

Plan formulation. It also allows the Federal Aviation Administrator to allocate 25 percent of the annual appropriations at his discretion.

In order to provide more flexibility for implementation of economic analysis it might be necessary to allow the Administrator to allocate the full amount of appropriations at his discretion, i.e. according to uniform investment criteria set by DOT.

PART II: ADMINISTRATIVE AND NON-ECONOMIC CONSIDERATIONS

Section 7(a)

As explained in Part I, the amendment of Section 7(a) of the Department of Transportation Act would facilitate implementation of effective economic analysis. There does not appear to be any important administrative or non-economic reason why the Act should remain as it is.

Laws Relating to the Federal Aid Highway Program

The concept of a trust fund related to user charges contains the desirable feature of allowing for long-range programming of highway expenditures. This feature could be retained without much distortion provided that the level and structure of user charges feeding the fund are reviewed at relatively frequent intervals with an eye to revision in the light of changes in National transportation demand. The pay-as-you-go nature of the fund could possibly be revised, however, so that bonds might be issued against future user charges revenues, and the total amount of annual construction might be determined by economic studies of transportation demand. The pay-as-you-go formula is currently mitigated to some extent by the provision that Federal funds can be used to repay State bonds for highway construction.

Perhaps the best feature of the distribution formulas is that they provide a generally predictable source of funds for each State for its planning purposes. But a portion of these funds might still be allocated at the discretion of the Secretary using guidelines which give priority to States with projects having high benefit/cost ratios. Also the distribution of expenditure as among Interstate, primary, secondary, and urban extension roads within a State could be somewhat more flexible than provided by the current law (which provides a separate set of funds for Interstate Highways, and which allocates 45 percent of another set of funds to primary, 30 percent to secondary, and 25 percent to urban extensions and does not allow either of these three apportionments to increase or decrease by more than one-fourth within a State through transfers).

As to the restrictions caused by lack of direct administrative control of State Highway Departments, there appears to be logic in retaining this feature of decentralized planning since a large portion of projects, particularly in urban areas, are of essentially local concern.

The Federal Aid to Airports Act

The distribution formula serves the same general purposes here as in the highway case. However, the current 25 percent allocated at the discretion of the Federal Aviation Administrator might likewise be increased to allow further flexibility without eliminating the automatic allocation completely.

Grant Programs in General

Eventually, grant programs regarding urban transportation and ultimately intercity transportation should be put on a common basis. A decision-making body at the local level which is choosing between alternatives, one of which involves 90 percent Federal financing (an Interstate highway), and the other of which involves competition with other areas for a small amount of grant money (mass transit), is likely to be biased in its choice. Legislation of a scope broad enough to change the current situation should be designed to improve the incentive structure for grant recipients to induce them to implement economically efficient systems. This kind of incentive structure would reinforce the effect of investment criteria established by DOT.

Chairman PROXMIRE. Mr. Levine, in your testimony, you claim that the interest rate is of comparatively minor importance in evaluating public investment in human resources and that benefit estimation is the main bottleneck. This being the case, what do you consider to be the crucial next move to either improve the conceptual basis for bene-