

EXECUTIVE



THE UNDER SECRETARY OF COMMERCE
FOR TRANSPORTATION
WASHINGTON, D.C. 20230

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JOE CALIFANO, JR.

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MEMORANDUM FOR Honorable Joseph A. Califano, Jr.
Special Assistant to the President
The White House

In response to your request at our meeting on December 11,
I am enclosing draft memoranda on three subjects:

1. Transportation Organization,
2. Transportation Regulation,
3. Highway Safety.

Alan S. Boyd
Chairman, Transportation
Task Force

Enclosures

12/22/65

TO: LEE WHITE

FROM: JOE CALIFANO

A PROPOSED PROGRAM FOR TRANSPORTATION REGULATION

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The Problem

Transportation regulation, and particularly the regulation of surface transportation, is geared to principles which are largely irrelevant to present-day conditions. The transportation industry is no longer characterized by railroad monopolies but has become highly competitive and market oriented. Regulation still deals with the most minor aspects of transportation operations which must be submitted for Federal approval. Agency budgets have grown, lengthy delays in regulatory proceedings are commonplace and court litigation has increased. As a result, management initiative has been stifled, general rate levels have risen, many shipping needs remain unsatisfied and we do not derive the maximum benefits from modern technology and automation.

Unless a more realistic approach based on economic considerations is taken, transportation costs and inefficiencies may well increase to a point where the country's economic growth and well-being are seriously hampered.

A Program for Regulatory Change

The Department of Commerce with the general concurrence of BOB and CEA recommends a broad program for revising the transportation regulatory framework. It is based on two principles: (1) economic efficiency as the controlling regulatory criterion; (2) efficiency and flexibility of regulatory procedures and administration.

These principles are entirely consistent with the fundamental historical and economic concept that traffic shall move as freely as

possible. Simplification and reorientation of the regulatory process along these lines also is a necessary first step toward the creation of a single transportation regulatory agency.

Elements of the Regulatory Proposal

The proposed program deals with six basic areas in the light of the principles stated above. In most instances, specific legislative changes will be necessary. All the proposals are supported by detailed staff studies and were decided upon after consideration of numerous alternatives in each case.

1. National Transportation Policy - The policy statement in the Interstate Commerce Act would be rewritten to give substantive effect to its stated principles. The principles themselves would be amended to include a recognition of technological advances, realistic costing principles, and carrier capabilities and economies. Procedural reforms would also be included.
2. Rates and Discrimination
 - (a) Control of minimum and maximum rates would be retained; however, a cost standard would be given prima facie weight in determining the reasonableness of minimum passenger fares and freight rates. This would clearly benefit the railroads and would probably benefit many smaller motor carriers.
 - (b) Cost-based rates would be accorded prima facie weight as a yardstick in determining the need for rate adjustments

for similar services in other geographic areas. This would aid shippers and water carriers by lessening discriminatory pricing.

- (c) Joint interagency boards would be created to establish through routes and joint rates. This proposal has unanimous approval of the regulatory agencies. All modes and shippers would benefit.
- (d) Interstate Commerce Act requirement that rates be based on reasonable classifications of property would be repealed, thereby ending the sanctioning of carrier commodity discrimination among shippers.
- (e) Interstate Commerce Act would be amended to require rail and motor carriers to accept shipper owned or leased equipment at cost-based rates. This would aid shippers and help solve the perennial car shortage problem of the railroads.
- (f) A uniform 60-day suspension period would be applied to rates filed subject to the Interstate Commerce Act or the Federal Aviation Act. This would reduce procedural delay. All modes would benefit from this procedural reform. Shippers would be afforded the prompt benefit of new rates.

- (g) Mixing rules on shipments in containers, requiring that loadings consisting of different commodities be limited to certain percentages of each commodity, would be prohibited. Cost-oriented concepts would control to the advantage of shippers and competitive carriers.
- (h) The Civil Aeronautics Board would be given authority to regulate rates and practices of U.S. and foreign air carriers in international air transport to and from the United States.
3. Control of Entry and Abandonment - Statutory amendments would be based on a liberalized standard. The ICC would be given the opportunity to establish, by rule-making, a prima facie standard to determine economic performance as a standard for motor carrier entry. Overall, this should lead to the expansion of motor carrier operations. Railroad abandonment procedures would be amended to make them similar to liberal rail passenger discontinuance proposals.
4. Merger and Carrier Organization - No legislative changes are contemplated but Commerce Department facilities would aid in the development of public interest positions, considering efficiency and other sound criteria, and in evaluating financial incentives for merger activity.
5. Exemptions - The ICC would be authorized to extend exempt carriage, where justified by specific market and economic

criteria, in the field of commodities related to agricultural production and processing. Since greater exemptions can be expected, the regulated carriers would be in opposition. Farmers and those serving them would benefit, however.

