Chapter 4

Areas for Further Legislative Progress in 1966

LAST YEAR'S legislative achievements mark a major milestone in the social and economic progress of the American people. The President's program for 1966 contains fewer items of economic legislation; yet it includes major proposals relating to several key areas of the economy. This chapter presents three areas of importance for the domestic economy in which there are new proposals, and provides some of the relevant economic background. The economic background for other new proposals is developed in Chapters 1, 3, and 6.

THE URBAN ENVIRONMENT

Every large metropolitan area is a cluster of communities, usually consisting of a central core city plus surrounding suburbs. Almost without exception, the central core cities, which are the heart of the metropolitan area, have experienced a gradual process of physical and economic deterioration. Partly as a result of people's desire for more space and homeownership, and made possible by the development of the automobile, central cities have been losing middle- and upper-income families to the suburbs. This movement accelerated when cities became caught in a vicious spiral of spreading slums, rising crime, and worsening congestion. Once a neighborhood began to deteriorate, it did not pay any individual landlord to attempt to stem the decline; the private return on new investment fell, since little extra rent could be charged for better apartments in slum areas. This deterioration was accentuated by housing shortages after World War II and by the artificial shortages created by racial discrimination in housing which preserves a captive market for dilapidated slum buildings in large cities all over the United States. As a result, primarily two groups of people have tended to remain in core cities—the very rich, who can afford to live in luxury apartments, and the poor, especially minorities who have no choice but to live in the limited housing available to them.

This process has created an almost impossible financial situation for many cities. They have had to bear public assistance payments and other welfare costs for the low-income groups in the slums, as well as to continue

to provide mass transportation, fire and police protection, and education; but their tax base has failed to expand correspondingly as the high- and middle-income groups and some industry and commerce have fled the city—a departure speeded by rising tax rates.

Although housing deterioration is perhaps the most important single factor contributing to the decline of central cities, it is but one of many handicaps facing downtown areas. Many families have moved to the suburbs, but their jobs have not moved to the same extent. This means that an increasing number of individuals must commute to work in the central city. Compounding this problem has been the increase in urban land values which encourages taller buildings with dense occupancy. As the buildings become larger, the number of people who have to be transported to a particular point expands, putting an additional strain on the transportation system. Congestion, with all of its ramifications, is the result. Since builders do not have to bear the costs of bringing workers from low density suburban areas to very high density central cities in rush hour peak periods, these costs fall upon local governments which must make large investments in transportation facilities. From the point of view of efficiency, these investments often should have been in facilities for mass transit. Instead, for many reasons, they have been primarily in automobile expressways, which only increase the congestion in the center.

Many of the problems of central cities, such as air pollution, can be traced to the increasing size and density of America's urban population. In small cities or rural areas, automobile fumes are not a serious problem, since the natural cleaning capacities of the air are enough to eliminate noxious fumes. As the number of automobiles increases, the natural capacities of the air to purify itself are reached and surpassed. Similar factors are evident in water supplies. As population densities rise, local wells and streams become inadequate. Water has to be brought from increasingly distant areas at rising cost.

In small cities, extensive city parks and open areas are less necessary, since individuals can easily reach natural recreation areas; but in major metropolitan centers, natural recreation areas may be many miles away. As a city grows, parks, playgrounds, and other recreational resources become more necessary, but they also become much more expensive because of high land values in the core. Although recreational areas and open spaces can be supplied privately, the importance of outdoor areas for calm, healthy living means that these goods should not be confined strictly to those able to pay the price.

These formidable problems have made it necessary for the Federal Government to attempt to stimulate the search for new and creative solutions.

IMPROVING OUR CITIES

The Housing and Urban Development Act of 1965, the Cabinet Department created last year, and 1964 legislation in the areas of mass

transportation, civil rights, and economic opportunity constitute a major Federal effort to aid urban development.

