

January 13, 1960

MEMORANDUM FOR GENERAL PERSONS

SUBJECT: Cabinet Agenda for January 22



In preparing Secretary Mueller's Transport Policy Report for Cabinet consideration on January 22, the following questions have arisen on which your advice is sought:

1. Should the Chairmen of the ICC, the CAB, the National Maritime Board and the National Mediation Board (all mentioned in the Report and all having a great stake in its consideration) be invited to Cabinet and be given copies of the Report?

Secretary Mueller recommends in the affirmative.

2. In view of the close relationship between this Report and the Report on Transportation Organization being prepared by Arthur Flemming's Advisory Committee on Government Organization, should the two non-Cabinet members of that Committee be invited to Cabinet on the 22nd, i. e., Dr. Milton Eisenhower and Mr. Don Price (of Ford Foundation) as well as Art Kimball?
3. Secretary Mueller wants to bring his Under Secretary for Transportation, Mr. Allen.

Robert Gray

ADMINISTRATIVELY CONFIDENTIAL

January 18, 1960



MEMORANDUM FOR

GENERAL PERSONS

Subject: Cabinet paper on Federal Transportation Policy and Program

This report was prepared by the Commerce Department, with the help of advice from a task force of consultants and contractors. It appears that the other Departments did not participate, and it appears that there was little direct reference to extensive hearings on this subject held recently by the Congress.

There are eighty-three recommendations, some of them in four or five parts. Most of these involve legislation, designating the Department concerned.

The transmittal letter recommends that the President direct the Departments to prepare the relevant legislation for submission.

The philosophy of the report is gradually to bring the transportation system toward "the same free market orientation as the rest of the free enterprise system." It is not clear how much of the country is really on the free enterprise system. Transportation was one of the earlier major forms of economic activity to be brought under regulation. The economic and political case for a considerable degree of regulation in the transportation field is persuasive. The report poses two alternatives, "stricter regulation" and "free enterprise," of which the latter is chosen. There is a middle course, more intelligent and enlightened regulation, which may in fact prove more useful than either of the alternative courses named. As a matter of fact, the actual recommendations in many cases appear to take the middle course.

ADMINISTRATIVELY CONFIDENTIAL

ADMINISTRATIVELY CONFIDENTIAL



-2-

The report recommends "neutrality" or non-influence as the backbone of Government transportation policy. With the railroads losing out and other forms of transportation booming, and with the resulting need for government help and guidance, it is hard to see how government policy can really be neutral.

The report is more comprehensive, more balanced, and more sound, in my judgment, than the Weeks report of four years ago. It has many commendable points.

Nevertheless, some of the recommendations do not seem to be well considered.

One of these recommendations, elimination of the transportation tax, (number 70) is directly opposed to the Administration's position as contained in the Budget, released Monday, January eighteenth.

Other recommendations are quite far-reaching and at variance with the stated objectives of greater freedom:

1. Requiring the Department of Agriculture to ship more of its surplus in American boats (recommendation 54).
2. Enacting Federal legislation to bring about uniformity of State regulations regarding motor trucks (recommendation 62).
3. Setting in motion efforts which appear to have the intention of dividing international air travel between American and foreign flag ships on the basis of the percentage of U. S. passengers to total international travelers. (recommendation 12).
4. Facilitating mergers by Federal legislation, though in certain instances state law now prohibits this. (recommendation 68).

ADMINISTRATIVELY CONFIDENTIAL

ADMINISTRATIVELY CONFIDENTIAL

- 3 -

Other recommendations need careful consideration. For example, recommendation 36 would provide a step-by-step increase in aviation fuel taxes. Recommendations 42 and 75 would establish a stockpile of passenger and freight cars for possible military needs.

The report recommends the setting up of some twenty different study groups and study projects. Some of this activity could be helpful, but some of these study groups might serve only to keep the problems alive.

The report is so comprehensive and far-reaching that it cannot be properly evaluated in a brief Cabinet session.

I think the report should be staffed out with leadership from the White House. Half a dozen additional Departments have an interest: Labor, State, Defense, Treasury, Agriculture, Justice, and Post Office, as well as others. They should have a chance to review this paper in a form clearly designated as preliminary and administratively confidential. After a thorough reworking the paper could be redone and submitted to the Cabinet.

There is time to do this. We've been in office seven years; if we have to wait another month or so with this report no one will be badly hurt.

There will be some pains involved in staffing this out. But they would be less than the pains involved in a Cabinet squabble over it, or if the report should be quickly accepted, less than the pains involved in living with it.

Don Paarlberg

DP:mac

ADMINISTRATIVELY CONFIDENTIAL

P R E L I M I N A R Y D R A F T



FEDERAL TRANSPORTATION POLICY AND PROGRAM

January 21, 1960

**ADMINISTRATIVELY
CONFIDENTIAL**

	<u>Page</u>
Letter of transmittal	1
Federal Transportation Policy and Program	4
1. Long-range objectives	4
2. Present situation	8
3. General approach	10
4. Timing	11
5. Action programs	13
a. Federal investment and user charges	13
b. Urban transportation	13
c. National defense	14
d. Government procurement of transportation	15
e. Common carrier system	15
f. Through routing and coordination	15
g. Route regulation	16
h. Rate regulation	17
i. Census of transportation	17
j. Cost finding	18
k. Subsidies	18
l. International	19
m. Labor-management relations	19
n. Continuing research	20
6. Effects on carriers	20
a. Railroads	20
b. Trucks	22
c. Buses	23
d. Airlines	23
e. Merchant marine	23
f. Inland waterways	24
Recommendations	
Section 1. Federal economic regulation -- control of operating rights (Rec. 1 - 13)	25
Section 2. Federal economic regulation -- control of rates (Rec. 14 - 24)	29
Section 3. Cost-finding and census of transportation (Rec. 25 - 32)	33
Section 4. Federal investment and user charges (Rec. 33 - 38)	35
Section 5. Defense readiness, government procurement and operation (Rec. 39 - 48)	39
Section 6. Urban transportation (Rec. 49 - 50)	43
Section 7. Special merchant marine problems (Rec. 51 - 61)	44
Section 8. Special motor carrier problems (Rec. 62)	49
Section 9. Special railroad problems -- passenger deficits, consolidations (Rec. 63 - 68)	50
Section 10. Taxation (Rec. 69 - 75)	52
Section 11. Labor-management relations (Rec. 76 - 77)	55
Section 12. Safety regulation (Rec. 78 - 79)	56
Section 13. Transport integration (Rec. 80 - 81)	57
Section 14. Continuing research and action (Rec. 82 - 83)	58
List of reports prepared for the transportation study	59



LETTER OF TRANSMITTAL

Dear Mr. President;

In your Budget Message for 1960, you recognized that

"In recent years, the Federal Government has had to take actions to meet emergency problems which have arisen in highways, railways, and aviation. These actions have sometimes been taken on a partial and piecemeal basis, without full consideration of the impact on other transportation programs."

To meet this critical situation, you said that I was, at your request,

" . . . undertaking a comprehensive study of national transportation to identify emerging problems, redefine the appropriate Federal role, and recommend any legislation or administrative actions needed to assure the balanced development of our transportation system."
(Underlining added)

This report tries to do the three underlined tasks.

The problems are many. We have selected only the major ones, identifying their main outlines and recommending solutions.

The appropriate Federal role is defined for a decade ahead, not into the indefinite future. It is conditioned by practical estimates of public acceptance and feasibility in addition to theoretical validity.

Recommended legislation and administrative actions are limited to the first few steps in the right direction toward our long-term goals. We feel this is far more effective than to try to achieve in one enormous step the ultimate system. The attached summary of actions specifies your Cabinet or Executive agency head who seems to be most


- 2 -

logical to do the job. It is recommended that, after your review, you direct each of them to take the stated action. Legislation should be prepared for submission to Congress by the stated Executive Departments. Policies recommended for the regulatory agencies but not coupled with legislative actions, if not adopted within a reasonable time, should also be embodied in legislation.

A word on the underlying philosophy of Government regulation. In the long run, transportation should operate the same as the rest of the American free enterprise system. Regulation is needed primarily to protect the public against monopoly abuses, and as competition grows in transportation, regulation should shrink.

Some critics may overemphasize the recommended relaxation of rate regulation, and then assert that this report is merely a repetition of the 1955 Weeks Report. If this single issue were more than a fraction of the whole, and if the crucial principle of gradualism in change were ignored, and if this report were as limited in scope of subject matter, their contention might be partly true. Even then, they might as well concede that this part of the report is a restatement of American free enterprise principles. It is, and it should be. However, no small part of our research was designed to test the broad assertion of the Weeks Report that competition could be relied upon as the primary regulator. Our conclusion is that competition remains sufficiently imperfect in a number of situations still to require considerable safeguards.

As a member of your Cabinet, I am fully aware of your primary



responsibility as President of 180,000,000 Americans. They are the ones who require efficient transport for a vigorous peacetime economy, and they must have the transport with which to defend themselves in time of war. They are the ones who ultimately pay for all transportation in the price of every ticket, and in the freight bills, and taxes, and in the cost of every article which they buy. As your Secretary of Commerce, I have given full weight to the views of transportation and other industries, but emphasis throughout is on the public interest, difficult though that may be to define.

Nevertheless, gradual change is far to be preferred to quick and sweeping alteration in the conditions under which carriers do business. Hence I consider it of particular importance that, while an early beginning be made, policy revision in an appropriate direction continue over a period of time. To do this, the Executive Branch should equip itself for continuing and effective review of the whole transportation position, and appropriate implementing actions.

January 21, 1960

FEDERAL TRANSPORTATION POLICY AND PROGRAM

This report tries to answer basic questions for the arteries and veins of the body of our national economy -- transportation:

1. What should be our long-range objectives?
2. What is our present situation?
3. What should be our general approach?
4. What should be our timing?
5. What should be our major action programs?
6. How will these affect the carriers?

This report contains specific recommendations on pages 25 - 58. There across-the-board impact by type of program on all modes of transport appears on pages 13 - 20. Their impact on each mode of transport is on pages 20 - 24.

