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Mr. Chairman, I am pleased to appear before your Committee this morning to discuss user fees for the nations' inland waterways and ports. I would like to begin my remarks this morning by suggesting how increased user fees can promote general economic efficiency. I will then review inland waterways and ports separately in terms of:

- The current status of user fees and some of the proposals now before the Congress for increasing those fees; and
- The short-term effects that increased user fees might have on carriers and shippers.

HOW USER FEES PROMOTE EFFICIENCY

Waterways are representative of a larger class of investments through which the federal government supports the nation's economic infrastructure. When these investments provide benefit to the nation as a whole, then funding entirely by the taxpayers is appropriate. But there are many cases where the benefits accrue to an identifiable group, yet where the market cannot efficiently provide the necessary infrastructural services. In these latter cases, it may still be appropriate for the government to make such investments. But this also raises the question of whether the groups that benefit should pay for these investments, or whether they should continue to receive public assistance in the form of services that are priced below cost.

Two considerations are relevant in deciding this question: equity and economic efficiency. With regard to equity, the choice of which groups or regions deserve special assistance rests entirely with the Congress. I do not propose to comment further on that. But with regard to economic efficiency, increased user fees are clearly desirable.

In the long run, fees that recover the full cost to the government will yield a more efficient transportation infrastructure. To the extent that users of all modes of transportation reimburse the government for expenditures made on their behalf, the pattern of long-run investment will shift to the most efficient modes. Thus, the principal benefit of full-cost recovery is a transportation system that provides the most efficient service to the nation's economy.

A secondary benefit is reduction in net federal expenditures. Current and projected deficits in the federal budget create economic hardship, largely through upward pressure on interest rates. Increased user fees cannot by themselves eliminate the deficit, but they can help: the CBO estimates that net federal expenditures by about $4.2 billion in 1983 by increasing user fees to achieve full cost recovery.

To accomplish these goals, the Administration has proposed bills that would increase inland waterway user fees and shift federal port costs to the users. More than 10 similar bills have been proposed in the House. In

varying degrees, all of them seek greater efficiency in the nation's transportation system by requiring beneficiaries to pay the costs. But there is also a price to be paid for this. In the short term, higher user fees are likely to cause dislocations for certain carriers and shippers that have grown accustomed to receiving services priced below cost. I will address these effects separately for inland waterways and then for ports. But first, it is necessary to review the current status of user fees and proposals for raising them.

INLAND WATERWAYS: CURRENT FEES, PROPOSED FEES, AND IMPACTS

The inland waterways are a critical component of the nation's transportation network, particularly for coal, grain, and petroleum, and for the shipping of exports. Barges using the inland waterways pay a fuel tax of 6 cents per gallon, the only user fee now charged for these facilities. Under current law, this tax will rise to 10 cents per gallon by 1986, but even then, will recover only a small portion of federal expenditures. From 1983 through 1987, the government will spend $1.1 billion for construction of inland waterways, and an additional $1.5 billion for their operation. By contrast, current user fees are likely to generate only $240 million over the period.

The bill proposed by the Administration (H. R. 4846) would sharply increase these fees. It would eventually recover all navigation-related federal expenditures on inland waterways, including those that go both for

construction and for maintenance. Construction expenditures would be amortized over 50 years for new work and over 15 years for rehabilitation. The bill does not specify how the user fees would be collected, leaving that decision to the Secretary of the Army. It would yield about $1.66 billion in revenue over the next five years--some $300 million in 1983 and nearly $400 million in 1987.

Effects on Carriers. Fees for waterways are best employed as part of a broad federal policy of charging users the full costs of federally provided transportation services. Under such a policy, user fees would not necessarily put waterborne transportation at a disadvantage relative to other modes. Rather, they would help correct the distortions created by current subsidies.

Domestic inland water transportation received the highest subsidy of any freight mode in 1980--3.9 mills per ton-mile. This is well above the 2.2 mills per ton-mile received by railroads and the 1.8 mills per ton-mile received by trucks (see Table 1). Pipelines, which carry more ton-miles than either barges or trucks, receive no federal capital or operating subsidies.

Present federal subsidies for the inland waterways are particularly large relative to the total cost of moving goods. In 1980, subsidies covered more than one-fourth of the costs of all inland waterway shipping. This is more than four times the portion of shipping cost covered by rail subsidies and almost 30 times more than truck subsidies.

TABLE 1. COMPARISON OF FEDERAL SUBSIDIES TO FREIGHT TRANSPORTATION

Mode	Federal Subsidy in Mills per Ton-Mile (In constant 1982 dollars)	Federal Subsidy as a Percent of Total Costs
Truck--1980 Actual	1.8	1.0
Railroad--1980 Actual	2.2	6.2
Inland Waterway--1980 Actual	3.9	29.5
1987 Administration Bill	0.7	7.0

SOURCE: Compiled by Congressional Budget Office from Appendix United States Budget for Fiscal Year 1982 and Transportation Facts and Trends by Transportation Association of America.