The strategy for improving our urban environment embodied in this legislation has a double emphasis. First, it focuses on the quality of residential neighborhoods, including both the adequacy of housing and the suitability of the related community facilities. Second, while retaining flexibility to meet the separate needs of central cities and suburbs, it views them as an interrelated area and insists that public and private efforts follow consistent and coordinated plans comprehending the entire urban complex, if they are to receive Federal support.

Federal mortgage insurance, public and low-rent housing programs, and urban renewal have long had influence upon the pattern of metropolitan development. The Housing and Urban Development Act contains additional tools for dealing with these problems. It provides assistance for community facilities ranging from neighborhood centers to city parks and playgrounds. The open space program will be expanded by grants for urban beautification. Grants to cover interest charges on loans for the acquisition of land for public facilities in advance of its development—before speculative influences inflate prices—should reduce future problems in this area as well as encourage long-range plans for efficient land use.

The Act also continues the urban renewal program and authorizes an additional $2.9 billion in grants. It strengthens requirements for workable programs and emphasizes the importance of building codes, zoning ordinances, local tax policies, and development standards. It provides grants to municipalities to help to defray the costs of enforcing codes and, where necessary, demolishing unsound structures.

A major innovation in the Act is the program for rent supplements. Under this program, more than 250,000 units of new or rehabilitated housing are scheduled to be approved over the next 4 years. The Federal Government will pay nonprofit, cooperative, and limited-dividend owners of private property the difference between fair market rents for their units and one-fourth of an occupant's income. Like interest subsidy programs, rent supplements can help to encourage construction and rehabilitation of adequate housing for low-income families.

The destruction of old neighborhoods as a result of urban renewal frequently involves high human costs. New public housing and rent supplement programs facilitate the purchase or rehabilitation of older housing and thus help to maintain and restore existing neighborhoods. Moreover, newly authorized grants for projects of code enforcement in deteriorating areas may conserve older residential neighborhoods and prevent or retard the development of slums. Joint administrative action by the Urban Renewal Administration and the Federal Housing Administration since early 1964 has resulted in the rehabilitation of over 48,000 units; another 90,000 are currently undergoing rehabilitation.

Where substandard housing has blighted a whole area, however, the most economic approach often is to clear the entire area, to provide space for new housing or other uses consistent with an over-all urban plan. Relocation payments to ease the hardships incurred by such clearing were liberalized in 1964, and the 1965 Act extended such payments to families displaced by the construction of mass transportation systems, by community and neighborhood facilities programs or advance land acquisition, as well as by urban renewal or public housing programs.

The President's new proposals for 1966 legislation contemplate the planned rebuilding, on a demonstration basis, of large areas of a number of cities of all sizes, enlisting local and private resources along with new measures of Federal assistance. The details of the program will be presented in a separate message.

The establishment last year of the Department of Housing and Urban Development did not itself add to the list of Federal policy instruments available to our cities. But it will make all these instruments and the new ones to be proposed more effective by providing an organizational focus for a unified Federal approach to metropolitan redevelopment, change, and growth. It will assure that all Federal programs that affect the city and its people will be brought to bear effectively to solve the city's problems.

THE ABATEMENT OF POLLUTION

Contamination of the environment is a problem of major national proportions. Polluted streams are found in all sections of the country. They increase the cost of obtaining fresh water supplies for municipalities and industry; they impair the recreational and aesthetic values of our areas of greatest natural beauty; and they destroy useful aquatic life. Air pollution is found in every major metropolitan area. Buildings and vegetation are damaged; transportation and communication are delayed; the attractiveness of our cities is reduced; and chronic health damage may result. Obsolete methods of solid waste disposal create problems in both urban and rural areas. The approaches to major cities are marred by unsightly accumulations of automobiles. The burning of rubbish in open dumps causes air pollution, and the careless use of refuse for land fill causes extensive stream pollution. Pesticides in water and soil have been found harmful to all forms of life.

