MEMORANDUM

March 28, 1966

To: Senator John L. McClellan

From: Kenneth J. Bousquet

Subject: Establishment of a Department of Transportation

This memorandum has been prepared in response to your request relayed to me by Mr. James Calloway of the staff of the Government Operations Committee.

Since I feel that my competence to discuss this proposal is limited to the field of navigation improvements, my comments will be limited to Section 7 which requires the Secretary of Transportation to develop standards and criteria, subject to Presidential approval, for the formulation and economic evaluation of all proposals for the investment of Federal funds in transportation facilities or equipment by federal agencies both inside and outside of the Department of Transportation.

1. In my opinion, the desirability of eliminating, modifying, or including this section revolves around a determination as to whether navigation should be considered primarily as a transportation problem, and thus considered solely from its contribution to the transportation needs of the nation, or whether it should be considered as a part of our water resource development program.

2. If the former classification is determined to be the proper one, the responsibility to develop standards and criteria unquestionably should rest with the Secretary of Transportation. Such standards and criteria as are developed should be subject to the approval of the Congress rather than the President, since Section 8 of the Constitution places

upon the Congress the responsibility to regulate commerce among the several States. In the event such a determination is made, I believe that some modification of the bill language, or clarification of Congressional intent should be effected to insure that the unique advantages of water transportation are protected, not only in the movement of bulk commodities at low cost but in the recognition of the ability of waterways to move very large objects such as missiles and rockets that cannot be moved by rail or truck. The Congress should make its position clear with respect to navigation. A new Department, if formulated, could provide an arena for a struggle between the trucking unions and the powerful railroad interests for control. Regardless of the outcome, the navigation interests would be submerged.

3. If, however, it is determined that navigation should properly be considered a part of our water resource development program, it follows that this section of the bill should be eliminated. Then the responsibilities for the establishment of standards and criteria would remain with the Water Resources Council established last year at the request of the President. My personal belief is that the latter course should be followed. The Water Rescources Council, authorized by the Congress, is just now organizing and it should be given an opportunity to show its effectiveness before a portion of its duties are delegated to a new Department. In this connection, the establishment of a Department of Transportation designed to coordinate on a functional basis all the aspects of transportation seems to be a complete reversal of the philosophy which dictated the establishment of a Department of Urban Affairs. The announced objective of that Department was an

ingathering of all the programs of the government that affected the urban areas. Furthermore, I believe that the inclusion of Section 7 in a bill establishing a Department of Transportation would effectively drive a wedge of independent action in a field in which Congress has just provided a mechanism for coordination, i.e., the Water Resources Council established to coordinate all water resources development.

4. Water, although perpetual in supply, is one of our most priceless resources. The economic development of this resource is an absolute necessity if we are to maintain and improve the standard of living of our people, and assist in controlling hunger in other parts of the world. We can no longer afford the luxury of single-purpose development of our rivers. It is essential that the man-made structures placed in our streams serve more than one purpose. For example, a dam and reservoir on a stream catches the flood waters and stores them for future use. Initially, it not only prevents or reduces flood damage but it also prevents erosion of the stream banks and subsequent deposition of that silt on farm or urban properties downstream. The controlled release of this water later serves one or more of the following purposes: navigation, water quality control, water supply, and power generation. The water in the reservoir not only creates the power head for the generation of electricity but it enhances the fish and wildlife values of the area and affords abundant water-based recreational opportunities. These functions and purposes are all interrelated. If one of these interrelated functions was eliminated as a result of unrealistic criteria that would be established by a Department of Transportation, the loss of navigation benefits would result in an

increased cost allocation to the remaining purposes. This would make all the remaining functions less attractive financially and, possibly, uneconomical. Repetition of a similar process on the remaining functions of a multiple-purpose project could make them fall like a row of dominoes. Navigation often is a key factor in the development of a comprehensive plan since there are no other alternatives that limit the navigation benefits for the purpose of cost allocation. It is apparent, [redacted] therefore, that the standards and criteria for the evaluation of navigation benefits by the Secretary of Transportation would have an important effect on the future development of our water resources.

5. The Arkansas River Basin development is a prime example of the interrelationship between navigation and other project functions. Thus, navigation benefits play a major role in project formulation and the consequent inclusion of other project purposes such as power, low flow regulation, fish and wildlife, and recreation. The Arkansas Basin Project, which has as its keystone navigation, will also prove to be a spectacular demonstration of the effectiveness of water resource development as a major weapon in our arsenal for the war on proverty.

6. In the October 22, 1962 issue of U. S. News and World Report there was a special analysis of our changing population, based on the results of the 1960 census. It was predicted that in the decade 1960-1970, nationwide there would be a growth of 17 percent -- the prediction for Oklahoma was for only a one percent gain while Arkansas was expected to lose 11 percent of its population. This, of course, was based on the projection of then existing trends. In my opinion,

these projections will prove entirely too pessimistic. The forecasters did not take into account the effect of low cost water transportation and low cost hydro-power as a component of a multiple-purpose water resource development. Under the principles established for the evaluation of water resource development it would be permissible to take into account, and show separately, such secondary benefits as industrialization of an area. Congress could then decide whether or not it wanted to consider such benefits in determining the desirability of authorizing such a project. On the other hand, if the decision was based on transportation considerations only, an adverse decision on the inclusion of navigation could well result in continuation of high transportation and power costs, thus providing no improvement in the climate for industrial expansion.

