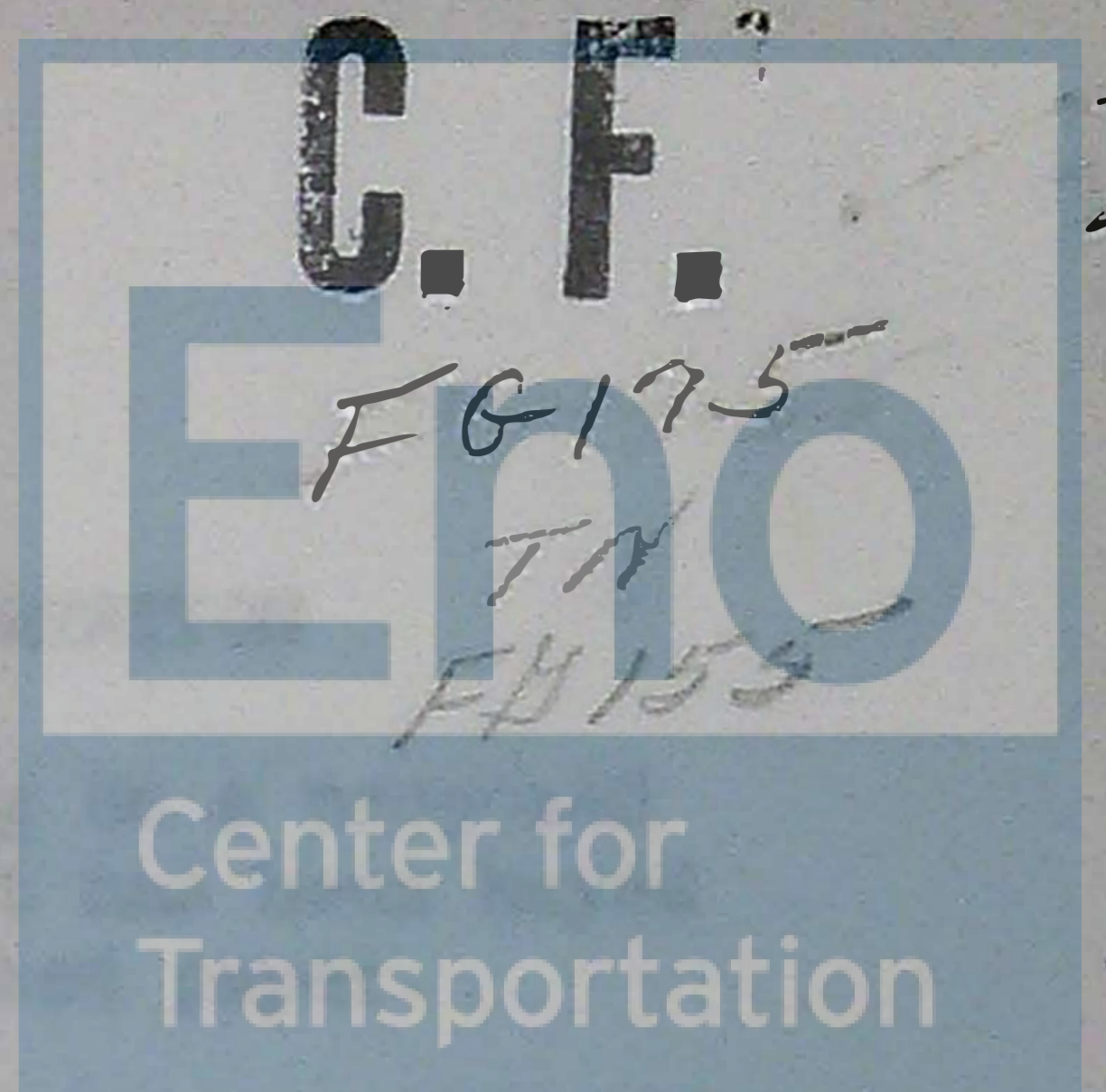


EYES ONLY

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

JAN 10 1966



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

Attached per our conversation are my comments on the attached memorandum which sets out arguments for and against the creation of a Department of Transportation.

Alan S. Boyd
Alan S. Boyd

Attachment

EYES ONLY

EYES ONLY

ANALYSIS OF COMMENTS ON DEPARTMENT OF TRANSPORTATION

This is an analysis of the attached paper commenting on a proposed Department of Transportation. To the extent possible, it has been keyed directly to the individual items as set out in the attached paper.

Reasons For

Extensive position papers supporting a Department of Transportation have been presented. The case has also been argued independently countless times. No justifications for a DOT are therefore presented, and comments are restricted to responses to the specific criticisms and recommendations in the paper. The arguments in favor of a DOT, however, as presented in the paper, are incomplete and, in some instances, misleading, and are not accepted as either comprehensive or necessarily relevant.