It is not difficult to understand why an industrial society produces excessive amounts of pollution. For most resources, users are charged amounts which represent the value of these resources to others; indeed, this is a basic reason for the efficiency of a market economy. In the case of pollution, however, those who contaminate the environment are not charged in accordance with the damage they do. Thus, the cost of a municipality's discharge of raw sewage into a stream is borne not by the local residents but by

potential downstream users. And the cost of discharge of sulfurous fumes into the air by a thermal electric plant is not borne by the users of electricity but by the citizens who breathe the polluted air. Public policies must be designed to reduce the discharge of wastes in ways and amounts that more nearly reflect the full cost of environmental contamination.

Water pollution is primarily a product of organic wastes in the process of decomposing and of the phosphates, nitrates, and other minerals contained in discharges. The decomposition of organic wastes removes oxygen from the water, limiting its capacity to support fish and wildlife and its desirability for recreation. The inorganic substances cause water hardness, stream discoloration and odor, and the growth of algae. Damage from pollution is suffered by municipalities, industries, agriculture, and fisheries that cannot use contaminated water, and by individuals as a result of the aesthetic and recreational losses. Costs of treatment by municipalities and industries are a measure of the first type of damage; lower property values in the vicinity of polluted waters indicate aesthetic losses. An exact value cannot yet be placed on these losses. The capital cost of additional plants for municipal sewage treatment to the extent necessary to allow the use of streams for other than disposal of wastes is estimated at $20 billion over the next 10 years; recreational losses alone are estimated to be in excess of $6 billion a year.

Air pollution also has considerable impact on the health and welfare of the Nation. More than half is from automobiles, and most of the remainder from industry, electric power generation, and refuse burning. The costs of property damage alone have been estimated as exceeding $11 billion a year; aesthetic and health damages substantially increase this cost.

Improper disposal of garbage, rubbish, and junk automobiles has imposed costs on neighboring residences and industries. Installed incinerator capacity would have to be increased 50 percent, at an estimated cost of $280 million, to bring disposal in all cities to the minimum Public Health Service standards for air pollution. Since the Korean war, a stock of more than 2½ million junk automobiles has been accumulated in farmers' fields, garage lots, junkyards, or along highways. These junk piles have become so offensive that a number of cities, such as St. Paul and Oklahoma City, have removed them to isolated locations.

PROGRAMS FOR POLLUTION ABATEMENT

Governments have recognized the damages from pollution and have acted in several ways to prohibit or limit the dumping of untreated wastes. First, both State and Federal statutes authorize the regulation of waste disposal to improve the quality of the environment. Second, most municipalities provide public facilities for the collection and treatment of waterborne wastes; in addition, the Federal Government provides financial assistance to municipalities for the construction of such facilities, and for devices to measure air pollution. It would be desirable, wherever feasible, to add

as a third method a system of economic incentives to abate waste discharges. Incentives might include fees or charges levied against a pollutor in accordance with the damages caused by his pollutants.

The existing programs have been partially successful. In many areas, raw sewage and industrial wastes are no longer freely dumped into streams, often as a direct result of Federal proceedings. Half of the total population now lives in cities and towns where municipal sewage at least receives treatment to remove solid matter. Reports on air quality, based on new monitoring systems, have increased community awareness of the pollution problem, and have led to some programs of abatement. The extent—and results—of Federal concern, however, have been limited.

Enforcement of Water Quality Standards

Federal agencies have been concerned with water pollution since passage of the Rivers and Harbors Act of 1899 prohibiting discharges that impeded navigation. This and succeeding legislation of the same kind had little effect on dumping of municipal and industrial wastes, however. Not until the Federal Water Pollution Control Act of 1948 provided Federal authority to require the elimination of waste discharges in interstate waters were effective abatement policies inaugurated at the Federal level. The 1957 and 1961 Amendments strengthened and broadened the enforcement powers to deal with pollution problems within the confines of one State (upon the invitation of the State government). "Enforcement" begins with collecting evidence that the pollution endangers the health or welfare of specific persons, continues with a conference of control agencies leading to a schedule of remedial measures, and, if necessary, culminates in public hearings and court action to effect the remedial measures.

