. A Department of Transportation (or some reorganization of the executive transportation functions).
2. Reorganization of the regulatory transportation functions.
3. Program of deregulation to make transportation rates more competitive and rational.
4. A major highway safety program (present projections are that over 50,000 people will be killed on the highway this year -- almost every American has a friend or relative who has been seriously injured in an automobile accident).

Fully developing some proposals obviously involves no commitment to carry them out, but if we are to have for your consideration a full range of alternatives, we must have imaginative, low-cost programs from which to choose. These proposals are in line with your ideas about improving administration and, in the case of deregulation and competition, could put you in the position of getting the Federal government out of some of its current activity.

Approved ✓

Disapproved _____

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Center for
Transportation

EXECUTIVE

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FG11-1

NOTE FOR MR. CALIFANO

Re: Transportation Meeting, September 25, 1965

1. All reasonable proposals should be developed for consideration -- regardless of their political prospects.
2. All reasonable proposals should be presented, explained, and supported with whatever facts are available for decision by the President. For proposals lacking solid analytical and factual support, an estimate should be provided of the minimum time required to provide such backing and the scope of any necessary investigations should be outlined.
3. Recommendations to be made to the President for his 1966 transportation program are not to be communicated to the regulatory agencies or to executive branch operating agencies. They may, of course, be requested to provide statistics or other facts needed in connection with the development of recommendations.

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET

DATE 9/24/65

TO: Mr. Califano, The White House

FROM: Bill Capron

REMARKS: Here are copies of the
agenda for the Transportation Meeting
tomorrow morning - these without
comment and recommendations.

Attachments

Last issue on Transportation

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TRANSPORTATION PROGRAM

Agenda for Meeting
on
September 25, 1965

THIS IS
UNCORRECTED
VERSION OF Agenda

I. REGULATION

A. The 1965 Task Force Report proposes to:

1. Simplify procedures in abandonment of redundant rail freight service.

Comment: Does not go far enough. Recommendation: Develop supporting material. See attached paper A.

2. Require ICC to emphasize cost impact of technological and service innovations in rate making.

Comment: Goes in right direction; needs specific standards for implementation. Would be more likely to occur in a fundamental way if we adopt the more comprehensive changes proposed below. (Section B)

Recommendation: See attached paper A.

3. Repeal "rule of three" on exempt water traffic.

Comment: Good

Recommendation: Concur

4. Repeal June 1, 1939 limit on list of exempt bulk commodities.

Comment: Good

Recommendation: Concur

5. Create joint boards on through routes and joint rates.

Comment: Effectiveness doubtful unless compulsory. Explore alternative approaches to transport integration.

Recommendation: See attached paper A.

6. Impose control of international air rates.

Comment: Contrary to general policy of greater reliance on competition.

Recommendation: Explore alternative means of breaking international rate cartel.

B. Additional proposals that should be evaluated and presented for Presidential decision:

1. Repeal long and short haul provision of IC Act.

Comment: Existing law is archaic; was most valuable under 19th century conditions of single mode monopoly.

Recommendation: Estimate impact of repeal. See attached paper A.

2. Repeal requirement of IC Act that rates be based on "reasonable classifications" of property.

Comment: A necessary condition for reorienting rate regulation toward a cost basis.

Recommendation: Estimate of impact of repeal needed. See attached paper A.

3. Amend IC Act to require rail and motor carriers to accept shipper-owned or -leased equipment at cost-based rates.

Comment: Another basic step toward cost-based rates.

Recommendation: Estimate of impact needed. See attached paper A.

4. Limit liability of common carriers for loss or damage of property.

Comment: Present law a major factor in cost and rate inflation; a barrier to rate simplification.

Recommendation: Estimate of impact needed. See attached paper A.

5. Eliminate rate regulation of all unsubsidized domestic passenger transportation.

Comment: Little impact on rail and bus services. More competitive pricing would result.

Recommendation: Impact on domestic air transport needs full scrutiny. See attached paper A.

6. Deny carriers right to request suspension of proposed rates or place burden of proof on complaining carriers.

Comment: Would facilitate rate adjustment to changing markets. Limited experience supports change. Would minimize carrier harassment of competitors.