Reasons Against (See items 1, 2 and 6 of attached paper)

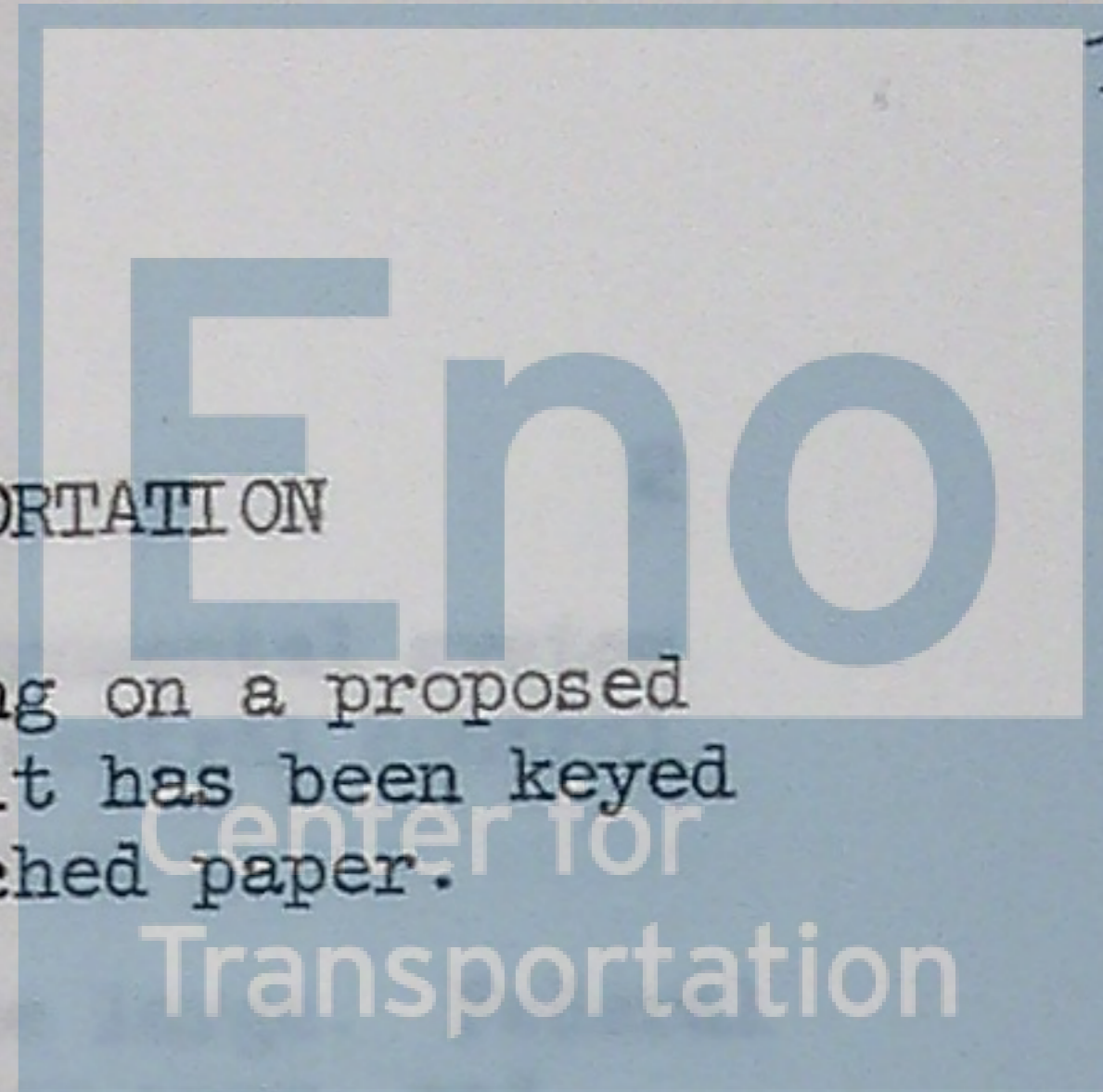
Underlying these three objections is the theme that the real problems of transportation lie with the regulatory agencies and that a plan which does not drastically change the regulatory system can offer no prospect for substantial improvement. This reveals a misunderstanding of the true dimensions of the situation.

The regulatory system can be subjected to legitimate criticism, and there is no doubt that a reorientation of regulatory policy is necessary. To this end, a major regulatory program has been proposed. However, until there has been substantial change in the substantive regulatory agencies, reorganization of the three, ICC, CAB and FMC, into a single body is simply not feasible. The DOT proposal of itself does not contemplate disturbing traditional regulatory concepts, but change in the regulatory system is not thereby precluded. In fact, the regulatory proposals now under consideration would remove some inhibitions to transportation development and integration without altering the traditional independence of the Commissions. In addition, it is contemplated that the Secretary of Transportation would appear before the Commissions to present positions on transportation policy based on an overall intermodal point of view. This would make it possible for the Commissions to consider the broad transportation picture without losing their traditional right of independent decision.

