

BB FORM
NO. 38

ROUTE SLIP

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EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET

DATE May 20, 1961

TO: Mr. Lee White

FROM: P. S. Hughes

REMARKS:

Per our conversation.

Eno

Center for
Transportation

PRELIMINARY STAFF MEMORANDUM

Subject: Proposed Transportation Message

A. Preliminary staff analysis of the draft Presidential message on transportation has raised the following major points for consideration:

1. Should a comprehensive transportation message avoid direct comment (as this one does) on the present unbalanced Federal promotion of transportation by rail, highway, water, and air?

2. pp. 10-11. Should the proposed new standard of ratemaking protect common carriers against the "destructive competition" of private carriers or to protect common carriers in one mode against those in another, or both? The discussion is concerned with protecting common carriers generally, but the rule of ratemaking involved relates to competition between modes.

3. p. 13. The recommended amendment to Section 22 of the Interstate Commerce Act does not appear to adequately protect the Government, which should be able to get lower (but compensatory) commodity rates under ICC regulation.

4. pp. 13-14. The material under "Special Interest Exemptions" does not make clear what changes are intended. The discussion appears to object both to the invasion of the common carriers' domain by private carriage and to the exemption from regulation of certain for-hire carriers of agricultural and basic raw materials. The recommendation, however, refers only to limiting private carriage.

5. pp. 15-16. The discussion of the railroad passenger deficit seems somewhat overdrawn. If, in railroad accounting, such traffic were treated as derivative and revenues were not required to cover fully distributed costs, it would not generally be deficit traffic. The basic problem arises only where such traffic does not produce enough revenue to cover out-of-pocket costs, a situation which exists mainly in the Northeast.

6. pp. 16-17. Should a tax depreciation benefit be proposed for the railroads, supported by reasoning which was not considered sufficient to justify such treatment for industry generally? Also, no account is taken of the counter argument that fast depreciation might be used as an excuse to raise rates. Discussion of the capital needs of railroads seems incomplete without some consideration of over-investment. By almost any test substantial portions of railroad capital investment exceed long-run national requirements.

7. pp. 17-18. The construction reserve fund of Section 511 of Title V of the Merchant Marine Act seems to be a better model than the Section 607 fund described in the message. (Corrections need to be made in the summary of the provisions of Section 607 if it is decided to retain reference to it.)

8. Should the drastic recommendation that the State and local taxing power be curbed to make unlawful present railroad property assessment practices be made at this time? If so, the justification could be made stronger by making clear that it is the railroads that suffer, not transportation generally, and that the problem arises because other modes of transportation operate over public facilities on which they pay no property taxes.

9. p. 25. Endorsing the specific legislative proposal now pending to establish a joint board for Alaska and Hawaii joint rates is of questionable desirability. Improvements could be made in the pending bill (S. 1725). As far as transportation to Alaska and Hawaii is concerned, the emphasis should be placed on the need for joint rates, not on the means for regulating them.

10. pp. 26-30. Discussion of the merchant marine should include problems of foreign competition, ship and shoreside labor costs, poor management, and the lack of research and development.

11. p. 27. The discussion of reorganization of the Federal Maritime Board should be changed to reflect final decision on pending reorganization plan proposals. It is not clear to us that breakdown in enforcement and ineffective promotion resulted from the present organization, or that there is other justification for a reorganization.

12. p. 28. The inclusion of the phrase "regardless of the national origin of the vessel involved" in the discussion of maritime law enforcement may unnecessarily hamper the efforts of the Department of State to prevent other countries from enforcing their internal law against U. S. shipping. Also, the relation between these statements in the message and the pending legislation to legalize dual rate systems in international shipping conferences is not clear and may hinder efforts to get a satisfactory law.

13. p. 30. We are not aware of any "firm steps" being taken to coordinate agency administration of the cargo preference law, and question the desirability, or possibility, of establishing a single agency to handle all Government overseas cargo.

14. p. 32. The statement that the air traffic control system and the airport program "must in some manner be supported by equitable charges," ignores the fact that the President has already recommended the manner in which charges are to be levied.