Recommendation: Develop available support evidence. See attached paper A.

- Prohibit mixing rules on container shipments.

Comment: Moves toward more general effect of item 2 above -- cost-based rates. Recommendation: Estimate effects. See attached paper A.

- 8. Eliminate economic regulation of small shipments.

Comment: Another step toward market pricing with more limited immediate impact. A testing device.

Recommendation: See attached paper A.

- 9. Liberalize motor and water carriers operating rights.

Comment: Would remove artificial and uneconomic restrictions on operations.

Recommendation: See attached paper A.

- 10. Revise IC Act to facilitate voluntary reorganizations.

Comment: May be badly needed alternative to merger.

Recommendation: See attached paper A.

- 11. Review merger policy, develop action proposals.

Comment: Basic review of antitrust policy in transport area overdue. Several reform measures appear to be available.

Recommendation: Develop comprehensive evaluation program. See attached paper A.

II. REORGANIZATION

A. The 1965 Task Force Report proposes to:

- 1. Create a Department of Transportation.

Comment: Good. Needs detailed evaluation of possible constituents and structural development.

Recommendation: Develop plan in substantially greater detail. Bureau of Budget staff to collaborate.

Create a National Transportation Council.

Comment: Seriously unrealistic: Membership of regulatory agencies (chairmen?) would create conflict of interest problems in advising the President on transport policy; could not supplant Interagency Merger Committee in recommending executive branch positions on merger cases; program agency membership makes it inappropriate as an instrument for "review of transportation budgets", "navigation works."

Recommendation: Better alternatives are available. Substantial further evaluation needed. May be useful as a sounding board, but not as a policy or action group. See attached paper B.

3. Reduce ICC membership from 11 to 5 or 7, provide Presidential appointment of Chairman.

Comment: Good, but not bold enough. May be a fallback position.

Recommendation: Consider more far-reaching alternatives, e.g., B.2 below.

4. Transfer ICC Safety Functions.

Comment: Good. Where are they to be transferred?

Recommendation: Elimination of some ICC "safety" work should be evaluated also.

B. Additional proposals that should be evaluated and presented for Presidential decision:

1. Create a mechanism for review of all Federal transport investment proposals. [Only needed if Department of Transportation is not created.]

Comment: Needs detailed development. Recommendation: See attached paper B.

2. Consolidate and reorganize transportation regulatory agencies as a single agency, devoid of all promotional and administrative functions.

Comment: More comprehensive and permanent than A.3 above. Another alternative might be a transportation court of appeals (compare Tax Court, Court of Customs and Patent Appeals). Could be a bargaining counter for a Department of Transportation.

Recommendation: Various proposals need detailed evaluation, should be ranked in order of comprehensiveness, fallbacks indicated. Bureau staff could collaborate. See attached paper B.

3. Review the division of safety responsibilities between CAB and FAA.

Comment: Consolidation of most responsibilities in FAA would be desirable and consistent with 2 above, but an adjudicatory element should reside in the Board.

Recommendation: Further evaluation for possible action in connection with the proposal for a Department of Transportation.

III. HIGHWAY SAFETY

The 1965 Task Force Report proposes to

Establish a Highway Safety Center in Commerce (Department of Transportation), (a) to develop a program (b) to collect and evaluate accident and related data, and (c) to establish a "causal investigation program."

Comment: Good, but needs further development (which may be underway). A time schedule for implementation is needed. Need for legislation doubtful.

Recommendation: Drastic organizational changes appear to be necessary. See attached paper C.

IV. HIGHWAY FINANCING

A. The 1965 Task Force Report proposes to:

1. Give ambiguous endorsement of the increased truck taxes proposed by the Administration last year.

Comment: Not clear what is recommended in view of the subsequent discussion of alternatives. What "factors" have been introduced by the "passage of time" that make examination of alternatives desirable?

Recommendation: Factual support for Administration proposals should be reviewed and strengthened, if possible. Alternative forms of truck taxes should be developed. Waybill taxes on the shipper may be feasible.