Water carrier bulk traffic would be made completely exempt from economic regulation.

6. Procedural Aspects of Regulation - The foregoing legislative proposals would embrace procedural changes to establish evidence of economic performance as the primary test of regulatory decisions. Where possible, regulatory procedures would be made uniform from one agency to another.

ICC Proposal

The ICC has suggested a very limited change in the regulatory framework through partial deregulation of motor carrier entry controls. Their suggestion would allow economically justifiable extensions of authority by authorized carriers, the same approach taken by Commerce. The ICC also suggested grants of operating rights in broad terms, exemption of brokers and a general power in the ICC to exempt matters of minor significance.

Industry Position

Generally, the motor carrier industry favors increased regulation and the railroads favor less regulation. The water carriers are largely content with the protection afforded them under present law. Labor in each segment tends to follow the industry position.

Costs

The implementation of this program of deregulation would not require expenditures by the Federal Government.

A PROPOSAL FOR A DEPARTMENT OF TRANSPORTATION

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The Problem

Federal expenditures for transportation are in excess of \$6 billion annually. Total transportation expenditures throughout the economy are \$120 billion, more than 20 percent of GNP. The U.S. lacks rational organization within the Federal Government for dealing with transportation problems. There is no comprehensive, coordinated national transportation policy. Fragmented responsibility makes it virtually impossible to have effective leadership or control within the Executive Branch of capital investment, operations, subsidy, research and development or safety in the field of transportation.

Present Organization

The Office of the Under Secretary of Commerce for Transportation was established in 1949 as a substitute for a Department of Transportation, bringing together the three major promotional programs in the Federal Government--highways, aviation and merchant marine. This did not achieve coordinated attention at the highest levels of Government and there was woefully inadequate development of the transportation system. In 1958, the FAA was established outside Commerce largely because of insufficient progress in airway modernization. The Federal program to assist urban mass transit was placed in the HHFA. The Civil Aeronautics Board is responsible for the local service airline subsidy program and has major responsibilities for aviation safety. The Corps of Engineers exerts an important influence on transportation through its rivers and harbors program. There is no effective mechanism for coordinating Executive Branch

policy with the responsibilities of the independent regulatory agencies.

At least 25 Federal agencies have significant transportation responsibilities.

Need for a Department of Transportation

A Department of Transportation would provide an effective means of formulating and implementing comprehensive, integrated national transportation policy. It would provide a focal point of responsibilities, at Cabinet level, for assuring that the U.S. has a national transportation system adequate to our peacetime and emergency needs and for making full use of modern technology.

Creation of a Department of Transportation was recommended by the Task Force of the Hoover Commission in 1949, the Doyle Report in 1961 and the Presidential Task Forces on Transportation and Government Organization in 1964.

Agencies to be Included in a Department of Transportation

A Department of Transportation should include all the transportation activities of the Department of Commerce plus the FAA, the mass transportation activities of HUD, the Coast Guard, the safety functions of the ICC, the safety and subsidy functions of the CAB and the aeronautical research functions of NASA. The Department would exercise policy direction over the rivers and harbors functions of the Corps of Engineers.

Alternative Organizational Arrangements

1. Continuation of the present organizational structure. This has proved clearly inadequate and probably cannot be strengthened sufficiently

to accomplish the necessary results.

2. Creation of interagency coordinative committees. The possible creation of an Interagency National Transportation Council and Transportation Investment Review Board could improve coordination but would be ineffective for doing the total job. Policy responsibilities would still far exceed authority.

3. Create a Department of Commerce and Transportation. This would have some of the advantages of a Department of Transportation but still subordinate these functions to the basic Commerce mission.

Timing and Support

A decision to create a Department of Transportation should be considered in connection with proposals for substantial amendments in transportation regulatory law. Executive Branch organization is the most urgent problem in transportation and an effort to create a Department and revise the regulatory laws in the same year would afford an opportunity for those who would oppose each separately to combine forces and defeat both.

There is virtually unanimous support for a Department of Transportation within Government. Reaction from industry is mixed, some segments favor a Department, others believe they can best serve their own special interests through a fragmented Government structure.