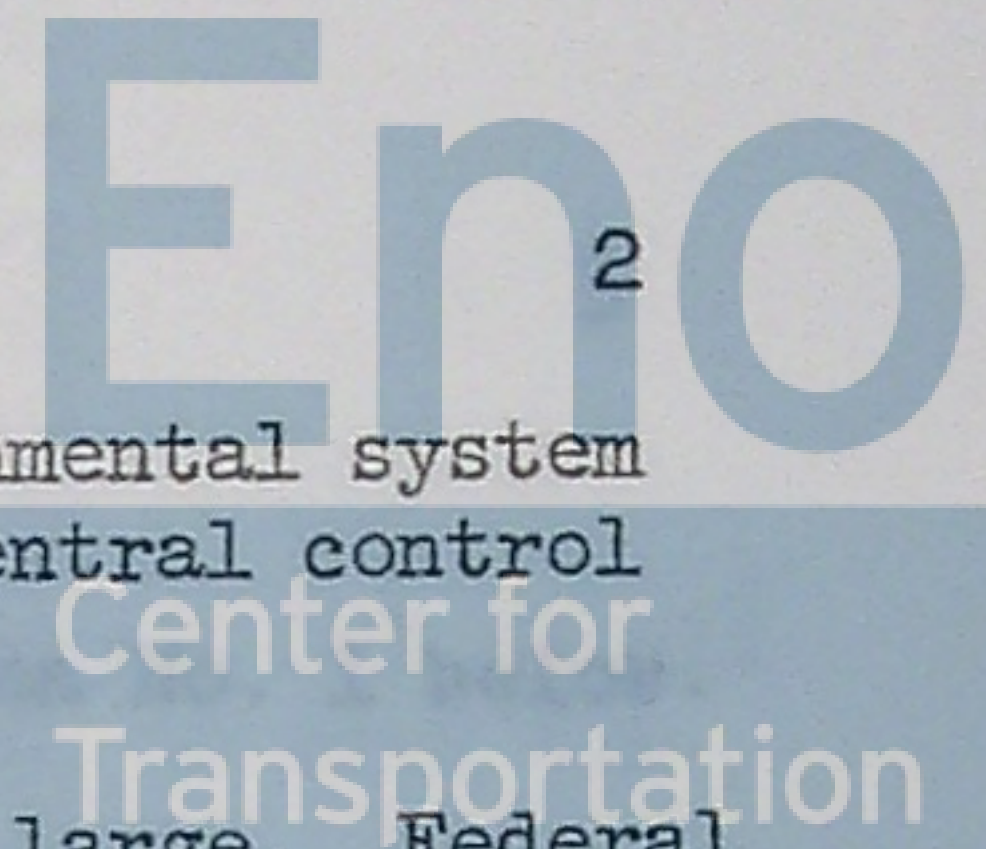
Also, it should be noted that current proposals include legislation to provide for an ICC Chairman appointed by the President for a term of years.

But it does not follow that because the regulatory agencies are not to be completely overhauled no significant improvement in other areas is possible. The real issue is whether the DOT, by uniting within a single Cabinet-level department the multiple, uncoordinated programs of many independent agencies, can provide the Nation with a better total transportation system.

EYES ONLY



EYES ONLY



The answer must be in the affirmative. The present governmental system is so badly structured that a change leading to greater central control would be a positive achievement for the better.

The non-regulatory Federal transportation effort is quite large. Federal highway expenditures, for example, are over \$4 billion per year, and involve an enormous amount of administrators (Federal and state), contractors, equipment manufacturers, etc. The FAA budget is over \$800 million per year and the Agency employs 45,000 people. To say (as objection 6 does) that problems "exist to a very minor extent, if at all, in the several small functional operating agencies" is a gross understatement. The annual Federal investment in transportation is not small: it is immense, amounting to over \$6 billion per year. And it is allocated in an irrational and arbitrary way without benefit of overall policy guidance.

Many economists today believe that the regulatory agencies do not affect the overall level of rates of the regulated industries as profoundly as does Federal investment in transportation facilities (and inconsistent tax treatment). The trucking and railroad industries reflect the long-term effect of unbalanced Federal investment in right-of-way.

Reasons Against (see item 3 of attached paper)

The fact that a DOT has not been created in the past can hardly be used as an intelligent objection to the creation of a DOT today.

It should be noted, however, that creation of a Department of Transportation has never been seriously urged upon Congress as an Administration-sponsored proposal.