7. Geological surveys have shown that in the Arkansas Basin there are over 50 billion tons of coal, oil, and natural gas in abundance, finest quality limestone, major bauxite deposits, and a vast variety of other mineral resources. As a matter of fact, some 65 mineral commodities are produced commercially in the area. It is also of significance that thirty of the thirty-eight minerals, for which we depend upon foreign sources either completely or partially, are known to occur in the basin. The natural resources of the Arkansas Basin probably equal or exceed those of the Ohio River, except for the fact that they do not have water transportation. The effect of possible railroad domination of a Department of Transportation can be illustrated by the conflicting positions taken by their trade association and an operating railroad. While the Association of American Railroads that traditionally opposes waterway improvements

bitterly fought the Arkansas Basin development, after the project progressed to the point where its construction was assured, the two major railroads operating in the area came out in support of the comprehensive development, including the navigation features. Mr. Charles E. Ingersoll, Chairman of the Board of the Kansas, Oklahoma, and Gulf Railway Company and the Midland Valley Railroad Company was the first official of a railroad operating in the area to support the project. At an annual meeting of the Arkansas Basin Development Association on March 11, 1960, Mr. Ingersoll stated, "Our railroads are in favor of the Arkansas program and especially that facet of the program that will provide a 9-foot channel on the Arkansas and Verdigris Rivers, a channel suitable for barge transportation from the confluence of the Arkansas and Mississippi Rivers to Catoosa, Oklahoma . . . due to the availability of natural resources, water and labor, presence of recreational facilities and proximity to markets, the area generally referred to as northeast Oklahoma holds the most promise for us. . . . Promise of what? -- More business. For a freight hauling railroad, such as ours, this desire for more business can be realized by the industrialization of the area served."

8. The enthusiasm of this railroad is typical of the recognition of the business and political leaders of the valley of the importance of the one missing ingredient to the economic development and growth of the valley -- low cost water transportation. Today, four years before navigation is scheduled to reach Tulsa eight communities have established port districts and have authorized the expenditure of ~~millions~~ forty-eight of dollars to develop initial public port facilities. Are these expectations of economic

development along the banks of the Arkansas the fanciful dreams of government planners, both federal and local? I think not. Four years in advance of actual navigation five companies in Oklahoma alone have purchased 4,491 acres along the proposed waterway, and a major fossil fuel company is developing a large area of coal reserves. In addition, nine other industries ranging from oil and grain to molassas companies have shown an active interest in locating in Oklahoma. Similarly, eight steel, grain, and paper companies, or industrial park type developments have located in Arkansas along the river banks, with many others showing an active interest in dock-side locations. It is a clear indication that the expected development will actually materialize.

9. Finally, have we over-emphasized the interrelationships of the various purposes of the comprehensive plan? Let us examine the progressive effect the elimination of navigation would have on some of the portions of the project which do not include flood control. Bank protection was included as a necessary component of the navigation feature, and would drop out with the elimination of navigation. With the elimination of a comprehensive program of bank protection goes the assurance that levees constructed to protect agricultural land from flood flows can be built on a base that will not be eaten away by subsequent bank erosion. Moving upstream to the Dardanelle Lock and Dam, which is being constructed for the multiple purpose of power and navigation, the economic analysis and cost allocation for this project was made in March of 1960. At that time, if navigation had been found not justified, the only remaining purpose for the project would have been power. Based on the criteria then in vogue, the construction of a single-purpose hydro-project could not have been

justified; hence this project would have been eliminated from the plan.

The Ozark Lock and Dam, the next project upstream, becomes more difficult to analyze on the basis of existing data in the cost allocation since it involves four functions -- namely, general recreation, fish and wildlife conservation, navigation, and power. While the alternatives have not been developed for a three-purpose project without navigation, on the basis of alternately adding each purpose to a project built for the other two purposes, I believe a letter from the Chief of Engineers to the Committee dated March 5, 1965 demonstrates the dependence of the power features of the project on the other purposes of which navigation is an important factor. That letter states in part, "Funds to initiate construction of the Ozark project were appropriated for fiscal year 1965. Studies at that time indicated that the project costs allocated to the hydroelectric power functions exceeded the estimated revenues and, therefore, inclusion of the power facilities in the project was not financially feasible. . . . The earlier decision to defer installation of power generating facilities at the Ozark project has been carefully reviewed in light of current conditions and technological improvements. These studies now show that power benefits amounting to $2,432,000 annually exceed the incremental annual costs of adding the power facilities and further, that there is no more economical means of providing equivalent facilities. . . . I have concluded that hydroelectric development of power at Ozark Lock and Dam is both economically justified and financially feasible." It is important to note that it was based on the incremental cost of adding power that the previous decision to defer power was reversed. This, of course, is consistent with the

economic theory that benefits of multiple-purpose projects should be maximized.

10. If this object is to be accomplished, the standards and criteria for evaluating all water resource functions, including navigation, should remain with the Water Resources Council. In exercising this function, recognition should be given to the established national transportation policy. Standards and criteria for the evaluation of navigation projects should be established, however, in consensus with the established national transportation policy, to the extent that it remains consistent with the overall objective of the optimum development of our water resources.