2. Transfer excise tax on new automobiles to the Highway Trust Fund.

Comment: Totally ignores the problem of tax equity among highway users.

Recommendation: Use of automobile excise taxes should be considered only as a source of support for beautification programs which are of value primarily to automobile passengers. Consult Treasury.

- 1. Reduce proposal for diesel fuel tax increase from 3 cents increase to 2 cents.

Comment: Sole justification is political acceptability.

Recommendation: Will not solve either equity or financing problems. Other alternatives should be developed for consideration.

B. Additional proposals that should be developed and presented for Presidential decision:

- 1. Impose differential user charges to reduce traffic peaking in congested urban areas.

Comment: Rejected by Task Force Report on basis of difficulties in administration and intrusion on State and local jurisdictions.

Recommendation: The administration and jurisdictional problems are precisely what need to be explored, solution developed. Satisfactory charging systems, combined with restrictive parking measures might eventually be made a condition of Federal aid. A sound economic basis for marginal cost pricing and resource conservation exists in this area. Consult Treasury and Bureau of the Budget.

- 2. Reaffirm Administration's highway user charge proposals.

Comment: Support, at least until acceptable alternatives are developed.

Recommendation: Review existing documentation.

V. RESEARCH

The 1965 Task Force Report

The discussion does not make clear, specific recommendations. Hints of need for additional funds and amendatory legislation are made, but the desirability of proceeding along these lines seems to be questioned.

Recommendation: The Under Secretary of Commerce should develop a detailed outline of a research program for consideration during 1966 and for action in connection with the fiscal 1968 budget. Project priorities should be established, a time schedule for performance should be set, and recommendations as to availability of qualified personnel and institutional resources should be made.

Comment: The 1962 Highway Act does not assure the compatibility of highway plans with over-all community development plans. Nor is there adequate assurance that local planning agencies, as against local highway departments and city governing bodies, will be consulted on highway proposals. Moreover, the present Federal organization is totally inadequate for a cost/benefit evaluation and assessment of trade-offs as between the highway and mass transit solutions of urban commuter problems.

Recommendation: Re-evaluation of these problems is needed. See Section B below.

B. Additional proposals that should be evaluated and presented for Presidential decision:

1. Amend the Federal-aid Highway Acts to require that urban highway plans be found compatible with comprehensive community development plans.

Comment: Could be done now as a separate action, might be more effective if done in connection with 2 below.

Recommendation: Develop a legislative proposal.

2. Assign urban highway and mass transit planning responsibility to HUD; transit research, financing, and possible surveillance of operations to new bureau in Commerce (later in a Department of Transportation).

Comment: Operating agencies, e.g., Bureau of Public Roads, Urban Renewal Administration, are not objective, unbiased planners; planning should be integrated, not fragmented among various clientele agencies.

Recommendation: Need detailed evaluation. Bureau of the Budget to be consulted.

IX. HIGHWAY TOLL FACILITIES

The 1965 Task Force Report proposes to:

Empower Commerce to control construction and regulate the amount and duration of tolls on Interstate bridges and tunnels.

Comment: Acceptable.

*See
Preamble
paper*

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A

REORIENTATION OF TRANSPORT REGULATIONS

Comments Keyed to Items in Chapter 4 of Commerce Task Force

1. Facilitate abandonment and discontinuance of rail freight service. Probably a better route to elimination of excess capacity than merger. The real problem is not main line consolidation, but reduction of high-cost, under-used branch lines and services.

Further exploration of requirements relating to guarantees of substitute through truck-rail service and rates appears to be necessary. What have been the consequences of any recent abandonments? Carrier consequences? Community consequences? (See Commerce study of Rutland abandonment.) What minimum traffic must be offered to require substitute service? What costs must be compensated in rates as a condition of guaranteed service? What minimum service should be required when minimum traffic and adequate rates have been agreed upon? What minimum non-rail service should be required as a basis for complete abandonment of rail or rail-truck or rail-water service?

