THE WHITE HOUSE
WASHINGTON

March 16, 1962

MEMORANDUM FOR THE PRESIDENT

FROM THEODORE C. SORENSEN

SUBJECT: Issues relating to a possible Transportation Message

PART I.

National Transportation Policy

The Budget Bureau and Economic Advisers endorse changes in our present chaotic transportation laws in accordance with two principles:

1. That all carriers and forms of transportation be treated equally;

2. That they be free to compete with as little regulation as possible.

The Department of Commerce agrees with the first principle but not the second. The laws which would be changed are so well entrenched, and of such importance to one form of transportation or another, that the Congress may be reluctant to enact any changes. Chairman Oren Harris of the House Commerce Committee, for example, is opposed to any message. My own view compares this message to a comprehensive tax reform bill -- it will not be enacted this year and maybe never; it will arouse considerable opposition from special interest groups in the Congress; but it represents the kind of sensible, pragmatic, fair, long-range policy this Administration should candidly and courageously support.

Specifically, the following questions are most at issue:

1. Bulk Commodity Exemption -- at present, water carriers are exempt from regulation concerning the transportation of dry bulk commodities, and can thus set their rates below those prescribed for trucks and railroads. CEA-BoB propose to extend this exemption to all carriers under the Interstate Commerce Act, subject only to ICC control of maximum rates. Commerce agrees that all carriers should be treated equally -- and urges that the exemption be repealed. Otherwise, they say, the railroads will put the water carriers out of business; and eleven percent of the water carriers do provide common carrier service.

2. Agricultural and Fishery Products Exemption -- same situation, except that this exemption is available only to motor carriers (trucks). CEA-BoB would extend the exemption to all carriers, subject only to control of maximum rates. Commerce prefers to restrict the present exemption.

3. Passenger Rate Regulation -- CEA-BoB propose to limit the control of inter-city passenger rates by the regulatory agencies to the establishment of maximum rates only. Commerce is fearful that this would result in injurious price-cutting competition, particularly in the airline industry.

   Recommendation: I think it would be well to support the CEA-BoB posture of less governmental regulation in all three of the above cases -- stressing, however, (which the message as drafted by BoB does not do) that the Robinson-Patman Act will be made applicable to prevent unfair price-cutting that is aimed at driving a competitor out of business.

4. Private Carriers -- Commerce (which believes that we should chiefly be interested in promoting common carriers) wants to add to the existing statutes restrictions against private carriers providing any for-hire services. This means that a company which owns its own trucks, for example, could not contract to have those trucks on their return trip haul someone else's goods. (CEA-BoB oppose this recommendation on the grounds that it would be inefficient and uneconomical. I agree.

PART II.

Local Mass Transit

The basic approach to be recommended is a three-year, $500 million matching grant program (2/3 Federal) designed to assist cities of all sizes in planning and developing adequate transportation systems. The program, administered by the Housing Agency, will be integrated with the basic urban renewal and development programs. Perhaps the brightest note is the willingness of the Bureau of Public Roads to coordinate its urban highway construction with the urban areas' approved overall transit plan. There are, however, two fairly important problems yet to be resolved:

1. Program Financing -- Because of the inherent nature of a transit system requiring long range planning and construction over an extended period of time, single year appropriations are unsatisfactory. This is right in the middle of the power struggle between the Appropriations Committees

(particularly the House) and the substantive committees. The Senate Banking and Currency Committee wants the Administration to recommend contract authority for the mass transit program --Congressman Albert Thomas will fight this vigorously. Housing Agency strongly recommends contract authority; Budget, (and probably Treasury), while recognizing the need for long term funding, would prefer to discuss the matter with Congressman Thomas and come up with some suitable method of "forward financing" other than contract authority. Possible alternatives are being prepared now and should be ready to discuss the first of next week.

2. The Peculiar Los Angeles Problem -- The City of Los Angeles, without any prior consultation with Federal people, has made arrangements to secure private financing from First Boston (for about $200 million) through the sale of bonds to be repaid from operating revenues. They have presented us this accomplished arrangement claiming that, if the Federal government will guarantee these bonds, they can be secured for 3-3/4% as distinguished from 5-1/4% necessary without Federal backing. Treasury is strongly opposed to any program guaranteeing tax exempt bonds (which these would be), arguing that this could severely affect the sale of Federal Government securities. Moreover, the LA program is not thoughtfully conceived nor is it universally supported in LA. We have worked very closely with Senator Engle, with Governor Brown's representative in Washington and with the local transit people. Our efforts will, of course, continue to find a way of accommodating the LA situation; but a satisfactory solution has thus far been elusive.