This report is based to a large extent on consideration of the 2400 pages of underlying studies and advice by knowledgeable consultants, contractors, and others in various fields listed in the Bibliography and Sources.

1. LONG-RANGE OBJECTIVES

The nation requires policies which will encourage maximum efficiency in the performance of the transportation function. A part of the cost of nearly all goods and services purchased by the public represents payment for transportation of one kind or another. Hence a



reduction in the cost of transport enhances the national product and enlarges the opportunities of all for the consumption of direct goods and services. Moreover, reduction of the cost of transport in relation to other things increases flexibility in the location of industry, in the exploitation of natural resources, and in the achievement of industrial efficiency. There is, in fact, a multiplier effect -- for the quantity of improvement in the transport function is multiplied by the time goods reach the ultimate consumer. There is general and growing realization that less improvement has been made in distribution than in production of goods and that much of the remaining margin for the improvement of the nation's economic efficiency lies in the area of distribution. Transportation is the largest single element within that area.

The achievement of maximum efficiency in transport has become a complicated problem. For the growing opportunities contributed by the improved methods and technologies of transport have been accompanied by growing complexities within the transport industries as well as in the governmental policies which affect them. In the short run, efficiency requires that traffic be distributed among motor carriers, railroads, water carriers, pipelines and air carriers in such a way that each type receives the traffic which it can carry with the least consumption of resources by the carrier for the service standards required by the user. It requires also that several forms of transport be used in coordination where such a combination can produce a better service-cost result than any single form working alone. Finally it requires that every enterprise participating be ably and energetically managed.

In the long run, policy must encourage the reasonably prompt elimination of redundant capacity in any form of transport. More important, it must ensure not merely adequate growth of plant to accommodate economic growth, but that investment is made in each form of transport in accord with its potential contribution to an efficient over-all transport system. This requires compatible standards for appraising investment in each form, whether the investment is governmental or private. Thus, the standards of public and private investment must be brought as close together as possible so that neither is favored over the other. Similarly, tax and regulatory policies must be neutral in their effects upon the attractiveness of investment in each of the types of transport. If these conditions are not secured, it will require larger total investment and greater annual costs for the operation of the transport system than is necessary. Such costs will be diverted from other forms of activity and will retard the growth of the economy, thus affecting the nation adversely.

Within this broad context, a practical plan should achieve clearly stated objectives in ten years. In transportation these goals are:

- a. Adequate capacity. Our transportation system should be able to handle the growing future needs of peacetime domestic and international commerce, and of defense in possible wars.
- b. Low cost. Transportation should be provided at the lowest reasonable total cost to the national economy -- shippers, travelers, carriers, taxpayers.



c. Low rates. Shippers and travelers should pay the lowest possible rates consistent with reasonable carrier costs and profits.

d. Customer choice. The public should be able to make free economic choices to meet its transportation needs.

e. Carrier initiative and health. Carriers should be able to use maximum individual initiative to improve the technical means of giving customers better and cheaper transportation, and should be afforded the opportunity to realize adequate profits for the nourishment of effective service and continuing development and technological innovation.

f. Federal promotion. Federal promotional policies must be neutral between competing carriers. No carrier group should get unfair advantage through Federal promotion, user charge, subsidy, taxation, or routing of Federal traffic.

g. User charges. Users who benefit directly from Federal facilities should, in the long run, pay their full fair share of the cost of building and operating them.

h. Subsidies. Subsidies to carriers should in the long run be reduced and then eliminated. Exceptions must bear the burden of proof that other requirements, notably defense, clearly override normal economic yardsticks.

i. Federal regulation. Rules must ultimately be equitable for all carriers. Federal regulatory philosophy must have a factual basis to achieve uniformity of policy.

2. PRESENT SITUATION

National transportation is presently out of balance. It is less a national system than a loose grouping of individual industries. We have built vast networks of highways, railways, inland waterways and seaports, airways and airports, and pipelines, with little attention to conflict among these expanding networks. Economic regulation has been administered in rigid compartments although many basic problems are common to many areas of transportation. Total capacity is not closely geared to total need.

The original transportation system reached physical and regulatory completion 40 years ago. This was the railroad system carrying three-quarters of the nation's freight and nearly all of its inter-city passengers. Only later did massive competitors grow. Tens of millions of cars, buses, and trucks came on to the nationwide system of highways. Federal interest revived in waterways, and for the first time investment began on an interconnected system. Thousands of planes flew the basic network of airways and airports. Pipeline networks crossed into all major areas.

Technology tremendously improved the rights of way and the vehicles. The new transportation grew in speed, flexibility, and reliability. Transport capacity boomed. The increase of capacity in the newer modes was not accompanied by substantial reduction in capacity of older modes nor was it clear that traffic shifts were always occurring because of real economic advantage of the newer modes.



Meanwhile, back at the railroads, industry practices and Federal regulation changed too slowly. They continued to base their system of rates on what the traffic would bear, charging more than real cost for much traffic to bring up average yield. The new competitors with more specific pricing for lengths of haul and sizes of shipment, took away traffic that the rails had been carrying at high value-of-service rates. The rails, especially in the northeast, became chronically sick and unable to command investment funds sufficient to prevent the rail system from becoming obsolescent. The diversion hurt because it was in the traffic with the greatest margins between rates and true costs.

Now the newer forms of common carrier transport also, still concentrating largely on competing with the rails, are generally blind in their turn to a growing competitive menace. Unregulated private and exempt carriers now haul nearly half of the intercity freight. The regulated common carriers are feeling the same competitive weapon they used against the railroads. They still base their rates to some extent on the competitive rail rates, instead of on true cost. The unregulated carriers can skim off the most profitable traffic, that with the greatest margin between prices charged and costs. Moreover, the distinctions between what is legitimate private or exempt transportation and what is subject to regulation are difficult to draw with precision. It is even more difficult to compel compliance with such distinctions.

Essentially the responsibility is and should be with common carriers to develop service standards and rate structures which enable

them to hold their position against the possibilities for private and exempt transport and to diminish the temptation to illegitimate operations. What is needed is broad, general revision of traditional rate structures to bring them more closely into accord with cost structures. Rates should be rational, based on cost studies and market facts, rather than opportunistic since sporadic and selective rate cutting can prove dangerous to the carriers and damaging to the public. Since the temptation to go this route is strong, appropriate regulatory restraint must be provided for the present. The regulatory system must, however, become more flexible and must, indeed, encourage the adjustment which is called for. Specifically, regulatory restraint upon the upward adjustment of below-cost rates and upon the abandonment or readjustment of losing services must be very substantially removed.

3. GENERAL APPROACH

Long-range objectives can best be achieved by fostering an economically balanced transportation system. This balance is achieved when each mode of transport carries what it can haul most economically in view of quality of service, and when the entire system keeps adapting in quantity and type to the changing national economy. The present system is unstable and appears to be moving away from, rather than toward, an economic balance. The Government's policies represent a mixture of partly incompatible elements without clearly defined purpose.

Two major approaches are possible. One is the Government-regulation philosophy with centralized thinking from Washington. It



would require stricter regulation of present carriers, extension of regulation to the private and exempt area, and allocation of traffic by the Government rather than the shippers. It would be slower to adjust to rapid technological change. This we reject, believing that another alternative will work.

The other alternative is that in the long run the transportation system should be regulated by the same forces as the rest of the American free enterprise system: fair competition in price and service to the customers. Regulation in the long run should remain only where monopoly or the threat of destructive competition remains. This approach requires greater freedom for the carriers in setting their own rates and determining and developing their routes and services. The tighter regulation that was well adapted to protecting the public under the predominant monopoly of the railroads is no longer well suited to highly competitive transport networks. Common carrier rates of all kinds are rapidly becoming regulated by competition whether the common carriers like it or not -- the competition of highly developed private and exempt carriers. And conditions in the transportation industries, once a larger degree of market and cost information becomes available, promise workable results under substantially reduced regulation.

4. TIMING

The timing of recommended actions is of key importance. Most people will recognize the desirability of this report's long-range objectives. However, they must also recognize that a huge number of enter-

prises have invested great amounts of money and energy in transport as it has developed up to now. Workers have likewise invested long years of service in completing apprenticeships, developing skills, and acquiring seniority rights. They did this quite justifiably on the assumption that the rules of the game would not suddenly be changed.

Transportation has always been operated under a shifting balance between Government public-utility regulation and the normal economic freedom of other commercial enterprise. Further shifts which we are recommending must be at a pace slow enough to give everyone time to adjust.

Carriers need time to change services and costs as their competitors and customers change. Customers need time to gear their methods and investments to the transportation trends. The Executive and Legislative Branches of the Government need time to measure the effects of their actions and laws before going on, and to hear from all the people affected. Both carriers and the regulatory authorities require time to develop the wide range of information and the cost-finding techniques which are essential if we are to have rational carrier pricing, and if we are to minimize the risks of destructive competition.

This is basically why the recommended actions go only part way toward the long-range objectives. This is deliberate. Long-range goals should be approached step-by-step, with steady pressure in the right direction. Gradualism, with adequate time to adapt to change, is one major key to the approach recommended.



5. ACTION PROGRAMS

a. Federal investment and user charges. The Government should evolve and keep current a comprehensive plan for its investment in all types of transport facilities. Within each type of facility, it should continue to develop adequate standards of analysis to compare costs with benefits for each project. It should also devise standards by which to compare each primary area of investment (highways, rivers and harbors, airways and airports) with the others and with private transportation investment so that investment decisions can be made upon similar tests of need and public advantage.

User charges should be imposed wherever transportation uses Federal facilities. All groups of users should, as an ultimate goal, pay their fair share of operation and maintenance costs, as well as of new Federal investment and interest. Rates should start low if there are none now in existence, and should scale up over a period of years. Advice from the paying users should also help set the size and type of investment program, and be an important check on wasteful investment.

