

UNITED STATES DEPARTMENT OF
COMMERCE

John T. Connor, Secretary

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REMARKS BY ALAN S. BOYD, UNDER SECRETARY OF COMMERCE FOR TRANSPORTATION, FOR DELIVERY AT A DINNER MEETING OF THE COMMON CARRIER CONFERENCE OF DOMESTIC WATER CARRIERS, NEW ORLEANS, LOUISIANA, NOVEMBER 18, 1965.

I appreciate this opportunity to get better acquainted with the leaders of our Nation's domestic water shipping industry.

The theme I have chosen for this occasion is economic effectiveness -- a subject which your industry already has shown it understands and appreciates.

Economic effectiveness is a principal objective of all the programs of this Administration.

For some time now, we have been introducing formal cost effectiveness appraisals into our National military planning. This process has resulted in a sharpening of our military planning objectiveness, in the channeling of public funds into areas where defense objectives can better be obtained, and a greater overall efficiency in our defense effort.

Recently, President Johnson called on all Federal agencies to improve their awareness of cost effectiveness. As a result of this Presidential policy, Federal programs in the non-defense areas will be utilizing methods and principles of economic effectiveness which will greatly improve performance and allocation of resources.

Transportation policy will be affected by the National policy of economic effectiveness as much as any other program

of government. We are seeking, not change for its own sake, but a means of developing policies and programming public investments in ways that will increase the benefits to the public. These increased benefits should be the result of better knowledge of the economic significance of programs, including the selection of projects and policies which can be tested against alternatives in practical ways.

Inland waterway commerce in this country has made outstanding progress in terms of traffic growth, relationship to industrial location, and regional development. This progress has been due, in part, to governmental subsidy but also to the economic effectiveness of the inland water industries.

Your industry has engaged in genuine technological development. This development has been geared specifically to the long range program of inland waterway improvements financed by the Federal Government. As a result, waterway traffic moves now in greater volume, faster, and more cheaply than ever before, in spite of a rising trend of costs in the economy as a whole. This is a commendable record of economic effectiveness.

Transportation development generally must follow the same kind of trend. Federal policies of promotion and regulation must encourage performance objectives in transportation so that the results of increased economic effectiveness are passed along to the public.

It is my belief that the difficulties we have experienced in transportation policy through the years are due in large part to the absence of systematic attention to issues of economic effectiveness. Specifically, our policies and practices have not applied economic tests to our actions, nor have they led to significant attention to economic aims in the statement of our objectives.

At this point in our transportation history, we must turn our attention to the areas of public works planning, economic regulation, and transportation subsidy to give encouragement to the objective of economic effectiveness in transportation.

In the field of waterway project planning, improved effectiveness must come in two areas; the planning process itself and in the policy of reimbursement.

Great strides have been made in the processes of water resources project planning. Since 1902, navigation projects by law have been based on specific findings with respect to the commercial importance of project proposals. Extensive experience with multiple-purpose water resource development has led to great concern with measurement of benefits, allocation of costs, and thoroughness of economic analysis. This foundation can be built upon to establish further improvements in the selection of waterway improvements.

One of the significant elements which has led to this outstanding growth of economic measurement in water resources activity has been the existence of reimbursement policies. The existence of reimbursement in such fields as power and water use has provided an incentive for the close study of costs and benefits. This study has led to the refinement of project analysis including the apportionment of costs among the various functions. The incentive, of course, stemmed from the need to make an equitable apportionment of costs for pricing the reimbursable services.

Transportation has not been one of the reimbursable functions in water resource planning. Nevertheless, transportation planning has benefitted from the cost-effectiveness analysis which was made necessary by the existence of truly reimburseable functions in the water resources field.

It is the Administration's policy that water transportation should join the family of reimbursable functions in water resources programs. In plain language this means user charges. The existence of user charges will provide us with a sharper incentive for evaluating the economic effectiveness of waterway projects. Waterway user charges will be consistent with other policies in the water resources field. They will also bring into consistency other transportation policies, such as the financing of highways through user charges and the application of user charges to domestic aviation.

In applying user charges to inland waterways, we are taking into account realistically the problems of transition for an industry not accustomed to paying them. We are introducing the charge in the form of a 2 cents per gallon fuels tax, a level not intended to be burdensome. The form of the tax itself eases the problem of administration because there is a large amount of experience with this kind of tax. It will apply uniformly to all the industry so

that internal industry competitive relationships will not be affected.

Many of the questions and answers concerning this difficult field should emerge in the extensive hearings before the House Ways and Means Committee. The Administration is prepared to support its position in detail in this forum. At the same time, we will consider seriously the need for specific modifications which such a hearing might bring out.

Regulation is another field in which principles of economic effectiveness can be applied. Transportation is undergoing an immense experience of dynamic change. This has made possible new concepts of service, new vehicles and transportation systems, new opportunities to coordinate service among transportation modes, and opportunities to perform transportation at lower costs. All of these opportunities should find reflection in regulatory laws and decisions.

These new developments will increase the competition of other modes with water carriers. So long as such increased competitiveness is due to increased economic effectiveness based on genuine technology and service innovation, it should not be hampered by regulation. Improved cost performance should be reflected in lower rates to the public.

On the other hand low rates should not be used to engage in destructive competition. Destructive competition is assumed to mean pricing below reasonable costs with the intent of destroying the competitive effectiveness of other carriers.

Low cost rates should not be used selectively to favor one region or area over another. There are some who believe that rates should be regulated upward to protect the economic position of a producing region. I do not believe in this approach. I believe that equity in this type of problem should be maintained by passing on the benefits of lower costs and new technologies to all; not reserving them to a few. In other words, low rates made possible by competitive initiative should be extended as widely as possible. The regulatory process should be geared in this direction, not in the direction of holding up rates to protect persons and regions.

Subsidy is a third subject in which economic effectiveness should be a major concern.

As you are no doubt aware, the Interagency Maritime Task Force recently suggested a series of changes in policies and subsidies as they apply to our merchant marine.

Although these suggestions were concerned primarily with our foreign trade fleet, they did contain a provision of some importance to our domestic water carriers. This proposal would permit domestic shipping operators to purchase ships abroad.

This would give domestic shippers the same options in the foreign purchase of capital equipment as operators in other modes of domestic transportation -- airlines, for example.

The domestic shipping industry is a part of our domestic transportation system. It is protected from foreign competition, but is exposed to competition by other modes here at home. And our national transportation policy should and does call for equal treatment among our domestic systems of transport.

The suggested changes in maritime policy are designed to strengthen the fleet by making it more productive, more efficient and more responsive to foreign competition. It gears the subsidy program closer to the nation's military and essential civilian needs, substitutes direct, visible aids for indirect subsidies, and has a primary goal of paving the way for the industry to take advantage of technological advances as swiftly and smoothly as possible.

Economic effectiveness in facilities planning, in regulation and in subsidy administration must be improved. We can no longer afford to commit our resources by guess. Specific performance measures must accompany improvements in Federal policy.

These objectives are intended to increase the benefits of Government programs to the public, not to hinder the development of sections of our transportation industry.

Your own industry, with its fine record of economic effectiveness, should do well in such an improved policy environment. You seek no subsidy or special favors, you only ask that Government programs be geared to help you

do your job well. A more effective Government program, geared to improved economic performance, will increase the ability of the transportation industry to serve the public.