Costs

The creation of a Department of Transportation would involve no more than nominal costs to the Federal Government. Some new positions would have to be created in organizing the Department but it is probable that in

The dollar terms these could be offset through economies achieved elsewhere within the new organization.

lost and 3 million injured in 1964) requires expanded Federal effort to reverse this trend since State and local groups now find investment requirements to meet this need beyond their resource capability. At present highway safety programs are widely dispersed with Federal, State, local and private efforts proceeding separately under little or no coordination. At the Federal level, there is no clearly assigned focus of responsibility for mobilizing the available national resources for solving this problem.

Present Status of Federal Programs

Highway safety activities are widely dispersed throughout the Federal Government with responsibility for "public-oriented" programs primarily located in the Departments of Commerce, HEW, and ICC. The Secretary of Commerce is recognized as having a leading role but no specific assignment of such responsibility has been made. Coordination is provided through an interdepartmental Highway Safety Board over which the Secretary of Commerce is chairman. The President's Committee for Traffic Safety has responsibility for promoting a national "action" program for highway safety. Divisions of responsibility between these latter two units are not clear. Federal highway safety activities are divided between several agencies with human factors located in the Department of HEW (Public Health Service), highway facility and vehicle in Commerce, and regulatory enforcement of commercial vehicles in ICC. Federal in-house safety programs involve Labor, GSA, Post Office, and Defense. GSA recently received authority to establish vehicle safety design standards for federally purchased vehicles. Present organizational arrangements are clearly unsatisfactory and

A PROPOSED FEDERAL HIGHWAY SAFETY PROGRAM

Eno

Center for
Transportation

The Problem

The mounting toll in traffic accidents and injuries (nearly 50,000 lives lost and 3 million injured in 1964) requires expanded Federal effort to reverse this trend since State and local groups now find investment requirements to meet this need beyond their resource capability. At present highway safety programs are widely dispersed with Federal, State, local and private efforts proceeding separately under little or no coordination. At the Federal level, there is no clearly assigned focus of responsibility for mobilizing the available national resources for solving this problem.

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must be modified to support any expansion in a Federal highway safety program.

Proposed Program Elements

The Department of Commerce has completed a comprehensive review of Federal highway safety programs and its findings support major organizational changes and expansion in safety programs. A recommended program of corrective action is proposed in which the Bureau of the Budget and the Office of Science and Technology generally concur. The program elements are as follows:

A. Strengthen Federal policy direction over highway safety programs

by:

- Issuing an Executive Order to (1) give the Secretary of Commerce major responsibility for Federal leadership; (2) reconstitute President's Committee for Traffic Safety as a public advisory committee reporting to the Secretary of Commerce; (3) clarify role of Interdepartmental Highway Safety Board and change name to Interagency Highway Safety Committee; and (4) give the Federal Safety Counsel increased responsibility for coordination of internal Federal highway safety programs.
- Creating necessary central support staff under the Office of the Under Secretary of Commerce for Transportation.
- Continue and strengthen existing programs of Commerce, HEW and ICC.

B. Establish data information and research programs to better understand

highway safety problems including:

- Data information center and funds for planning development of needed research test facilities.

- Provide support for accident investigation teams.
- C. Program expansion to increase support to Federal, State and local programs for:
 - Improved medical service.
 - Upgrading quality of driver education and training.
 - Expanded vehicle inspection program support.
 - Development and application of advanced technology towards improvement in safety performance standards for automobiles and components sold for use in interstate commerce.
 - Improved police traffic supervision and application of advanced traffic control technology.
- D. Build corrective safety features into new and existing highways by continued emphasis on spot improvement program in Public Roads and selective extension to non-Federal-aid System highways.

Legislative and Budgetary Requirements

Budgetary requests for highway safety during FY 1967 will be \$25 million (an increase of \$14 million over 1966 level). A substantial portion of this can be financed from the Highway Trust Fund as well as highway spot improvement costs which are normally financed with Trust Fund monies. Longer-term program costs could grow substantially to level of from \$75 million to \$400 million annually depending upon program needs growing out of initial research into problems and results of cost utility measures established to discover areas of total greatest pay-off. Initial budget requests will be devoted to research, data collection, formulation of program standards and limited expansion in State grant programs. Planning funds for research facilities also are needed in 1967 to determine types of facilities needed to assure integrated investigation

of highway accident phenomenon. Capital investment in a facility could be phased over the next 3-year period. Some new programs recommended will require additional legislation but costs for these are not reflected in 1967 budget.