2. Relate rate-making to technological and service innovations. The proposal speaks of "due consideration" of the cost impact of innovations in rate making. What standards can be established to give this proposal meaning? How is the portion of productivity gains available for rate reduction to be determined? Under what circumstances should other criteria constitute a basis for modifying or rejecting productivity increases as justification for rate reductions? What safeguards are necessary to assure widespread dissemination of benefits of technological change? (Explore Canadian experience with contract rates.)
3. Repeal "Rule of Three" on exempt water traffic. No comment.

4. Repeal the June 1, 1939 limit on list of exempt bulk commodities. No comment.
5. Create Joint Regulatory Boards on through routes and joint rates. Can this proposal be effective if it is not made obligatory for all modes? What are the alternative methods of obtaining more fully integrated transport service? Have they been explored?
6. Impose control of international air rates. This is a move against the market decision-making process and is contrary to the policy of deregulation. Is there a more direct and effective way of breaking up the international rate cartel?

The following additional proposals should be explored with a view to determining more precisely what information would be needed to make a firm case for their presentation or rejection.

1. Repeal Long and Short Haul Provision of the IC Act (Par. 1, Sec. 4).
This provision appears to be largely archaic. The case for its repeal would appear to depend on identifying those areas and commodities with respect to which it is currently used. (Wheat; Intermountain territory.) What kinds of shippers and places would be affected by repeal and how much? How much would repeal reduce the workload of the Commission? How would carrier costs and services be affected? What other provisions of law would be affected by this proposal? Would other proposals, if carried out, make this proposal less significant? Would the competitive position of rail carriers be enhanced or impaired by this change?

2. Repeal the requirement of the IC Act that rates be based on "reasonable classifications" of property. /Sec. 1(6); Sec. 216(b); Sec. 305(a)(b); Sec. 404(a)7. Can this proposal be made sufficiently specific so as to reduce the opposition of carriers and shippers? For example, if the law were amended to limit the current list of criteria to density and volume, would this reform be acceptable? What effect would this change have on traffic moving at rates producing net revenue? on traffic moving at depressed rates? on the rates and revenues? and consequently on shippers and regions? How would these conclusions be modified, if this change were made contingent on (a) limitation of common carrier liability, and (b) a requirement that carriers accept the vehicles of all shippers and move their shipments at cost-based rates? (See items 3 and 4 below.) How would these changes affect the competitive positions of the different modes (rails and motor carriers in particular, and freight forwarders)?