As a result of 37 actions taken under this procedure, there have been significant improvements in water quality. Between 1957 and 1965, completed Federal enforcement actions at 10 specific locations resulted in the reduction of pollution to an acceptable level. For example, in the Corney Creek drainage basin of Arkansas-Louisiana, oil field brines were brought under control so as to reduce significantly chloride pollution destructive to agriculture and fishing. In the Animas River in Colorado and New Mexico, radioactive uranium milling wastes that contaminated water supplies were brought under control. In the lower Columbia River, significant progress has been made in cleaning up parts of the river fouled by pulp and paper wastes and municipal discharges.

The conference procedure, however, is cumbersome and time consuming. Abatement has seldom taken place within 3 years of public notice of Federal surveys, and half of the actions begun as long ago as 1957 have not yet been completed.

The long delays in some cases result from the technological problems involved in achieving adequate treatment of particular wastes. But most of

the delays follow from difficulties with organizational and financial arrangements among Federal, State, and local governments. Municipalities frequently refuse to band together to construct area-wide treatment systems, so as to take advantage of economies in larger pipeline and plant operations. Communities operating independently have experienced delays in getting voter authorizations for financing, or have not constructed adequate plants because of local limitations on borrowing. Enforcement schedules have had to be set to take account of such local problems.

The enforcement action to curtail pollution in the Potomac River illustrates these problems of finance and organization. The first session of the conference of control agencies was held in 1957. Water quality has improved somewhat since then. But raw sewage continues to be dumped into the river because certain local treatment facilities were not constructed and arrangements for combining the facilities of a number of Virginia communities were not worked out. Not until the construction last year of the large Dulles Airport sewer were several Virginia communities finally integrated into the District of Columbia system.

More rapid progress is possible. The 1965 Water Quality Act established a program and a new agency—the Water Pollution Control Administration in the Department of Health, Education, and Welfare (HEW)—to consolidate and expand enforcement activities. States are required to set water quality standards on their portions of interstate waters, and to establish enforcement procedures by July 1, 1967, or else the new agency must do so. Water quality below these standards is subject to the Federal abatement proceedings without detailed proof of specific damages. As a consequence, enforcement procedures can take place concurrently on all interstate waters and an accelerated approach to acceptable water quality can result.

Enforcement of Air Quality Standards

The Clean Air Act of 1963 provides for cooperation between State and Federal agencies in dealing with air pollution and establishes an enforcement procedure similar in the first stages to that for water pollution. The program has not been in operation long enough to have had substantial effects on air quality. In 1965, the Act was amended to require that national standards be set for automobile exhaust emissions on 1968 model cars.

Federal Financial Assistance for Pollution Abatement

Enforcement actions have been combined with financial incentives. The Water Pollution Control Act provides for technical assistance, matching grants for the construction of waste treatment facilities, and assistance on comprehensive or area-wide planning of treatment facilities. The extent of financial assistance is limited, however. Because of restrictions on the dollar amount provided to any one city, on average only 20 percent, of State and local authorities' total expenditures on treatment, and only about 5 percent of large cities' expenditures, have been covered.

The combination of clumsy enforcement procedures and limited incentive grants has so far been insufficient to give promise of cleaning up water pollution within a reasonable period. Adequate treatment is now provided for the wastes in areas containing only 38 percent of the population; at the present rate of construction, new facilities will little more than keep pace with the growth of population.

An extended program was authorized by the last session of Congress. Legislation increased the total authorization of Federal grants for treatment facilities and relaxed somewhat the dollar limits on individual grants. Additional Federal assistance was included in the Economic Development Act of 1965 and as part of the programs of the Department of Agriculture and of the Department of Housing and Urban Development. Federal help is also available for monitoring and controlling air pollution, for research activities on water and air pollution, and for demonstration projects for the control of wastes from storm sewers. But grant limits are still restrictive, and the research cannot be expected to produce immediate results.

