Federal Role in Programming

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Have federal programs, policy, and regulations distorted the competitive balance among modes? I think the answer is "Yes." But we are getting to an era in which I think some changes will be made.

In many ways, the regulatory reform drive, whether it be in railroads, waterways, aviation, or motor carrier, appears to have one basic goal: to allow a little more of the inherent economic advantage of various modes to come into play by removing the biases that the federal regulations have caused.

I think we are discovering that much of this regulatory problem is tangled up with nontransportation objectives. Quite clearly a lot of it relates to rural growth policy and population redistribution. For example, the branch line controversy is not that important economically to the railroads, but it is vitally important to communities that see another link to the outside world disappearing.

One of the goals of this regulatory reform is to allow inherent competitive advantage to operate more fully and to allow intelligent trade-offs in the economic sphere unbiased by federal regulatory policies that distort priorities.

The second major federal policy change focuses on user-charge policy. We have built in inherent competitive disadvantages by the inequitable federal financing treatment. For example, it is frequently said that highways get all the funds in the Department of Transportation budget. In the fiscal year 1976 budget, highways received 50 percent, transit received 25 percent, and aviation received 15 percent. The point is not how much is in the budget but how much of that is a general taxpayer subsidy. For example, most highway users pay their full share of federal program costs, but highway studies indicate that heavy trucks do not.

In this connection, the Senate is considering a tax bill that will repeal the current truck taxes. The legislation will directly affect heavy trucks. This is not only a revenue issue but clearly an issue of federal policy. Are we further distorting the imbalance by giving heavy trucks federal program assistance without requiring that the assistance be recovered from user taxes?

Why is this important? The northeast rail report has a section on imbalance in federal expenditures. It makes the point that heavy trucks compete most intensely with rail, and one of the reasons that rail is in trouble is that it has been victimized by inherently unfair federal programs. In other words, its competitors are getting

federal dollars that are not recovered from the users.

The best example of this is the inland waterway system. The Corps of Engineers finances all capital costs and $100 million to $200 million a year of operating costs, which are not recovered from the rate base. This means that railroads are put at a competitive disadvantage to the waterways because waterways get part of their cost base free and the railroads do not.

We are going to further study the truck area. The choice is fairly clear: Either make everybody more competitive by properly adjusting the user taxes, or give everybody a general fund subsidy. Balanced transportation requires one or the other to be meaningful.

Woven in with the user-charge issue and an important part of programming are trust funds, earmarked financing, and long-term financing. The country, in its financing of public transportation programs, has traditionally combined the advantages of long-term financing, predictable formulas, and multiyear contract authority only with trust funds. There are few programs that have those advantages that are not trust funds. For the first time, however, we have achieved these programming advantages in the general fund in the recent urban mass transportation bill.

The Department of Transportation has several basic premises that will serve to strengthen local transportation planning and programming. One is more flexibility in the use of funds, a broader range of modal choices with federal transportation assistance. Another is the use of multiyear contract authority. I foresee that during the next few years contract authority will become a more difficult subject under the new budget control act. We may have to move toward multiyear appropriations. In this connection, there are now multiyear appropriations in the government. One is to the Washington, D.C., Metropolitan Transit Authority, which receives 2 years of authorized appropriations at one time for the subway construction. We may have to move toward this approach because agencies must know in advance what they are going to get in order to plan effectively.

The department's new aviation bill addresses user-charge policy. Interstate aviation is effectively financed by user charges now. However, we would like to see more of the operations of the Federal Aviation Agency financed from these user charges. We have proposed user charges for inland waterways.

We have to analyze transportation investment in a way that openly recognizes the community development impact. For example, one of the arguments used by the proponents of general aviation is its ability to help many communities to attract new industry. This contention is worthy of study. Similarly, one of the arguments used by highway proponents is that highways attract industry. But do you have to have the tax base and the industry first before you get the transportation? Is transportation a necessary and sufficient cause for population redistribution? All are important questions.

Certainly, the transportation department and other federal agencies must do a better job of analysis. In the area of regulation, the argument concerning the need to cross subsidize the unprofitable low-density lines with the high-density lines is raised immediately. This cross subsidy is basically set by the Interstate Commerce Commission or the Civil Aeronautics Board to make transportation available to certain communities. Should we continue this approach, or should we subsidize rural development more directly and perhaps more efficiently?

Will the new budget control act restrict long-term programming to transit funds? Without effective legislative cooperation, it could. This situation is troubling to the Executive Branch because the trend should be away from trust funds. We are proposing legislative alternatives that will deemphasize trust fund financing. We do this to provide flexibility in the use of federal assistance by not locking governments into trust fund financing.

To rectify this problem, we must either amend the budget control act or develop an alternate system that allows for budget review and yet facilitates needed 2- or 3-year delivery systems. We should not allow transportation policy to be dictated by a provision that hinders long-term programming authority unless there is a trust fund.

The budget process, in many cases, is not the most appropriate time to do a program review, and yet I see the trend in the government to place even more emphasis

on the budget process. It is one of the few processes that is real at the federal level, and I am sure that this is true also at the state and local levels. Perhaps we need a new decision-forcing mechanism, and maybe the programming or the intermodal forum is it. However, I do see the trend moving toward the enhancement of the power of the budget process. I am not sure this is a wise decision, but I am not sure it can be changed.

My last point relates to an immediate department programming issue. How will we treat the flexible provisions of the 1973 highway act, especially the transfer of Interstate Highway funds? How can we deliver the funds over time? Should transit substitutes have an advantage over other highway programs? Those of us in the department feel that there has to be some recognition of the special programming, timing, and execution problems of the transfer provisions because our conventional programming process for the Interstate Highway System program does not accommodate the needs. We are working on this problem, and we will appreciate comments and suggestions.