In addition to relieving the general taxpayer of costs properly chargeable to others, this program will help make the Government a neutral as transportation competes in a freer market and will assist in insuring efficiency in the distribution of investment funds within the transport segment as well as in the economy at large.

b. Urban transportation. Metropolitan areas are increasingly congested with mass highway transportation, and are afflicted by

rush-hour jams, parking area deficiencies, and commuter and rapid-transit losses.

This is primarily a local problem. But the Federal government contributes toward the problem with its huge highway program. It also has a deep concern in the railroad commutation passenger losses because of their effects upon the health of the railroad system and upon the extent to which the nation can secure the benefit of the railroad's capability for mass long-distance transport of freight.

The Federal government should encourage communities to make broad land-use plans with transportation as an essential part. It should consider as a long-run problem means by which such forward planning can be encouraged. It should also consider possible community charges on highway gateways and parking areas to help reduce the highway congestion and help finance the over-all transportation plan. Jointly with communities, the Federal authorities should consider the total urban transport situation so that Federal participation may contribute to the efficiency with which urban transport as a whole is performed.

c. National defense. In general, all actions that strengthen transportation systems in peacetime, and expand their capacity economically, also strengthen them for wartime use. The major single specific group of actions open to the Federal government in peacetime, not covered in other areas, is to route its own traffic via commercial carriers at rates and under conditions that closely approximate those which prevail for other traffic.



d. Government procurement of transportation. The Government should be motivated primarily like any other shipper, to get maximum transportation service at minimum cost. To do so, it should analyze its total distribution cost and the long-run effect of various modes of transportation on this total.

It should not use its unique position as mass shipper to wring special concessions from the carriers. And it should not operate its own transport to compete with the commercial system. Any exception should be extremely well justified for very clear and publicly stated reasons. The Government should support the common carrier system upon which the economy must rely, and which is so vital for national security.

e. Common carrier system. Common carriers should be strengthened by the greater rate and route freedom recommended, and by the Government routing of its own traffic along the lines suggested. The development of comprehensive user charges and certain recommended tax adjustments should also conduce to this end. However, wherever the free market forces of supply and demand favor private and exempt carriers under fair competitive conditions, Government regulation should not try to force traffic to less efficient carriers. Reliance should be placed upon the initiative of common carriers within the changed framework of government policy provided there is good reason to expect a strengthening of the common-carrier position as a result.

f. Through routing and coordination. All regulatory processes should encourage maximum through routing and coordination

among and between all modes of transportation. The best means should be left to the industry -- containers, piggybacking and fishybacking, standardization, joint bills of lading, etc. In the long run, more uniform thinking of the regulatory agencies should aid this. In the short run, as an interim step, joint regulatory boards should handle the multiple-agency problems of surface-ocean, surface-air, and air-ocean through routing. Generally, control of one mode of transport by another is neither necessary nor recommended, although a more flexible attitude on the part of the regulatory authorities is desirable where a clear demonstration can be made that increased efficiency will result.

Through routes and joint rates between several forms of transport are to be encouraged. It does not appear desirable to make such routes and rates mandatory, except that the appropriate joint boards might be given such authority in clear cases where the efficiency of the transport system as a whole can be improved and where it is shown that one or more carriers unreasonably refuse to participate in such arrangements to the detriment of the public interest.

g. Route regulation. Government regulation of authorized routes should be applied under uniform philosophies. The regulatory agencies should closely coordinate their route policies with rate regulation policies and factual traffic and cost-finding surveys. And special attention should be paid to the case where one mode competes with a joint service which it maintains in conjunction with another mode to insure that the cost relationships are reasonably reflected in the competitive rates.



- 17 -

h. Rate regulation. Government regulation should place the carriers in position to compete fairly with each other. Since rates are a crucial factor in the competitive struggle, changes should be slow. Otherwise, sudden large diversions of traffic might produce chaos in many transport markets. Broad and general revisions reflecting the underlying cost relationships are, however, to be preferred to sporadic and selective rate cutting activities.

All regulatory agencies should begin with the same basic facts -- a comprehensive cost finding study and a census of transportation. With less regulating to do, the deadly delays of multiplying case work should decrease. In particular, the effort to confine suspension to instances where substantial proof of unlawfulness is offered, should mitigate the delays upon appropriate adjustment.

i. Census of transportation. This is essential to give shippers, carriers, and Government the same factual basis for policy and practice. It should cover sources of traffic in the manufacturing, agricultural, and extractive industries, as well as common, contract, private and exempt carriers in all modes of transportation. It should show both geographically and by commodity the weights, sizes, volume, distances, rates, and type of carrier moving the traffic, as well as the reason for carrier selection. It should be repeated at regular intervals to inform us of trends as they are developing, and to measure the effects of actions taken. Without such a regular census, rational price action by carriers is impossible, as is regulation upon the standards here proposed. Although obtaining facts about their transportation market is primarily a responsibility of the transportation industry,

the Government should take action to correct this lack of adequate information.

j. Cost finding. A critical element in rate freedom is the concept of prices based on costs. At present, too little is known about the relative costs of transporting traffic via the several modes and routes typically available to shippers. A comprehensive study should be made to explore the cost finding methods most likely to afford proper comparisons between the several forms of transport.

The effect of such a study cannot be overemphasized. Improved methods of cost analysis, when applied within a framework of agreed economic standards, will enable the transport industries to set prices and establish services more rationally. Regulatory agencies can then set maximum and minimum criteria rather than specific detailed rates, and the carriers will have the normal managerial initiative of other American enterprises. And the regulated carriers can be equipped to meet the competition of private and exempt transportation where their cost and service capacities permit.

k. Subsidies. Steady pressure should be exerted to reduce and eliminate subsidies. The situation in the international sphere makes this far more difficult to accomplish than in the domestic area. The most important single direct subsidy is to the merchant marine, and the second largest is to local service airlines. No single action will cure these. For ocean shipping, a combination of actions is recommended, of which the most important is a sustained research



and development program to reduce costs. For local service airlines, growth of normal traffic should combine with payment on the basis of service rather than carrier need, and joint air-motor service, to solve the problem over the years.

The economic problems of the non-contiguous states and territories arising from the high shipping costs in these protected trades have been called to our attention and it has been suggested that either foreign flag participation in these trades or subsidy should be provided. These issues turn, however, upon broader consideration than those of transportation policy herein discussed.

l. International. International problems of transportation must be treated quite separately from domestic. The primary yardstick for judging domestic enterprise, that of economics, is frequently of secondard importance in international affairs. Of great and often overriding importance internationally are strategic position, diplomatic prestige, and geopolitics. Normal commercial competitive forces are not within the nation's controllable closed system.

In this area, more reliance than usual must be placed on the common carrier system. In the face of strong foreign carrier competition, we cannot afford to spread our traffic thinly. Government traffic must move along with commercial traffic primarily by common carrier. Government military carrier operations must be reduced to the minimum.

m. Labor-management relations. Labor-management relations in transportation should be handled by a common concensus through collective bargaining. There are only three other alternatives: that

labor impose its will on management, that management impose its will on labor, or that Government impose its will on both. The first two are impossible in a democracy. The third should be used only most reluctantly.

The normal price for free labor-management bargaining is public inconvenience when strikes occur. In a few cases, a strike may cause a dire emergency or public disaster, as when the milk supply is cut off from infants, or the entire food supply cut off from a large population. In such cases, the Federal government has no recourse but to force continuation of essential transportation.

As a long-run program, labor and management should give expert and objective study to the entire interrelated problem of wage rates and working rules. The Government should also spell out definite criteria to distinguish economic inconvenience from a national emergency for Federal intervention.

n. Continuing research. The recommended actions in this report are limited to initial steps. Obviously, long-range objectives must continually be reexamined. Further actions must be researched and recommended as conditions change. This requires an effectively staffed research and recommending function within the Executive Branch, which does not now exist.

6. EFFECTS ON CARRIERS

a. Railroads. Railroads are the outstanding unsubsidized "sick man" of transportation. Their billion-dollar-a-year losses from long-haul passenger business and some freight traffic should



not be allowed to persist. They should in the long run probably take a larger proportion of the freight market they are economically suited for: long hauls, full carloads and trainloads, heavy-density mainline traffic. They should consolidate, rationalize, and drop duplicating facilities and obsolete plants.

Much of their problem is to be solved, however, primarily as they show initiative in developing policies which meet the test of the public interest. No substantial bar to consolidation exists under present law, an expeditious and flexible procedure for the abandonment of losing passenger services was opened up in the 1958 amendment and the trend of interpretation of existing law is favorable to equitable rate proposals which reflect a railroad cost advantage where it exists. Certain of our proposals should provide greater definiteness as respects this last, while the tightening of the suspension procedure should further reduce the use of this instrument as a mere delaying tactic. But so far as appears, much loss in the freight traffic is not the result of regulatory requirement but of a failure of the carriers to come forward with appropriate proposals for adjustment. Worse, they show a tendency to expand the area of unprofitable rates and actively to solicit business that can only be handled at a loss. The public is entitled to expect that rail carriers will face their problem upon a far broader and more energetic basis than hitherto. It is entitled to expect that they should be relieved of traffic which they cannot handle on as favorable terms as other carriers, as well as that they will actively put their best foot forward in those areas

where they have an economic advantage. It is entitled also to expect that they will work cooperatively with other forms of transport to develop joint hauls which utilize several forms of transport in their respective areas of advantage.

b. Trucks. Trucks should be relieved of restrictions which are no longer necessary and should enjoy a greater uniformity in the requirements imposed by the states. They should not be required to travel only on certain highways, haul only very specialized commodities, omit loads in intermediate places on their normal routes. The readjustment should be carried out as recommended; otherwise they could be pushed into a chaos of competition with every trucker coming in on top of every other.

As opposed to the railroads, they should concentrate on the shorter hauls, smaller consignments, lighter and more dispersed markets for which their flexibility suits them. No sharp dividing line can be discerned and the test of experience must be applied. But the development of both forms toward a concentration upon traffic in the handling of which they have a demonstrable advantage should mean gains in some types of business and the offset of losses in other types, as well as an increase in the total transportation market in which both will share.