Rubbish, Garbage, and Junk Automobiles

Solid waste disposal has long been a service of local government; recently, some Federal aid has been provided for extending this service. The Department of Housing and Urban Development will help communities plan for solid waste disposal programs and for the construction of facilities. Research and equipment demonstrations have been organized in HEW and the Department of the Interior following last year's Solid Waste Disposal Act.

Last year's Highway Beautification Act calls for the screening or removal of junk yards from areas adjacent to federally assisted highways. This is essential as a beginning attack on the problem, but much more can be done in the reuse of waste materials. The emphasis in this legislation is on screening the junk from view, rather than moving it through the scrap utilization process. Unless it is moved more rapidly, the increasing number of automobiles to be junked will engulf more and more of our countryside in the next few years. Research on new methods of melting and shredding junk automobiles for economical use by the steel industry shows long-term promise for keeping the junk automobile problem within manageable dimensions.

NEW FEDERAL LEADERSHIP IN POLLUTION ABATEMENT

Leadership begins with setting the example: Federal facilities should demonstrate the nature and extent of practical pollution abatement. In an Executive Order of November 17, 1965, the President required that water pollution from all Federal facilities be controlled. Despite budgetary stringency, expenditures for waste treatment at Federal installations are being stepped up in the year ahead. A similar order on air pollution from Federal installations is forthcoming.

Federal leadership could be more effective if the recently required water quality standards for interstate waters could be extended to cover waters entirely within one State, and if the existing enforcement procedures could be accelerated. If information on waste discharge could be obtained from all pollutors when necessary, stream deterioration could more effectively be predicted and prevented.

Pollution control can be truly effective only if it covers all sources in a river basin, and only if it is based on the relationships between stream quality at any one location and the discharges at all upstream locations. Methods must be devised to assure that upstream treatment is coordinated with downstream water use. The Government is taking the lead in experiments to achieve such coordination. For the Potomac River—hopefully, pollution-free by 1975—the Government has proposed that the enforcement action be accelerated by bringing together the localities in four States to begin treating the pollution problem as a river basin problem. The President has announced that he will propose to extend the example of the Potomac, in order to demonstrate how entire river basins can become scenic and recreational assets.

Although it must assist in eliminating the large backlog of capital requirements, the Federal Government cannot and should not finance local waste treatment indefinitely. In the long run, localities should collect revenues from the pollutors, adequate to sustain the system and to expand it in line with normal growth. Charges based on use of treatment facilities provide long-run incentives for the abatement of pollution. Effluent charges on pollutors in sections of the river where there is no municipal treatment could have a similar effect: when waste discharges cost the industrial firm a certain amount for every pound discharged, the volume of wastes will be reduced and the revenue collected will help to pay for collective treatment.

Existing Federal programs for pollution abatement, even when strengthened by the new measures to be proposed, cannot be expected by themselves to eliminate the pollution problem in this country. If—unlike our fathers—we are to leave a cleaner America to those who follow, then pollution abatement has to become not only a more pressing concern of localities, States, and the Federal Government, but also an urgent concern of corporate and individual policy.

EFFICIENCY IN TRANSPORTATION

The national transportation system is a crucial element in our economy. Personal mobility of Americans is unparalleled, because of both public transportation and the private automobile. Freight transportation, with which this discussion is primarily concerned, created the first and biggest of the common markets, thus permitting other industries to capitalize upon the economies of specialization and large-scale production.