Reasons Against (see item 4 of attached paper)

Transportation is indeed an essential element in the Nation's commerce and industry. So is defense, and housing, and education. In fact, almost every element of Government is related in some way to commerce.

But the transportation system is conceptually separable from the traditional business-related responsibilities of Commerce and lends itself well to separate administration.

The transportation elements within the Department of Commerce have operated independently from the business-oriented elements. Commerce is a sort of Government "holding company" containing disparate, and sometimes unrelated responsibilities, within a single department. There are disadvantages to leaving transportation in Commerce. There are many compelling reasons why transportation should be given its own Cabinet-level department.

EYES ONLY

Reasons Against (see item 10 of attached paper)

For comment on item 5 of attached paper, see Recommendation No. 1 below.

Reasons Against (see item 7 of attached paper)

Transportation in all its forms accounts for about 20 percent of the GNP. It is the largest single industry in the country. Its size, its effect on other segments of the economy, and its social influence all indicate that transportation deserves full Cabinet status. Every other advanced nation has given transportation Cabinet-level priority within its government.

Creation of an independent agency would solve no problems. If it contained all the elements of the proposed DOT, it would simply downgrade transportation as a whole. If it only included a part of the proposed elements of DOT, it would continue the current imbalance.

Reasons Against (see item 8 of attached paper)

There is nothing, either historically or conceptually, to indicate that a DOT would overlook the need for specialized attention and emphasis of any one mode. One of the goals of a DOT is an increased program of transportation research and technology.

The present organization has resulted in considerable imbalance in research investment. Owing in part to an extensive military program, aviation has obviously done very well. Other modes in which the Government has no military or operational role have been badly neglected. Spending more money on a neglected mode, however, is not a cure. The transportation system as a whole must be examined and a total systems approach applied. If the current fragmented organization is continued, this approach can never be realized.

Reasons Against (see item 9 of attached paper)

The need for a reorientation of the Government's transportation policy has been carefully and factually documented. The present necessity for a DOT is indicated by theory and observable facts.

The very statement that agencies work well together "whenever issues arise that require coordinated action" is revealing. First, it is factually incorrect because real interagency coordination is minimal. But most important, it reflects the inevitable result of rigidly compartmentalized thinking. There is always a need for coordination. Transportation is a single system, completely interrelated and interdependent. In the real world, transportation modes do not (or should not) operate independently. To the extent that the Government has established separation between modes, its policy has retarded development of the overall system. The Government's goal should be complete intermodal integration and management of investment that will yield maximum benefits from a cost point of view.

EYES ONLY

Eno⁴

Center for
Transportation

Reasons Against (see item 10 of attached paper)

Item 10 is completely correct and is a good statement of why a DOT should be created. Reorganization for the sake of reorganization, or even for the sake of small improvements, is wasted effort.

The Nation's transportation policy lacks direction: the Government's program is characterized by modal compartmentalization and by irrational investment of resources. The result has been that large portions are underutilized while other segments are artificially stimulated by Federal subsidy.

The DOT will create organizational structure within which it will be possible more effectively to consider the system as the interrelated whole it really is, and to implement policies to promote efficiency and growth of the system.

Comments on Recommendations Set Out in the Attached Paper

1. Designation of the Under Secretary of Commerce for Transportation as Federal Coordinator of Transportation Policy would be recognition of the existence of a serious problem of coordination, but it would be an inadequate solution.

First, an Under Secretary, no matter how able, will always lack the status and power to influence the decisions of the heads of powerful independent agencies, each supported by its own industry and its friends in Congress.

Second, and most important, any proposal which fails to place all the various modal organizations under a single, Cabinet-level head will not achieve the necessary control. The present system is so structured that coordination is virtually impossible. Coordination will remain impossible until the independent agencies are under a single transportation executive.

Under the present organization comprehensive policy planning cannot be accomplished. An essential element of intermodal planning is the power to consider various investment alternatives. With this power, deliberate decisions as to channels of investment can be made. If this choice is not available at the planning stage, no comprehensive policy can be developed.

In addition, the DOT, by presenting a single budget and by reducing the independence of agencies which represent various modes, will be more able to implement an integrated policy.

EYES ONLY

2. The precise meaning of this recommendation is not clear on its face. Would the agencies proposed for inclusion in DOT be brought into Commerce? Or would nothing be added to Commerce but a new title?

If the former, transportation would inevitably be subordinated to the business functions of Commerce; if the latter, no improvement at all would be made.

Comments on Alternative Recommendations

1. The transportation problem is immediate. It should not be buried in a committee made up of the heads of the independent agencies. A predictable result would be that no major change would be recommended.

Nothing could possibly be gained by further delay and "study" -- the need for a DOT has been carefully demonstrated in the past.

2. Answered in Reasons Against, Item 7, above.

Other Possible Actions

No comment.