They should be strengthened to fulfill the functions of a common carrier system. They should recognize that private and exempt carriers are handling traffic that they should haul and that, like the railroads, they should set in motion broad adjustments in the structure of their rates which more faithfully reflect their cost characteristics.



c. Buses. Motor transport of passengers should be allowed to expand as rail passenger services are discontinued. They and airlines should be informed of proposed rail passenger service discontinuation as far ahead as possible to allow rational planning for expanded bus and air service to the public. In the event that problems of service adjustment abandonment similar to those encountered by the railroads should develop, consideration should be given to extending to buses the provisions of the Transportation Act of 1958 with respect to rail passenger service.

d. Airlines. Airlines should continue to expand. Domestic regulation should be relaxed to allow greater airline freedom in setting rates, subject to maximum and minimum rate power of the CAB. Expansion of parallel route competition between domestic airlines should be temporarily halted, pending absorption of the huge new capacity in jets and turboprops, except for new through-plane jet service.

International airline trends should be carefully studied. Foreign competition has been growing rapidly. The Government should press consultations with foreign countries whose airlines appear to be violating agreed principles on capacity flow.

e. Merchant Marine. A merchant marine and shipbuilding industry are essential to national defense and peacetime commerce. To help these, the present essential trade route concepts and methods of subsidy payment are sound.

However, every effort should be made to reduce subsidy. The

best hope for achieving this difficult objective lies in a comprehensive long-range research and development program, as in other progressive industries, tied in with the ship replacement program.

To increase traffic on American flag ships, actions should be taken to counter discriminatory foreign practices and to encourage U.S. industry to use U.S. vessels more.

A reexamination of national defense needs is recommended, but its effects cannot be measured until it has been made.

f. Inland Waterways. These carriers, 90 percent of whose traffic is exempt from all regulation, will be affected by slowly increasing user charges, and by changes in long-haul heavy-volume railroad rates. These rates must be regulated so that the rails cannot wage discriminatory and cutthroat competition against water carriers, nor thwart the development of joint services where these are more efficient than services performed by a single mode of transportation.

RECOMMENDATIONS

NOTE: These recommendations are concisely stated, and fuller discussion of what they are intended to accomplish appears in Volume 2 of this Report.



Section 1.

FEDERAL ECONOMIC REGULATION—
CONTROL OF OPERATING RIGHTS

PROBLEM

What is the optimum program of controls of operating rights that will combine a maximum of desirable protection to the public with a maximum of managerial initiative for the carriers?

FEDERAL ROLE

The Federal Government should retain sufficient basic public utility controls to assure the public of adequate service at reasonable rates, and to allow the carriers stable conditions, adequate returns, and opportunity for improving their position by managerial efficiency. Deregulation should proceed gradually over an extended period of years.

RECOMMENDATIONS

Truck

1. Amend the Interstate Commerce Act to make operating costs, quality of service, and ability of efficient carriers to expand important factors in granting certificates and permits. (Legislation by Secretary of Commerce)

2. Eliminate certificate restrictions, on a time-phased

program to be set by the ICC. (Interstate Commerce Commission) This program should allow periods of time between successive steps in which the industry can adjust, and the steps may be taken singly or in combination. The restrictions include:

a. Route restrictions that require unnecessarily circuitous movement over specified highways, through gateway points, or through congested areas.

b. Restrictions that prevent common and contract carriers from servicing all points within their authorized territories, and points through which their vehicles pass between authorized territories.

c. Commodity restrictions, except for carriers of such specialized nature as to be unsuited to transporting general commodities. Even on these carriers, allow enough latitude for adequate and economical loads both outbound and inbound.

d. Restrictions on type of service to be provided, except as necessary to confine carriers to common or contract carriage.

3. Retain present restrictions on rail-truck mergers or acquisitions of control when significant restraint of competition would be involved, unless increased efficiency and public advantage can be demonstrated. In determining the advisability of railroad participation in motor carriage, the tests provided in No. 1 above should be applied. The Interstate Commerce Commission should consider whether special restrictions upon certificates to motor carriers affiliated with

railroads, which it has customarily imposed, should be continued in the light of such tests. (Interstate Commerce Commission)

Air

4. Continue long-run route policies which create competitive operations in the leading domestic trunkline transport markets. However, a moratorium should be called on additional parallel domestic route certifications where jet planes will be used, until the impact of jet service has been experienced and evaluated, except for new through-plane jet service. (Civil Aeronautics Board)

5. Eliminate or reduce duplication of routes between trunklines and local service carriers. (Civil Aeronautics Board)

6. Liberalize operating authorities of all airlines to allow greater freedom in routing of aircraft and adaptation to traffic needs. (Civil Aeronautics Board)

7. Legislation should be enacted so that the CAB could, in combination with relaxing rate and other detailed controls, grant certificates for limited types of service, but only if necessary to insure developing a defined mass air transportation market through no-frill, low-fare flights in high traffic-density markets. (Legislation by Secretary of Commerce)

8. Authorize local service airlines to serve cities via combined air-motor operations. (Civil Aeronautics Board)

9. Grant expedited treatment to carrier requests for authorization to provide service to points where rail passenger services are being suspended. (See Section 5.) (Civil Aeronautics Board)



10. Domestic airlines should no longer be eligible for subsidy after seven years of subsidy-free operation. (Legislation by Secretary of Commerce)

11. Subsidy to domestic local service lines should be based on service rendered, rather than carrier need as at present. (Legislation by Secretary of Commerce)

12. Prepare long-term analyses of past and probable future trends in international air transportation, to determine when a more restrictive policy should be adopted for foreign-flag airlines in competition with American-flag airlines. A possible long-run goal for American-flag airlines might be to carry approximately the same percentage of international air passengers in and out of the United States as is represented by the percentage of U. S. citizens to total travelers. (Secretary of Commerce)

13. Press capacity consultations with foreign air carriers whose operations seem to be in conflict with existing bilateral agreements. (Secretary of State)

Waterway

Same as Recommendation 1, so far as applicable.

Rail

See Sections 6 and 9

Bus

See Recommendations 63 and 65

Section 2.

FEDERAL ECONOMIC REGULATION--
CONTROL OF RATESPROBLEM

What is the optimum program of rate controls that will produce a maximum of free market competitive pricing but retain the protection required by the public?

FEDERAL ROLE

The Federal Government should reduce such restrictions on the pricing freedom of carriers as stifle economic efficiency. The benefits of competition could then be passed on to the public through reduced rates. The Government should retain sufficient controls to prevent destructive competition aimed at driving out competitors on a basis other than economic efficiency, and to prevent excessive charges where there is little or no competition. This program must be closely coordinated with the program on control of entry, and should also proceed gradually. Under the revised regulatory standards and in the light of the economic circumstances in the transport industry, in the long run, rates should come to be based primarily on cost.

RECOMMENDATIONSRail and Truck

14. Set a floor for competitive pricing by amending the National Transportation Policy to define "unfair and destructive

competitive practices" to include only rates below the long-run marginal costs of the carrier making the rates.* As a practical interim measure, we may use the ICC's definition of out-of-pocket costs, which may often err on the high side for railroads, and which include a return upon 100% of the mobile plant and 50% of the fixed plant. For a practical measure presently available they should be used, but should be improved as recommended in the section on cost finding. (Legislation by Secretary of Commerce) Also, bring present minimum rate orders into line with this standard. (Interstate Commerce Commission)

15. Retain present standards of reasonableness for maximum rates, but preclude the prescribing of maximum rates at less than the full cost of the service involved. Also, bring present maximum rate orders into line with this standard. (Interstate Commerce Commission)

16. Amend rate suspension provisions to require a substantial showing, not just statements, as grounds for suspension. The long-term program looks toward eventual elimination of the suspension process. The interim program would call for the ICC to require

*The competition of routes of a single mode with through routes or joint services by several modes (as rail-water), including the mode capable of through service on its own, creates particular problems. Where the single mode reduces rates competitive with a joint service which it has or is required to maintain, its factor of the rates for the joint service or the local rates which make a part of the combination for such joint service, should bear the same relationship to the cost of service as proposed for the competitive rates. In the alternative, where the Commission or a joint board has power, a relationship of the rates should be prescribed which reflects the relative costs by the two methods of transport.



the carrier proposing the rate to have a justification in the matter of costs, and for protesting parties to have a real and factual basis for protest on grounds of destructive competition, as redefined, or on grounds of unjust discrimination. (Legislation by Secretary of Commerce)

17. Provide that ICC establish minimum rates upon joint application of carriers competing in special "all or nothing" markets where competition may well be unstable. This group of exceptional cases usually includes those markets with either one shipper who will not divide his traffic, or a small number of shippers who react alike so that a price change may well get the carrier all of the market or none. They may include also those markets in which the cost structures of several forms of transport are so nearly alike as to be practically indistinguishable. (Interstate Commerce Commission)

18. Amend Section 4 on long and short-haul rates to require that reduced rates must be compensatory, defined for this purpose as not "destructive" as in Recommendation 14 above. (Legislation by Secretary of Commerce)

Air

19. Encourage the initiative of the airlines in setting rates by limiting CAB rate power to maximum and minimum. CAB should use this power only in exceptional cases, not routinely. Maximum rate power should be applied mainly to monopoly points, minimum rate power primarily to competitive points. (Legislation by Secretary of Commerce)

20. The Government should encourage international air carriers to reduce fares as rapidly as possible, consistent with costs. (Civil Aeronautics Board)

21. The CAB should not be given the additional power to fix international rates directly at present. Trends should be watched, of the costs of U.S. as compared to foreign flag carriers so that, well in advance of need to protect U.S. carriers by subsidies or minimum rates, the Government should decide when and if such rate power can be granted. (Secretary of Commerce)

22. Minimum rates for military traffic should not be below levels considered reasonable by the CAB. (Secretary of Defense)

Section 22 - All Transportation

23. Section 22 of the Interstate Commerce Act, dealing with bidding on Government traffic, should be studied by the ICC to reach conclusions on the relative levels of Section 22 and regular tariff rates, amount of traffic which moves under these rates, importance of rate concessions other than rates, and extent of voluntary quotations as opposed to those solicited by Government agencies. (Interstate Commerce Commission)

24. Section 22 quotations should be on standard forms, always filed with the ICC in advance and not sometimes retroactively, always written and not sometimes oral. (Interstate Commerce Commission)

Section 3.