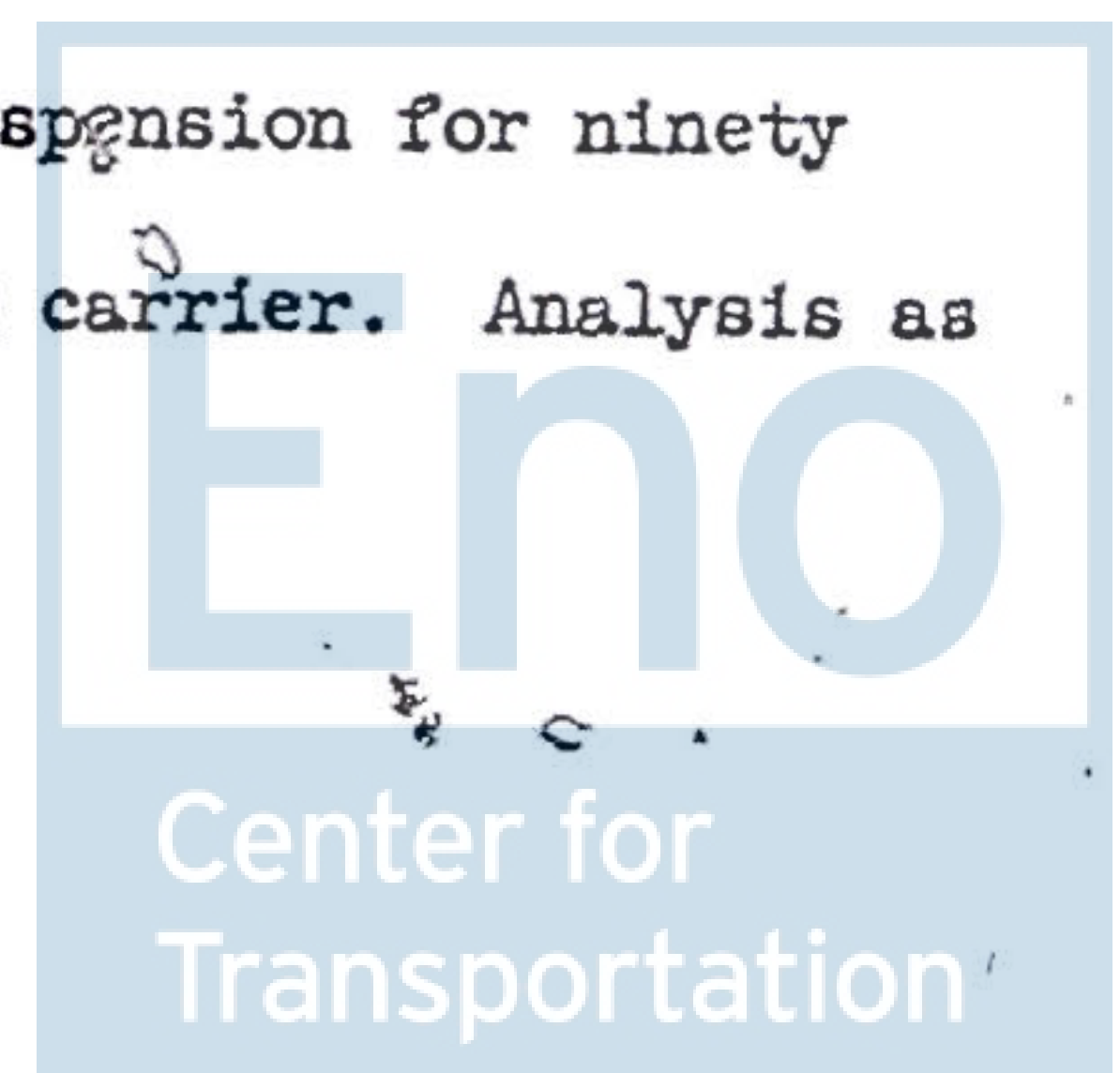
3. Amend the IC Act to require rail and motor carriers to accept shipper-owned or-leased equipment at cost-based rates. (par. 2). What would the effect be on the supply and distribution of rolling stock? Would the "shortage" of freight cars be reduced or eliminated? Would shippers be encouraged to adopt technological advances tending to reduce damage? to reduce transportation costs? to provide a wider variety of specialized equipment? To what extent would railroad capital be released to be employed on right-of-way, other needed improvements? Would this proposal improve car utilization? Would it encourage more compatible loading and unloading by shippers and consignees? To what extent would the competitive position of various shippers be affected?

4. Limit liability of all common carriers for loss or damage of property. This elderly common law doctrine greatly increases transport costs. It has been effectively curtailed with respect to the movement of household goods. Regular insurance procured by shippers or consignees is believed to be cheaper, and settlements are likely to be more prompt. What would the cost impact be? Would costs vary substantially among shippers? Would carriers cease to exercise reasonable care? Cease to search for protective technology? What would be the impact on rates (taken in conjunction with items 2 and 3 above)? Would not the underwriters develop testing facilities and rating bureaus? Commission workload? Would this improve or worsen the competitive position of common vs. contract and private carriers?

5. Eliminate rate regulation of all unsubsidized domestic passenger transportation. What would be the impact on subsidized domestic air transport? Specially between medium density traffic points where they compete with trunk carriers? Would this have any necessary impact on air safety? How would other modes be affected? Would service patterns be affected? If so, how?

6. Deny carriers the right to request suspension of proposed rates. This should permit much more rapid adjustment to changing traffic and technological conditions. Might encourage rate experimentation. Most suspensions are now instigated by competing carriers. What are the statistics? What proportion of the proposed rates are upheld? disapproved? substantially modified? How would this proposal affect regulatory workload?

Alternate Proposal. Deny carriers the right to request suspension for ninety days and then place the burden of proof on the complaining carrier. Analysis as above.