15. p. 35. The statement that motor carrier user charges have been largely settled ignores the fact that the Senate has not yet acted on the House passed highway bill, and that the House passed bill does not impose taxes on motor carriers at the level recommended by the President as necessary and equitable.

16. The message makes no reference to the staff of the Under Secretary of Commerce for Transportation, which has recently been established for continual study of transportation problems and Federal programs.

B. More minor and editorial comments:

p. 1, line 4. Deterioration has progressed to the point of crisis only in some areas, not in the transportation industry generally.

p. 2, line 11. All transportation uses private facilities. We assume "private and contract carriers" is meant.

p. 5, line 4. The study referred to was prepared for not by the Senate Commerce Committee.

p. 5, lines 16-18. As far as can be determined, the recommendations in the message are designed to restrict competition between public and private carriage.

p. 12, line 6. We question whether the evidence supports the phrase "chaotic competition."

p. 12, line 7. We doubt that there is any significant amount of Government transportation at free rates.

p. 12, line 14. Studies do not appear to support a statement that Government shipments generally move at lower-than-average rates.

p. 15, lines 8-10. The case of the New Haven railroad does not appear to be a particularly good example of the problems facing the railroad industry generally. It is losing on both passenger and freight traffic, and is representative of only a few New England and New Jersey roads.

p. 16, line 5. We doubt that the reluctant and hesitant State and city actions on mass transit in themselves show a great public interest.

p. 16, lines 14-16. Only a small portion of the \$90 million of loans was guaranteed to assure continuation of mass transit railroad service. Almost all which were for this purpose went to the New Haven.

p. 16a, line 6. The use of the word "share" appears to anticipate the results of the study. "Role" would appear more appropriate.

p. 19, line 5. We doubt that the construction reserve fund can be termed "singularly effective" in the maritime field. While some lines have reserve funds, others have none.

p. 20, line 11. A side heading appears to be needed here.

p. 22, last line. There were many more than 376 privately owned and operated vessels engaged in our domestic ocean shipping industry in 1939. Does the number refer to dry cargo and passenger vessels? To common carriers?

p. 24, line 12. Water carriers are "low-cost" primarily because the contribution of the public is not included.

p. 26, line 8. We doubt that it can be said that factors affecting the merchant marine today are the same as in 1935. The underlying concepts of our merchant marine policy need thorough review.

p. 27, line 1-2. It is our understanding that the Department of Defense is presently reassessing the need for the merchant marine, and that to date no Secretary of Defense has been willing to say that the fleet is quantitatively and qualitatively deficient to meet mobilization requirements.

p. 30, lines 9-10. The Shakespearean allusion appears to be out of place. Hamlet was indicating he thought it more honorable in his case to violate custom than obey it; this is apparently not meant here.

p. 30, lines 20-21. It is impossible to have the maxima in both safe and economic use of the nation's airspace. "Optima" fits better.

p. 32, lines 1-2. It would seem that the fact that people fly rather than use ocean or rail transport is a waste of the resources of sea and land.

p. 32a. Why does the President talk to the Congress about a need for a study which he could institute if necessary, since the problem is under his control? It would appear more appropriate for him to say that the question is being re-examined if he feels it needs to be.

p. 33, last 3 lines. The program to implement the studies of airway needs seems to be more than "little". Also, the complaint could equally well be applied to the message itself, which contains no specific recommendations for action in the field of air transportation.

p. 34ff. The section on Suggested Areas for Immediate Inquiry raises many important policy questions in only a vague way. Is this desirable?

p. 35, lines 7-10. The argument, attributed to the water carriers without comment, that user charges should not be imposed upon them because the waterways were developed for the use of the general public, could be made with equal validity by the motor carriers and airlines with respect to highway and air user charges.

p. 35, lines 14-16. The best justification for user charges in the transportation field is not budget, but equitable treatment of the various modes.

p. 38, lines 8-17. The catalogue of unimplemented air transport studies repeats page 33.

MAY 20, 1961

Eno

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