COST-FINDING AND CENSUS OF TRANSPORTATION



PROBLEM

What are the best cost finding procedures to guide carrier pricing and Government regulation?

FEDERAL ROLE

The Federal government should encourage development of methods for comparing relative carrier efficiency. It should facilitate the collection of complete and consistent cost and statistical information about all modes of transportation. It should encourage the use of analytical techniques designed to provide more precise measures of the costs associated with specific traffic or services. This program must be fully coordinated with the program on control of rates.

RECOMMENDATIONS

All Transportation

25. Organize, staff and finance a special task force to explore the practical applications of modern mathematical and electronic techniques as a basis for improved cost-finding. The task force should have active participation at both policy and working levels by personnel of individual carriers, carrier trade associations, and regulatory agencies of all modes. (Secretary of Commerce)

26. Carriers should begin, assisted by their trade associations, to develop computer cost analysis programs for use in common by

principal sizes and types of carriers. (Carriers)

27. All regulatory agencies, and ICC in particular, should expand use of electronic data processing in cost analysis. (Interstate Commerce Commission, Civil Aeronautics Board, Federal Maritime Board)

28. Establish an ad hoc joint body to produce a greater degree of comparability in all Uniform Systems of Accounts, and to reorient reporting requirements towards cost ascertainment needs.

(Same)

29. Enact legislation authorizing and providing funds for a Census of Transportation as soon as possible. Among numerous other benefits this will provide an improved basis for forecasting probable traffic volumes, which improves cost estimation because of the relationship between unit costs and demand for transportation service.

(Legislation by Bureau of the Census)

Truck and Waterway

30. Require more factual information by motor and especially water carriers, for cost comparisons. (Interstate Commerce Commission)

31. Temporarily retain costing based on "Rail Form A." Provide the I.C.C. with staff and funds to study possible improvements.

(Director of Bureau of the Budget)

Air

32. Modify the present ATA formula to provide for adjustment for specific route conditions. (Air Transport Association)

Section 4.

FEDERAL INVESTMENT AND USER CHARGES

PROBLEM

Should the Federal Government establish, maintain, and operate any transportation rights-of-way and facilities and should it then charge for their use?

FEDERAL ROLE

The Federal Government should continue to establish and maintain the ground facilities it has historically provided--highways, airways, airports, waterways, and seaports--common user facilities more appropriately provided by Government than by private institutions.

The national transportation role will be carried out most effectively if public investment decisions are based on analytical procedures using objective criteria comparable to those which govern the economy at large.

The Federal Government should continue user charge systems where they exist, and should establish such systems where none now exists. The long-range goal should be a level of charges that would include allocated operating and maintenance costs, as well as new investment and interest charges. This should be achieved by means of gradually increasing rates to the users over a period of years.

RECOMMENDATIONSAll Transportation

33. The Government should establish a transport investment planning staff to use objective analytical methods in making unified,

long-range Federal investment plans to be published and included in the annual budget document. (Secretary of Commerce) This staff should:

- a. As an interim step, make the fullest possible use of methods and techniques of analysis now used by the Bureau of Public Roads, Corps of Engineers, and Federal Aviation Agency.
- b. Analyze and evaluate the project and program evaluation methods currently used by these agencies, and examine all other Government and industry methods of investment analysis and planning, so analytical methods will be subjected to continuous study and periodic revision. Emphasis should be on consistent economic comparison between highway, waterway, air transport, and rail transport facilities.
- c. Develop and use techniques for measuring and forecasting total transportation needs in the economy in the aggregate and by mode of transportation.
- d. Estimate long-range transport investment based on transport needs and an inventory of existing transport facilities, by types of transport and by public or private investment.
- e. Prepare long-range Federal investment programs, published as 6-year advance planning schedules similar to those now required of Federal agencies engaged in direct construction activities, and incorporate in budget requests.
- f. Establish user charge systems to carry out the Federal Role stated above.

34. Appoint advisory groups of users to make recommendations on the engineering and economic feasibility of Federal investment programs. (Bureau of Public Roads, Federal Aviation Agency, Army Engineers.)

35. Continue studies currently under way in Bureau of Public Roads and modify or adapt as necessary for comparability with all other modes. (Bureau of Public Roads)

Airways

36. Enact legislation to establish a system of airway user charges, recognizing present gas taxes as a beginning, plus similar taxes on kerosene-base jet fuel, with step-by-step increases in aviation fuel charges for a specific number of years. Begin a comprehensive study of airway costs. (Legislation and study by Secretary of Commerce)

Airports

37. Measure the present and estimated future percentages of interstate and military operations at each airport. (Administrator of Federal Aviation Agency) Enact legislation to authorize Federal grants toward airport construction costs based on these percentages, and enact legislation to establish Federal landing charges at airports receiving new Federal grants-in-aid, including step-by-step increases in charges for a specific number of years. (Legislation by Secretary of Commerce) Begin a comprehensive study of airport construction and improvement costs, financing, operating costs, sources of airport revenues, ability of airport users to pay Federal and local landing charges, and alternative methods of charging. (Administrator of Federal Aviation Agency)



Waterways

38. Enact legislation to establish a system of waterway user charges, specifying an initial low level of fuel taxes and step-by-step increases for a specific number of years. (Legislation by Secretary of Commerce)

Section 5.

DEFENSE READINESS, GOVERNMENT PROCUREMENT AND OPERATION

PROBLEMS

How can the U. S. maintain adequate transport readiness for possible wars--limited "brush fire" or all-out nuclear--at reasonable economic cost for the indefinite future?

How should the Government procure transportation to meet peacetime needs and be ready for wartime requirements?

How much transportation should the Government operate itself?

FEDERAL ROLE

National survival requires guaranteed effective transportation for possible war fronts and the home front. National economy requires that transportation resources be sustained at minimum cost.

The best solution occurs when the normal peacetime economy develops a transportation system adequate for wartime. For domestic surface transport, other recommendations in this report will make this substantially true. For air transport, the recommendations below should help provide this readiness. For ocean transport, see Section 7.

The Government should formulate and continuously up-date its estimated requirements for direct military and essential civil transportation in wartime.

The Government should route its own traffic by the mode of transportation that gains it the greatest overall economic advantage of minimizing total distribution cost. It should route the great bulk of its traffic by common carriers at reasonable cost-related rates. Military and other Government procurement of transportation should conform to general national transportation policy as fully as private shippers.

The primary principle of economic self-interest should be modified only for clearly justified reasons of national defense or national interest. Government agencies should not operate transport systems in competition with commercial carriers if there is any other feasible way to meet minimum military requirements.

RECOMMENDATIONS

All Transportation

39. The military authorities should review their emergency requirements for cargo and passengers for each mode of transportation. They should state these requirements to the civil authorities, together with the assumptions and probabilities as to the various types of emergency assumed for each statement of requirements. Ocean and international air needs should be considered at the same time, together with probable peacetime trends in their relative traffic, and the value of superliners as compared to other ocean vessels and aircraft. (Secretary of Defense, Director of Office of Civil and Defense Mobilization, Secretary of Commerce)

40. Similarly, the civil authorities should make their statements of requirements for the corresponding types of emergencies. (Director of Office of Civil and Defense Mobilization, Secretary of Commerce)

41. All military and civil Government agencies should increasingly and systematically analyze their transportation policies to make optimum use of any mode of transportation whenever it can reduce the total system cost to the Government. (Secretary of Defense,

Administrator of General Services)

Rail

42. The Government should assure an adequate stockpile of rail passenger equipment for military emergency requirements if definite requirements are proved. (Secretary of Defense)

Air

43. The civil authorities should formally state to the military the maximum civil air transport that will be available for direct military support in emergencies, since the recent change from estimated shortage to estimated surplus. The military authorities should then direct their planning staffs to make maximum use of this civil airlift, consistent with overall emergency military effectiveness. The military authorities, in addition to estimating "capability" requirements for shorter-range plans, should also estimate "objective" requirements for longer-range plans and issue these to the civil authorities as a guide to the national defense aspects in setting long-range policies for civil air transportation. (Secretary of Commerce, Secretary of Defense)

44. The Civil Reserve Air Fleet should be increased to the maximum to meet revised war plans. (Secretary of Commerce)

45. Military and civil Federal agencies should route a maximum of their air traffic by civil airlift in peacetime, particularly to points on regular airline routes. Recommendation 46 below. (Secretary of Defense, Administrator of General Services)

46. A task group of air transport and training experts should survey MATS peacetime operations realistically, to evaluate adequacy of training produced by using a maximum of simulators and other training aids in combination with a minimum of airline-type MATS operations. (Secretary of Labor)

47. Air cargo development for defense as well as for commercial requirements can best be promoted by Recommendations 32, 33, 34, 39, 41, and 42. In addition, the Government should:

a. With the cooperation of industry, make its best estimate of the probable commercial markets for cargo aircraft, (Secretary of Commerce)

b. Make firm plans for military procurement of "hard core" cargo aircraft, (Secretary of Defense)

c. Continue its efforts to develop legislation for initial Government assistance such as is being considered in current guaranteed loan proposals, after making sure that all other available resources will not produce the desired result within the reasonably foreseeable future and after reviewing its consistency with policies recommended elsewhere herein. (Administrator of Federal Aviation Agency)

48. Arrangements for Government traffic should specify volume and type of traffic from origin to destination within stated time limits and should allow Government and commercial traffic to be combined. (Secretary of Defense, Administrator of General Services)

Section 6.

URBAN TRANSPORTATION



PROBLEM

How can the Federal Government assist in the essentially local problem of urban transportation congestion?

FEDERAL ROLE

The Government should encourage local authorities to do more long-range land-use planning, in which transportation has a critical part.