7. Prohibit imposition of mixing rules on container shipments whether by the regulatory agencies or the carriers. This would be consistent with items 2 and 3 above (and with item 2 of the Commerce Task Force Report). It should encourage adjustment to cost-based rates. What impact would it have on carrier revenues? On various shippers? On freight forwarders? On costs and tariffs? On documentation and on the elapsed time of transport movements?

8. Eliminate economic regulation of small shipments (less than 300 pounds). What would the impact be on carriers? Motor carriers? Freight forwarders? REA? UPS? Post Office? Bus companies? Airlines? On Shippers? On documentation? On Service? On Tariffs? On rate making?

Would analysis of the impact of this change during a trial period provide an adequate basis for extending exemption to 5,000 lbs. or 10,000 lbs. later? Criteria should be formulated to provide the basis for such a study.

9. Amend the IC Act (Parts II and III) to provide that after (some date to be specified) all operating rights would be granted as (or converted to) irregular routes -- without commodity, point or directional restrictions -- and that an adequate basis for authorization would be a finding "consistent with the public interest." This change should ultimately have a major impact on underutilization of capacity, on costs, on rates and on profits. Can these effects be estimated? What will the impact on common carrier services be? How much complete common carrier service is now available to occasional shippers? small communities? Would this change have an impact on equipment utilization? on leasing of equipment? What would be the impact on "illegal for-hire carriage"? Would these proposals be more acceptable if coupled with temporary restrictions on new entry? If so, what form should such restrictions take?

10. Revise the IC Act to reduce the influence of senior security holders in voluntary reorganization proceedings. Various methods of facilitating voluntary reorganization should be explored. The objective is to reduce obstruction by bondholders of capital adjustment to accord with real assets. To what extent have current senior security holders acquired their paper at prices below face value? Does this provide a formula for reorganization? What other bases are available? Does the regulatory process impede voluntary reorganization? If so, what corrective action could be taken? To what extent is this an alternative to merger that may be in the public interest to a greater extent than merger?
11. Transport Merger Policy. Several of the recommendations already made have been noted as alternatives to mergers. They may be in the public interest to a greater extent than merger and more relevant to the solution of underlying problems. One of these was abandonment of service; another was facilitation of voluntary reorganization. These and other proposals should be made the subjects of intensive investigation. The immediate research program of U.S.T. should include the review of merger criteria in the regulatory acts and other statutes. For example, what would be the impact of requiring that dominant weight be given the effects ^{on} the quality and quantity of transport service in adjudicating merger proposals? Would there be regions or commodities without competitive transport services if rail consolidation resulted in only one rail carrier?

If intra-modal mergers are facilitated, can inter-modal mergers be allowed without greater restrictions? Should they be prohibited? Should inter-modal grandfather operating rights be withdrawn as a condition of intra-modal merger? Are there specific combinations of modes that should not be permitted?

Should the labor protective provisions of Federal law be re-evaluated to determine whether preferable alternatives are available, e.g., retraining and relocation programs.

In the light of the recent N&W-C&O merger proposal, should the Interagency Merger Committee or the Under Secretary be given power to initiate merger proposals? Alternatives to mergers proposed by carriers -- including non-merger alternatives? The Committee, in recommending opposition to Penn-Central merger, was influenced in part by the belief that an interim four-system plan for the Northeast would provide better competitive balance in the short run and, if a two-system structure proved inevitable in the long-run, more choices than would the three-system plan forecast by the Penn-Central merger. With the N&W-C&O announcement, we are already confronted with the prospects of a two-system solution, probably not the best one.

The significance of "bigness", i.e., monopoly, in the transport field should be reviewed to determine whether it need be given as much weight in merger deliberations as it has heretofore. The implication is that growing inter-modal competition may have made intra-modal monopoly less significant.

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D.C. 20503

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. A first step might be to establish a task force that would be charged with developing criteria to be used in future transportation investment analysis by the proposed Transportation Investment Review Board. The Board's

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

(signed) Charlie
Charles L. Schultze
Director

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Center for
Transportation