Since World War II, the productivity of our transportation industries has increased—with Government support—through an impressive number of innovations. The postwar development of long-haul trucking has added new flexibility in service, time-in-transit, and origins and destinations served. The emergence of air travel has not only vastly increased the mobility of millions of Americans but also has permitted overnight coast-to-coast movement of mail and high-value freight. New high-pressure, large-diameter pipelines have lowered the cost of moving oil and provided the benefits of natural gas to cities many hundreds of miles away from the gas fields. Improved barge equipment has substantially increased productivity of carriers on the inland waterways.

As a result of these innovations, the different forms of transportation have experienced varying growth rates, high for motor carriers and oil pipelines and low for railroads. As shown in Table 20, railroad freight traffic did not participate at all in the growth of the total transportation market between 1950 and 1960. The railroad share of total ton-miles declined at an average rate of nearly 1 percentage point a year from 1940 to 1960. Meanwhile, the share of motor carriers rose steadily. Since 1960, however, the market share of the railroads has been stabilized. This has followed in part from imaginative new services—such as truck trailers on flat cars and three-decker automobile carriers—and from concurrent reductions in rail rates.

TABLE 20.—*Volume of intercity freight traffic, selected years, 1940–64*

Transport agency	1940	1950	1960	1961	1962	1963	1964
	Billions of ton miles						
Number of ton miles [1]							
Total [2]	619	1,063	1,314	1,310	1,371	1,450	1,531
Railways	379	597	579	570	600	629	666
Motor vehicles	62	173	285	296	309	332	[3]347
Inland waterways	118	163	220	210	223	234	250
Oil pipelines	59	129	229	233	238	253	266
	Percent						
Percentage distribution [4]							
Total [2]	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Railways	61.3	56.2	44.1	43.5	43.7	43.4	43.5
Motor vehicles	10.0	16.3	21.7	22.6	22.6	22.9	[3]22.7
Inland waterways	19.1	15.4	16.8	16.0	16.3	16.1	16.3
Oil pipelines	9.6	12.2	17.4	17.8	17.3	17.5	17.4

[1] Estimates.
[2] Total includes airways freight, not shown separately in this table.
[3] Preliminary.
[4] Percentage distribution based on unrounded data.

Source: Interstate Commerce Commission.

The emergence of new forms of transportation and the resulting changes in traffic patterns are only the more dramatic manifestations of technical change. Truck trailers have steadily increased in size; freight cars have become bigger, lighter, and smoother riding; and jets have replaced piston

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aircraft. All of these innovations have provided more ton-miles of transport per unit of capital and labor.

Private initiative has been facilitated by public investment in transportation facilities, such as in the Interstate Highway System and the Federal Airways System. Recently, public investment has taken the form of direct aid to innovation; for example, for the development and demonstration of high-speed rail passenger trains in the Northeast corridor between Boston and Washington. The extent of Federal involvement is reflected in the more than $5 billion expended during 1965 on domestic transportation programs, such as highway construction, river and harbors navigation aid, and airways operations and construction.

While these dramatic changes have been taking place, Federal policy has also been evolving. Although the formal philosophy of regulatory policy has not been reshaped since 1920, many changes have been taking place through decisions in individual cases and legislative amendments. Four main directions of Federal policy appear to be emerging: (1) the development of a rate structure more oriented toward costs; (2) the planning of transportation to provide comprehensive services; (3) promoting the adjustment of transport investment to meet changing demand requirements; and (4) speeding the response to new technical opportunities.

COST-ORIENTED RATES

Rates charged by carriers are the signals that guide shippers to select that form of transportation which minimizes transportation costs for a particular shipment. Intelligent shippers always balance carrier rates against service advantages in terms of time-in-transit, warehousing, shipment size, and possible freight damage. Shippers can be counted upon to make the most economical choices, from their own standpoint. But these choices will not necessarily be the most economical from the standpoint of the national economy unless carrier rates truly reflect the cost to the economy of the service, including provision for adequate carrier profits. Hence, one condition for transportation efficiency is a cost-oriented rate structure.