RECOMMENDATIONS

49. Encourage urban long-range community planning, including total transportation planning to make full use of highway, transit, rail commutation, and all other capacity to minimize total transportation cost and congestion. (Legislation by Secretary of Commerce)

50. With local communities, investigate basic approaches to such plans and their financing. Methods might include amendment of existing highway legislation to allow charges on city highway gateways to help divert auto commuter travel to mass transport means, higher community parking fees to help similarly, diversion of such funds to pay for other transport facilities, etc. (Secretary of Commerce)

Section 7.

SPECIAL MERCHANT MARINE PROBLEMS

PROBLEM

How can the United States have a merchant marine adequate to handle wartime requirements, and peacetime commercial and strategic needs, at reasonable cost to the Government?

FEDERAL ROLE

A merchant marine and shipbuilding industry are essential to national defense and peacetime commerce. However, their long-term minimum size cannot be known until there is (1) a review of defense needs under clearly stated assumptions as to types and probabilities of wars; (2) a realistic estimate of the size which is necessary to the foreign commerce of the United States and can be economically sustained; (3) a calculation of long-range costs and benefits of operating and construction subsidies; and (4) a determination of the proportion of the national budget which is reasonable for this program.

The "parity" principle of equalizing competitive operating and shipbuilding costs is sound and the Government should continue to support the merchant marine through subsidy to the degree necessary to maintain parity. The amount of subsidy in the future depends largely upon determinations as to the size required.

In the long run, cost differentials should narrow and the merchant marine should more nearly approach self-sufficiency. This

should be stimulated primarily through a research and development program led by the Government with full participation by seagoing, shipyard and longshore labor, ship operators, and ship builders. The objective of the research and development program should be to make the U.S. merchant marine and shipbuilding industry more nearly competitive by mechanization for long-term increase in labor productivity. Such a program should be paralleled by measures for labor so that individuals do not suffer personal hardship from the technological advances.

RECOMMENDATIONS

51. A major technical research and development program should be instituted to: (Maritime Administrator)

- a. Incorporate techniques for low-cost materials handling equipment to be installed on ships so that the advantages would accrue to American ships in both U.S. and foreign ports.
- b. Develop techniques for mechanization of shipboard functions to reduce operating crew costs.
- c. Perfect long-range techniques and equipment to keep similar technical progress and improved shipbuilding methods going so that the U.S. can keep in the forefront of maritime efficiency and economic competition at minimum cost in Federal subsidy.

d. The Maritime Cargo Transportation Conference, now engaged in intensive research on longshore activities, should be encouraged to extend their field of operations to the subject of this recommendation.

52. The Government should institute parallel plans for labor in the mechanization programs. It is essential that seagoing, shipyard and longshore labor participate fully. The basic aim should be to reduce the unit costs of building and operating American shipping to help it retain its position. A prerequisite appears to be planning the timing of technical changes so that, through normal attrition, retraining, and special benefits if necessary, workers do not suffer individually while the overall long-term benefits are being achieved. Labor and management should together examine the feasibility of such a program. (Maritime Administrator)

53. Existing law should be used more effectively to counter discriminatory practices controlling the routing of commercial cargo and passengers. Government policy should be based on the concept of reciprocity, with U.S. measures matching foreign measures both favorable and unfavorable. This policy should be applied in steps over a period of a few years, to give the foreign countries time to reconsider their policies and make them nondiscriminatory against U.S. shipping. (Maritime Administrator)

54. The Department of Agriculture should ship the great bulk of surplus U.S. commodities via U.S. flag ships, through use of

a general carrier on a normal basis at commercial rates. (Secretary of Agriculture)

55. Industrial companies should use more American flag vessels in carrying their own materials and products. The Government should examine closely practical means to accomplish this, such as stepping up its long-range information program for exporters and importers. (Secretary of Commerce)

56. Government representatives should keep in continual touch with industrial shippers, so that their needs can be met more closely by the merchant marine and Government. (Secretary of Commerce)

57. The replacement program should be kept, but the criterion of twenty-year life should be modified and extended to allow for competitive position, physical condition, and other realistic considerations. (Maritime Administrator)

58. The advisability of superliners should be studied. The military should re-examine the advantages and disadvantages in shipping troops by superliner in wartime and of alternatives. (Secretary of Commerce, Secretary of Defense)

59. The United States should examine the necessity for placing wartime reliance on vessels under the Panamanian, Liberian, and Honduran flags. (Secretary of Defense, Secretary of State) It should keep close watch on transfers to other flags which would lose us assurance of control. (Maritime Administrator)

60. The essential trade route concept is sound. However,

determination of the volume and character of service required in the national interest over each designated route appears to require more searching review. Such review should insure that the essential trade route concept is administered so as to protect American flag trade interests, contribute to their development and meet foreign flag competition. (Maritime Administrator)

61. The importance of the merchant marine as a favorable factor in the international balance of payments should be evaluated in the light of long-range national considerations. (Secretary of Treasury, Secretary of Commerce)

Section 8.

SPECIAL MOTOR CARRIER PROBLEMS

RECOMMENDATION

62. Uniformity of state regulation with respect to sizes, weights, safety appliances, and related matters of highway vehicles operating in interstate commerce, is of interest to the Federal Government in view of its effect upon the manner in which interstate highway transportation may be conducted. Accordingly, the states should be urged to move rapidly toward uniform legislation in these matters (Secretary of Commerce). If this is not accomplished within a reasonable time, it would be an appropriate subject for Federal legislation.

Section 9.

SPECIAL RAILROAD PROBLEMS--
PASSENGER DEFICITS, CONSOLIDATIONS

PROBLEM

What should the Federal Government do about the large railroad passenger service deficits? Consolidations to strengthen railroad economic positions?

FEDERAL ROLE

The Government should help railroads by allowing them maximum practicable managerial discretion in trying to solve their own problems. It should help assure alternative transportation when un-economic rail passenger services are suspended. It should help urban planning in which rail commuter services are involved (see Section 6). It should give clear encouragement to railroad efforts to improve their long-run economic situations by consolidations.

RECOMMENDATIONS

Passenger service deficits.

63. Railroads and buses should have considerable freedom in adjusting passenger fares to try to retain passenger traffic and otherwise minimize deficits. (Interstate Commerce Commission)

64. The railroads should continue to drop unprofitable rail passenger services under the accelerated procedure permitted by the Transportation Act of 1952. (Railroads)

65. The Government should exercise leadership by bringing together all carriers such as railroads, bus companies, and airlines, and interested Government agencies such as ICC, CAB, and Post Office Department, to plan expanded routes and schedules of non-rail transportation to help accommodate rail passengers, mail and express when uneconomic railroad passenger services are suspended. (Secretary of Commerce)



Urban transportation planning should in the long run help the railroad commuter deficit problem. (See Section 6.)

Railroad consolidations.

66. Legislation should be enacted to establish official policy that railroad consolidations in general are in the public interest and should be encouraged with a minimum of restrictions. (Legislation by Secretary of Commerce)

67. Railroad consolidation proceedings should be expedited. (Interstate Commerce Commission)

68. Legislative provision should establish minimum assents required of each class of security holder to apply in connection with consolidations for mergers, provisions of state law to the contrary notwithstanding. (Legislation by Secretary of Commerce)

Section 10.

TAXATION

PROBLEM

Inequality in the tax treatment accorded different forms of transportation competing in common markets can result in a stimulus to some, and a handicap to others which is artificial and which may prevent their relative economic worth from being realized by the nation.

FEDERAL ROLE

So far as inequity is the result of Federal tax policy, such policy should be altered to remove it. Where it is the result of tax policies at other levels of government, the Federal Government may reasonably undertake thorough study of the effects upon transportation policy and development and encourage review and revision.

RECOMMENDATIONS

69. A clear distinction should be drawn at all levels of government between user charges designed to secure cooperation for specific services rendered, and taxation for general governmental purposes. Thus the user charges elsewhere recommended herein should be distinguished from taxes for general revenue purposes.

70. The remaining Federal excise on commercial passenger transportation should be repealed. (Legislation by Secretary of Treasury)

71. It has not been possible in the present study to review in detail the relative impact of the Railroad Retirement

and Social Security Systems upon the several forms of transport. Information supplied by HEW suggests that the disparity upon railroads as compared with other industry is not as great as is commonly supposed because of more liberal supplemental plans in other industry. Information is lacking, however, to permit proper comparison between the railroads and their direct competitors in the transportation business subject to the Social Security System or to explain why the Government-administered system should place larger burdens in the railroad case. Further extension of Railroad Retirement benefits should be deferred until comprehensive study can be made of the relative competitive impacts. (Secretary of Commerce, Secretary of Health, Education & Welfare)

72. A principal alleged inequity of the tax system as it relates to railroads arises out of state and local taxation, in large part property taxation. No investigation of this matter proved possible in the present study, nor has a comprehensive review been made since the Board of Investigation and Research under the Transportation Act of 1940. Such a comprehensive study is required. (Secretary of Commerce, Secretary of Treasury)

73. In contrast with other forms of transportation equipment, prescribed depreciation rates for railway equipment fail adequately to reflect the obsolescence of motive power and rolling stock. Such rates require review and adjustment in detail to insure parallel principles for tax purposes with other forms of transport. (Interstate Commerce Commission)

74. As tax relief may become an element in state and local plans for the assumption of commuter or local passenger service deficits in whole or part, the certified amounts of such relief should be deducted from net income subject to Federal income tax of the several carriers so affected in order to remove one major barrier to the objects sought by such relief.

(Legislation by Secretary of Commerce)

75. Since railroad freightcar shortages are the only significant shortages in transportation capacity experienced since the war and since capital availability in the railroad industry is likely to be limited in the near term, a construction reserve should be provided applicable to freight carrying moving equipment of all forms of transportation which, however, will be of principal immediate significance as a means toward improving the freight car position. Legislation of the general form of S. 3778 and H. R. 12488, 85th Congress, 2nd session, is recommended. (Legislation by Secretary of Commerce)

Section 11.

LABOR-MANAGEMENT RELATIONS

RECOMMENDATIONS

76. For the long-range, and after present railroad-labor negotiations have been settled, make a study of the wage rate structure and work rules problems of the railroads. The railroads and railroad unions should be encouraged to set up system-wide committees of management and union experts whose qualifications are complete and detailed knowledge of system problems, and a chairman who is a skilled neutral mediator. All system committees should report to an overall national committee whose chairman should be chosen by the National Mediation Board. (National Mediation Board)

77. The results of the most recent collective bargaining suggest the desirability of a similar approach to the question of readjustment in the Atlantic and Gulf longshore trades. (National Mediation Board)

See also Recommendation #52 in Section 7 on the Merchant Marine.

Section 12.

SAFETY REGULATION

NOTE: It was not possible to devote sufficient time and effort to the economic effects of safety regulation. However, as a result of preliminary analysis, the following recommendations appear to be a logical start:

RECOMMENDATIONS

78. Each agency with safety regulatory functions should begin codifying all its safety regulations and related materials in a single publication covering such subjects as personnel, equipment, operating rules, etc. (Bureau of Public Roads, Maritime Administration, Federal Aviation Agency, Coast Guard, etc.)

79. At the same time all such agencies should work together in formal coordination to try to produce uniformity of policy if possible. They should pay particular attention to ways of relieving transportation of over-detailed safety regulation. (Same agencies)

Section 13.

TRANSPORT INTEGRATION

RECOMMENDATIONS

80. The regulatory agencies should establish joint boards with jurisdiction over through routes and joint rates, including divisions thereof among transportation modes presently under separate regulatory agencies. These are the Interstate Commerce Commission, Maritime Commission, and Civil Aeronautics Board. (ICC and CAB under existing legislation. Maritime Administrator to prepare legislation for Maritime Commission and other two.)

81. These joint boards should be given power to make such routes and rates mandatory only in clear cases where efficiency of the transport system as a whole can be improved, and where carriers unreasonably refuse to participate. (Legislation by Secretary of Commerce)

Section 14.

CONTINUING RESEARCH AND ACTION

RECOMMENDATIONS

82. An effectively staffed research and recommending office should be established in the Executive Branch of the Federal Government. This office should carry on the research and action items of this Report, and with further steps, additional problems, and studies. (Director of Bureau of the Budget)

83. Sufficient funds should be provided to perform the actions recommended here. The Budget Bureau should, with the action agencies, request the proper amounts. Some of the further studies are fairly large and expensive, such as censuses of transportation, cost finding, Federal investment analysis, etc. (Director of Bureau of the Budget)

Reports prepared for the Transportation Study of the
U. S. Department of Commerce

- Banks, R. L., and Associates, Study of Cost Structures and Cost Finding Procedures in the Regulated Transportation Industries. Findings and Conclusions, Washington, multilithed, October 1959, 19 pp. Detailed report, Washington, typewritten, working draft, November 1959, 265 pp.
- Bluestone, David W., Air Transportation—Some Nonregulatory Problems. Washington: U. S. Department of Commerce, multilithed, October 30, 1959. 53 pp.
- Bres, Allen V., Department of Defense Requirements and Capability of Marine Lift. Washington: U. S. Department of Commerce, multilithed, November 1959. 62 pp.
- Clayton, John E., Highway Investment Theories and Practices. Washington: U. S. Department of Commerce, multilithed. 27 pp.
- Clayton, John E., The Process of Highway Policy Making and Administration. Washington: U. S. Department of Commerce, multilithed. 49 pp.
- Cover, Virgil, and Cutler, Herschel, Government Procurement of and Provision of Transport Services. Washington: U. S. Department of Commerce, multilithed, September 29, 1959. 108 pp.
- DeVeau, J. Harold, and Associates, Reappraisal of Federal Maritime Policy. Washington: U. S. Department of Commerce, multilithed, November 17, 1959. 567 pp.
- Goldfogle, Milton, A Report of Interviews with Maritime Industry, Users and Related Activities. Washington: U. S. Department of Commerce, multilithed, December 16, 1959. 233 pp.
- Nelson, James C., Controls of Entry into Domestic Surface Transportation Under the Interstate Commerce Act. Washington: U. S. Department of Commerce, multilithed. 414 pp.
- Roberts, M. J., Evaluation of Rate Regulation. Washington: U. S. Department of Commerce, multilithed. 133 pp.
- Saunders, W. B., and Company, The Federal Interest in Railroad Passenger Service. Washington, Xeroxed, November 15, 1959. 91 pp.
- Spaulding, M. B., Jr., A Comparative Analysis of Non-Economic Federal Transportation Regulations. Washington, multilithed, November 6, 1959. 129 pp.
- United Research, Incorporated, Federal Regulation of the Domestic Air Transport Industry. Cambridge, Massachusetts, multilithed, November 30, 1959. 230 pp.

PRELIMINARY DRAFT

Federal Transportation Policy and Program

ACTION AGENTS FOR RECOMMENDATIONS

- 36 Secretary of Commerce:
19 Administrative: 12, 21, 25, 33, 36*, 39**, 40*, 43*,
44, 47a, 50, 55, 56, 58*, 61*, 62,
65, 71*, 72*
17 Legislative: 1, 7, 10, 11, 14*, 16, 18, 19, 36*, 37*,
38, 49, 66, 68, 74, 75, 81
- 14 Other Commerce Agencies:
9 Maritime Administrator: 51, 52, 53, 57, 59**, 60, 78**,
79**, 80** Leg.
4 Federal Highway Administrator: 34**, 35, 78*, 79**
1 Director of the Census: 29 Leg.
- 10 Secretary of Defense: 22, 39**, 41*, 42, 43*, 45*, 47b, 48*,
58*, 59**
1 Chief of Engineers, Department of the Army: 34**
- 3 Secretary of the Treasury: 61*, 70 Leg., 72*
2 Secretary of State: 13, 59**
1 Secretary of Agriculture: 54
1 Secretary of Labor: 46
1 Secretary of Health, Education, and Welfare: 71*
- 5 Administrator, Federal Aviation Agency: 34**, 37*, 47c, 78**, 79**
3 Director, Bureau of the Budget: 31, 82, 83
3 Administrator of General Services: 41*, 45*, 48*
2 Director, Office of Civil and Defense Mobilization: 39**, 40*
- 14 Interstate Commerce Commission: 2, 3, 14*, 15, 17, 23, 24, 27**,
28**, 30, 63, 67, 73, 80**
9 Civil Aeronautics Board: 4, 5, 6, 8, 9, 20, 27**, 28**, 80**
2 Federal Maritime Board: 27**, 28**
2 National Mediation Board: 76, 77
- 3 Industry groups: 26, 32, 64
1 No action agent: 69



* with one other agent.

** with two other agents.

Leg. Legislative recommendation; all others are administrative.

PRELIMINARY DRAFT

ADMINISTRATIVE RECOMMENDATIONS
WITH SECRETARY OF COMMERCE AS ACTION AGENT

1. Federal investment and user charges.
 33. Establish a transport investment planning staff.
 36. Airway user charge study.
2. Cost-finding.
 25. Organize cost-finding special task force.
3. Urban transportation.
 50. Investigate basic approaches to local community transportation planning.
4. Defense readiness.
 39. In helping DOD review wartime requirements, provide peacetime trends of traffic.
 40. State civil requirements for military conditions.
 43. State to military authorities the maximum civil air transport available for direct military support.
 44. Increase CRAF to meet revised war plans.
 58. Study advisability of superliners.
5. Special railroad problems.
 65. When uneconomic railroad passenger services are to be eliminated, bring together all carriers and interested Government agencies.
6. International air transportation.
 12. Prepare long-term analysis of international air transportation.
 21. Decide when and if CAB should be granted rate power over international air transportation.
7. Safety regulation.
 62. Urge uniform state legislation on highway safety.
8. Miscellaneous.
 - 47a. Estimate probable commercial markets for cargo aircraft.
 55. Examine how to get industrial companies to use more American flag shipping.
 56. Keep in continual touch with industrial shippers.
 61. Evaluate importance of merchant marine in international balance of payments.
 71. Study competitive impact of Railroad Retirement benefits.
 72. Study taxation effects on transportation.

PRELIMINARY DRAFT

LEGISLATION RECOMMENDED TO BE PREPARED BY
SECRETARY OF COMMERCE

1. User charges.
 36. Airway user charges.
 37. Airport user charges.
 38. Waterway user charges.
2. Urban transportation.
 49. Encourage urban long-range community planning.
3. Taxation.
 74. Local and state tax relief in passenger services should be deducted from net income subject to Federal income tax.
4. Surface transportation.
 1. Amend Interstate Commerce Act to make operating costs, etc., factors in granting certificates and permits.
 14. Define unfair and destructive competition as those below long-run marginal costs of carriers.
 16. Tighten up grounds for rate suspensions.
 18. Amend Section 4 for same definition of destructive competition as in 14.
 66. State that rail consolidations in general are in the public interest.
 68. For rail consolidations, set minimum assents required of security holders.
 75. For freight car shortage, set up a construction reserve.
5. Air transportation.
 7. Grant certificates for certain types of limited route certificates.
 10. Remove domestic airlines from subsidy eligibility after 7 years of subsidy-free operation.
 11. Base subsidy to local service lines on services rendered.
 19. Limit CAB rate power to maximum and minimum.
6. Joint boards.
 81. Give mandatory rate power only in a few clear cases.



Cabinet Meeting, January 22, 1960 - page 5

The President requested Chairman Morton to advise him and the Cabinet, after consulting his experts, as to the three or four things that could be most usefully included in every address. There was a brief discussion of effective remarks and techniques, such as the pine boards the President used to illustrate inflation in the 1952 campaign.



Transportation Policy - Sec. Mueller informed the President that the Ad Hoc Committee had fulfilled the assignment of making an exhaustive study during the past year of transportation problems, and that a near final draft was being circulated to the interested Departments today. He asked that Cabinet members give this their personal attention. He said that he would welcome any suggestions for improvement, though of course, the matters studied were so broad that not all Departments could be expected to concur in every detail. Gen. Persons believed it desirable to hold this at the top level of the Departments so as to protect against any leaks to the press at this time.