Yet transportation rates still depend in part on so-called "value of service." This is usually defined in terms of value of shipment—rates are higher for diamonds than for coal shipments of the same size. Rates are also set sometimes by carriers and approved by the regulatory commissions to preserve historical divisions of traffic among modes of transport. Reductions in rates made possible by reductions in costs are often opposed and may be disallowed, because they are not in line with value of service or because they are destructive of existing traffic shares.

In recent years, competing carriers have increasingly sought to prevent rate reductions based on costs. For example, in 1964 the Interstate Commerce Commission (ICC) handled 4,959 protests on rate adjustments. About 90 percent (4,415 protests) involved rate reductions and three-fourths

(3,654) were from competing carriers rather than customers. Such a distribution of protests reflects an attempt to orient regulation to the settlement of disputes between competitors on tonnage shares. Although protests before the ICC Board of Suspension were involved in only about 2½ percent of the 203,721 rates filed with the ICC in 1964, the controversial rate reductions have been the important cases.

A major example of the attachment to rates based on existing divisions of tonnage, rather than to rate reductions permitting the introduction of cost saving innovations, is illustrated by the ICC case, *Coal to New York Harbor*. Multiple carload service, which allowed considerable cost savings, was one alternative means of shipment for more than 20 million tons of coal annually to East Coast electric generating stations. The alternative—proposed by the railroads—was to reduce rates on higher-cost single carload service, but only on the 10 million tons competitive with oil. The Commission approved the selective rate reductions on the carload service, since multiple carload rates "would have application to all coal received by utilities, only a part of which is vulnerable to displacement by oil," and thus would include more extensive rate reductions than necessitated by demand conditions. The historical pattern of rates was protected until competitive forces finally brought about across-the-board reductions and the lower-cost multiple carload service in 1963.

For maximum economic efficiency, rates should be related to costs, but not to an arbitrary allocation of costs. Railroads and pipelines require large, indivisible capital inputs such as rights-of-way and terminals. These indivisibilities result in relatively high fixed costs, which, if allocated over each traffic unit on an arbitrary basis, result in average costs unrelated to the variable expenses of additional traffic. These average costs do not and cannot serve as a rigid basis for rate making.

"Cost-oriented rates" in the true economic sense are related to the economist's concept of marginal cost—the increase in total expenses as a result of carrying additional ton-miles of traffic. In order to ensure efficiency, marginal, rather than average, cost should be the principal regulatory criterion in applications for rate reductions. Some traffic, on which rate reductions are not proposed, will pay more than marginal cost and in this fashion fixed costs will be met. But where competition and new technology dictate rate reductions, competitive rates could be lowered to the level of marginal cost. The gains for users from allowing rates to be appropriately geared to costs include lower rates on a larger volume of shipments. On railroad transportation alone, according to an independent estimate, savings from possible rate reductions would come to more than $400 million a year.

At the same time, costs should reflect the value of all resources required to provide the service. Federally provided transportation facilities have continually expanded. Users should pay their fair share of the cost and maintenance of the highways, waterways, and airways facilities. As it is, there

are uneven payments from different classes of users—some making substantial payments and others none at all. Adequate user charges should be instituted in the interest of both equity and over-all transportation efficiency. The President's Budget Message again proposes new or increased transportation user charges.

COMPREHENSIVE POLICY PLANNING

Because there is competition among types of carriers for substantial portions of the freight tonnage, policies affecting one segment of the industry impinge upon other segments. A comprehensive approach to transportation recognizes the costs and services of each component part, and develops rate and service policies that provide transportation at minimum costs to the Nation. This approach is now followed, to some extent, by the independent regulatory commissions and thc Executive Branch of the Federal Government, and is effected through considerable informal policy coordination. But it must be extended by organizational reform.

Each one of a number of executive agencies is now responsible for an aspect of transportation policy. An effective means for promoting transport development will be to combine all the major programs now within the Executive Branch in a single Department of Transportation—as the President has proposed. This will include the transportation activities now under the Department of Commerce, as well as the promotional and safety functions in aviation, urban mass transit, and maritime shipping. The new Department will be an effective instrument for the coordinated development of a national transportation system.