Juvenile Delinquency - Sec. Flemming recalled that in 1955, 1956, and 1957, the President had requested Congressional action in this field, and that in the spring of 1959 the Administration had cleared a bill which would have provided funds for a first effort on researching the scope of the problem. Sec. Flemming said that apparently Sen. Dirksen opposes the bill and questions the Administration's position with respect to it.

The President said he understood how Sen. Dirksen and Rep. Halleck might oppose this as just another new program that could burgeon into something tremendous; he felt, however, that this problem was one of terrific importance to the Nation, and that it would be entirely appropriate to have the sort of effort anticipated by the bill. Sec. Flemming thought that if the Senate would hold in its action to the type of bill cleared by the Administration, then the House would approve something very similar.

Sec. Benson asked if necessary efforts might be carried on without seeking legislation. Sec. Flemming answered that it was a matter of tactics on the Hill, and that the Administration could not properly refuse to support now what it had recommended in past years.

The President repeated his feeling that it would be appropriate for the Federal government to be active in delineating and advertising the problem so as to encourage action by those responsible within the States and localities.

LAM
L. A. Minnich, Jr.

Copy to:
✓ Mrs. Whitman (2)
Mr. Gray
Mr. Minnich

ISSUES RAISED BY COMMERCE TRANSPORTATION REPORT

"Transportation Policy and Program"
(Preliminary draft, dated January 21, 1960)



1. General

Many controversial issues require detailed evaluation. Most agencies expressed concern over short time for review, indicated serious tentative objections, recommended postponement of release and substantial revision of report.

2. Taxation

- A. Repeal of passenger transportation tax. Contrary to the recommendation in the President's 1961 Budget Message.
- B. Higher depreciation allowances for railroads. Overlook President's recommended changes in the internal revenue laws to discourage more rapid depreciation. Rates are not rigidly controlled now; excessive claims are already a serious problem.
- C. Deduction of State and local tax remissions from railroad income for Federal tax purposes. Upsets normal tax relationships; creates a dangerous precedent for tax exemptions to others and for other forms of tax exemption.
- D. Construction reserve fund for railroad equipment. Involves large indirect subsidy.

3. Budget

Proposals could have substantial budget impact. Higher expenditures and lower revenues could cost \$1 billion annually.

4. Labor-management relationships

Outside the intended scope of the report as understood by labor.

5. Joint regulatory boards

Would establish additional independent regulatory agencies with uncertain relationships to existing regulatory agencies. This would not eliminate differences among regulatory statutes or among administrative policies and practices of existing boards.



6. Antitrust

Recommendations are inconsistent with basic antitrust policy. Proposals would weaken antitrust controls by reducing regulation while retaining antitrust immunities in existing statutes.

7. Rate regulation

Cost-based rates would ignore other standards thought important, such as needs of different shippers, requirements of service in various areas and value of service.

8. Determination of military and civilian needs for transportation

Many new studies are recommended some of which duplicate studies already completed. Results of other studies under way are anticipated: In case of MMTS, use of "hard core" capability in peacetime is now before NSC for decision; need to stockpile railroad passenger cars and question of surplus passenger airlift are under study by OCEM.

9. Airport grants

Proposed indefinite extension of Federal aid is contrary to President's previous recommendations. Reimbursement through user charges would be limited to new investment. Proposed radical change in aid formula might double Federal contributions.

10. User charges

"Step-by-step" increases in fuel taxes would not be consistent with immediate enactment of $4\frac{1}{2}$ cent tax on presently tax free jet fuels recommended by the President. No support is given a wide variety of other user charges that could be immediately imposed.

11. Control of foreign air carriers' rates and practices

Recommendation against extension of CAB control is contrary to State and CAB positions and to legislation which has been given "no objection" clearance by the Bureau of the Budget.

12. Subsidies

Specific subsidy recommendations would increase the subsidy bill, e.g., route expansion for local service airlines, subsidies for shipping to non-contiguous territories; shipping more U. S. goods in U. S. flag ships. The President has repeatedly indicated desire to reduce both air and maritime subsidies.

13. Foreign policy

Recommendations on user charges, quotas for U. S. flag international air carriers, proportion of U. S. goods to be carried in U. S. flag ships would have adverse impact on friendly powers, could provoke retaliatory measures.

Administrator, Housing and Home Finance Agency

Total urban transportation planning should be encouraged, but it would be a mistake to initiate any new program because it would "duplicate our present operating program [planning grants under Sec. 701 of the Housing Act of 1949, as amended] . . . and . . . give undue weight to highway development."

The report fails "to define the appropriate role of rapid transit facilities in urban development." . . . "Possible subsidies for all transportation facilities - not just for highways - should be studied for comparative efficiency and economy to the Federal Government."

Director, Office of Civil and Defense Mobilization

"More extensive review of the report and supporting documents would be necessary" to comment on each of the recommendations. An opportunity to make further comment is desired.

OCDM already has military and civil transportation requirements under analysis, doubts the need for stockpiling rail passenger equipment will be substantiated by this analysis, and questions whether there is a surplus of air passenger transportation.

Administrator, General Services Administration

". . . in view of the broad implications of the proposed report, as well as certain controversial recommendations . . . the report should be reexamined carefully from the industry impact standpoint prior to formal issuance. . . ."

Secretary of State

". . . before the report is released as an official document it should be subjected to a thorough interdepartmental review."

Additional information on the impact and administration of aviation user charges is desired; the suggested quota system for international air carriers is a radical departure requiring careful study in view of possible retaliatory measures; consultations with foreign air carriers on capacity violations is opposed as a general policy; the proposal to increase American tonnage carried by U. S. flag vessels is likely to result in "serious protests from friendly countries whose economies depend largely on earnings from their merchant marines."

Secretary of the Treasury

Opposes two of the major recommendations on taxation: (a) Deduction from (railroad) net income for purposes of Federal taxation the amount of any State and local taxes from which they may be excused, and (b) tax postponement by placing income in a special construction reserve account - would result in "a revenue loss of about one-half billion dollars" in the first year, less thereafter.

Wishes to submit alternate language for two other recommendations: (a) Repeal of the tax on passenger transportation, (b) accelerated depreciation on certain transportation equipment.



General Bragdon

Agrees with the general objectives and principles set forth in the report and believes recommendations, if clarified and properly implemented, would advance an over-all, national transportation policy. Major reservation concerns the method of implementing recommendations.

Endorses establishment of six-year programs of public works planning and approves the attention given urban transportation problems. Approves establishment of a small policy forming and coordinating group at the Executive Office level.

Secretary of Health, Education and Welfare

Describes the report as an "excellent check list from which to develop a positive action program" for transportation.

Notes that regulation is needed not only to curb monopoly, but also to assure adequate transportation services for the public and for defense needs. States that the proposal to establish a research and recommending office in the Executive branch is consistent with PACGO objectives.

Secretary of Labor

"The study as a whole needs further consideration before Government-wide action is taken on it or before it is presented to the public."

Understood the report would not contain material on labor-management relations, finds this material unsatisfactory both in form and content, and urges that all such references be deleted. Letter of transmittal to the President should state specifically that the document does not deal with labor-management questions.

Administrator, Federal Aviation Agency

Objects to approval of the report in its present form because "many vital issues of real interest to the FAA" require more careful consideration.

Finds that the report does not adequately explain Federal role in air safety problems or recognize importance of the problem of coordinating military and civilian air navigation and traffic control. Questions recommendations assigning certain responsibilities to the Secretary of Commerce.

CHANGES IN JANUARY 21 DRAFT

February 8, 1960

<u>Page No.</u>	<u>Recommendation No.</u>	<u>Agency Reference</u>
2	---	---
11	---	Justice
14	---	Treasury
19-20	---	Labor
26	3	Justice
28	12	State
---	13	State
29	---	Justice
37	36	State
40	39	OCDM
---	40	OCDM
41	43	OCDM
43	49	HEFA
---	50	HEFA
45	---	State
46	53	State
51	66	Justice
52	70	Treasury
53	72	Treasury
---	73	Treasury
54	74	Treasury
---	75	Treasury



7

THE WHITE HOUSE
WASHINGTON



February 17, 1960

MEMORANDUM FOR GENERAL PERSONS

SUBJECT: Handling of Secretary Mueller's
Transportation Report

Via Mr. Merriam

Pursuant to your request Mr. Merriam and the staff of the Bureau of the Budget, with myself as an observer, have been going carefully over Secretary Mueller's draft Transportation Report.

Based on initial agency comments, and on its own judgment, the Bureau has suggested certain amendments in the Report--most of which have been accepted by Secretary Mueller--and a clean draft has been prepared in Commerce.

Now, as I see it, there are two alternatives for handling the Report:

- (1) Request Secretary Mueller to send the new draft again to the agencies for their detailed study and further comment. Following this long process, the Report could be simultaneously transmitted to the President by Secretary Mueller, and released as an Administration-endorsed document.
- (2) Suggest that Secretary Mueller sign and transmit the revised report now as his own best advice to the President. No release to be made. Suggest that the President then ask the Cabinet Secretariat (or the Bureau of the Budget staff) to do what is typically done with a complicated NSC paper: a "Planning Board" job of:
 - (a) referring it to interested agencies (as still a privileged document belonging to the President).
 - (b) requesting not "general comment" but specific alternative language.
 - (c) composing a new version which is either compromised or split, with the splits representing clear issues for Presidential decision.



- (d) steering the resulting document toward a Cabinet meeting in March.
- (e) release arrangements to be made only after Presidential policy okay.

I recommend Alternative 2 above, recommend that the referral and assignment to the agencies (2-a and 2-b) be made before the President leaves for South America (perhaps orally at Cabinet on Friday) and volunteer this office for the long staff job which will be required.


Robert Gray

cc: Mr. Merriam
Director Stans

THE WHITE HOUSE
WASHINGTON

February 20, 1960

Memorandum to: Robert Gray

From: Robert E. Merriam

General Persons and I talked with Secretary Mueller on this, and we will have to wait until next week for a decision.