FLEXIBILITY IN TRANSPORT INVESTMENT

Traditionally, common carriers have a duty to serve. Regulation has institutionalized that obligation with controls over entry and abandonments. The rationale for such controls has been partially undermined, however, by technological changes, particularly in intercity trucking. Trucks now can quickly bring service to shippers without the large fixed investment required in railroading or pipelines. Regulatory policy has not yet fully capitalized upon this flexibility of truck capital and operations.

While controls over entry and abandonment are surely desirable, considerably more flexibility would seem to be appropriate in this period of promising technical developments—particularly in railroads and trucks—in order to free private initiative to perform its traditional function of economizing. More liberal standards for the modification of the scope of service offered by a carrier, and particularly for the abandonment of unneeded railroad service, could allow a competing service—if available and more efficient—to handle the traffic. Investment capital is scarce; if capital can be withdrawn from little used service, capacity can be expanded in the areas of profitable growth.

SPEED OF RESPONSE TO TECHNOLOGICAL CHANGE

Growing efficiency in transportation requires that new technological opportunities be seized promptly. With a constantly changing technology, the lag between average practice and the best possible practice is critical, and reducing this lag will increase productivity gains. Prompt adoption of new technical opportunities enhances the returns to the public and to the carrier from private initiative in innovation.

The nature of the problem is illustrated by the case of the "Big John" freight car service. The Southern Railway announced in June 1961 that shipments of grain would be made in new, four-compartment aluminum cars, each able to transport 90 tons. The service was to consist of 450-ton shipments in groups of five "Big John" cars, at rates approximately 60 percent below the prevailing carload rates. This service was suspended and appealed through the courts to the Supreme Court twice, once on the matter of continuing suspension beyond the maximum 7-month period, the second time on the reasonableness of rates. Rate reductions were permitted in 1963 on a provisional basis pending final action. Only after the final court review—in September 1965—were the rates found to be "just and reasonable."

Difficulties of this type will be mitigated as cost-oriented rates and flexibility in investment become more integral parts of regulatory policy. The benefits of the "Big John," for example, extend beyond the carrier and the shipper to the economy of the region served. Consumer savings, estimated at $30–$40 million annually, on meat, bread, butter, and milk have occurred in the Southern Railway region from the expansion of the livestock and grain industries. No economy can be fully efficient if it takes 4 years to determine pricing for such new innovations.

Other innovations cut across carrier types, as in the trailer-on-flat-car service. New technological opportunities could be fully exploited by removing obstacles to combinations of modes of transport and by more ready acceptance of shipper and carrier-owned equipment by railroads and motor carriers.

MARITIME POLICY

A special relationship has long existed between the Government and the maritime industry. For reasons of defense, the Federal Government provides extensive assistance to our merchant marine. In the past year, an Interagency Task Force completed a comprehensive study of U.S. maritime policy. Its many recommendations were designed in part to improve the competitive position of the industry. Bulk ships of a new and specialized construction would be built and subsidized, enabling their operators to compete for commercial bulk cargoes. In addition, cargo preference would be modified and ultimately eliminated.

Operating subsidies would be restructured by adding incentives to reward efficiency. Operators of unprofitable, subsidized passenger operations would

be encouraged to phase out their operations. Greater operating freedom in route selection would be granted to U.S. operators, and a reduction of detailed Government supervision would be instituted.

The subsidy for U.S. shipyard support would be related to national emergency need for shipyard capability. Beyond that need, ships could be built either in the United States or abroad, whichever was more economical for the ship operator.

In view of the major restructuring of maritime policy recommended in the report, the maritime industry and maritime specialists both within and outside Government have been asked to study the proposals. Their reactions and suggestions will serve as a constructive basis for implementing new directions in this portion of transportation.