Under the Administration bill, waterway users would pay fees that would rise to about 2.0 mills per ton-mile in 1987. As government spending on waterways is reduced in the next five years, this will leave a subsidy of 0.7 mills per ton-mile. This subsidy is lower than those now received by railroads and trucks, although subsidies to these modes, too, will probably decline. The Administration proposal would reduce the waterway subsidy to about 7 percent of the total cost of shipments--still more than railroads and trucks now receive.

Several caveats must be recognized in using these comparisons. First, they are rough generalizations that may not apply to any specific region or company. Second, some joint investments cannot be allocated precisely because they benefit several groups at the same time: highway

projects, for instance, aid both trucks and cars. And third, there are definitional questions about what is a subsidy and when it should be counted.

Nevertheless, the simple, aggregate statistics outlined here are a useful measure of relative federal subsidies to each mode. This measure suggests that inland waterways now receive the largest subsidies of any mode of freight transportation. While the Administration proposal would significantly increase waterway user fees, some distortions would persist due to the remaining subsidies for each mode.

Impact on Shippers. The Administration bill for inland waterways would increase total cost for the average carrier by around 16 percent in 1990. Some of this would be borne by the carriers, but much would also be passed on to shippers. How much would be passed on depends upon the larger economic structure into which the traffic fits.

Coal and grain would be among the commodities most affected by increased user fees. Much of the coal moves relatively short distances for use by utilities and industries that have made substantial investments in coal-burning equipment. Few such coal users have any reasonable alternative sources of supply. Thus, barge operators could presumably pass along most of the increased user fees to shippers, and relatively little traffic would be diverted. Much of this coal goes to utilities, where the fees would ultimately get passed along to electricity consumers. These consumers could end up paying about 1 percent more for their electricity.

With regard to soybeans and grain, the fees in the Administration bill would increase the costs of shipment by about 6 cents per bushel in 1990. But farmers are not likely to bear this burden alone; instead, the impact of increased waterway fees on farmers depends upon many factors such as variations in domestic grain production and export demand, and the response of other haulers--railroads and truckers--to higher barge rates. When the market for grain exports is slack--as it is now--many water carriers would probably have excess capacity; thus, competitive pressures might force them to absorb part of any increases in waterway users fees. Conversely, when the export market for grain is expanding, as it was in the early 1970s, water carriers might be able to pass along any increases in user fees to handlers and shippers. These firms, in turn, would probably be able to pass much of this along to foreign consumers. To the extent that this occurred, the burden of increased user fees could be transferred to countries that import U. S. grain.

If half of the 6 cent per bushel cost were borne by farmers and the other half by owners of grain elevators, consumers, truckers, or waterway operators, then farmers would absorb a loss of about 1 percent in gross income for corn and wheat and about a one-half-percent for soybeans. For a representative, commercial farm producing 400 acres of corn and soybeans each year, these user fees would cause a loss of gross annual income of about $900.

DEEP-DRAFT NAVIGATION: PROPOSED FEES AND IMPACTS

Deep-water U. S. ports--the beneficiaries of sizable federal expenditures--are vital to the nation's economy. In 1980, $118 billion worth of farm and food products, coal, chemicals, fertilizers, and other goods passed through 186 U. S. ports.

Several federal programs support deep-draft navigation. The Coast Guard provides unreimbursed services of $240 million a year, and the Army Corps of Engineers spends about $470 million a year to build, operate, and maintain deep-draft navigation facilities. The total expenditure from 1983 to 1987 is $3.55 billion, most of which could be recovered through user fees. Beyond this, U. S.-flag international shipping receives very large operating and ship-building subsidies from the Maritime Administration; but these are not addressed by current user fee proposals.

Proposals are now being considered that would increase fees for the operation and maintenance of deep-water ports. Under a Senate bill (S. 1692), ports would begin in 1983 to pay the lower of 25 percent of their operating and maintenance cost, or a charge of 6.9 cents per ton. Only 41 ports would pay the 25 percent; the remaining 145 would pay 6.9 cents per ton. The federal government would not be directly involved in capital expansion. The Senate bill would yield fees of $250 million through 1987 and $625 million of reduced capital expenditures.

Under the Administration proposal (H. R. 5073), ports would pay all of the costs of operation and maintenance, yielding about $1.7 billion over the next five years. Federally financed construction would be reimbursed over a 50 year period with interest, or on a yearly cash basis, at the discretion of individual port authorities. But such reimbursement would probably yield little revenue in the 1983-1987 period because fees would not be collected until the work was complete. In addition, the Administration proposed in its fiscal year 1983 budget user fees to collect that portion of Coast Guard operating costs allocable to the maritime industry and recreational boaters.

Effects on Carriers. Taken together, Coast Guard, port, and maritime subsidies to deep-draft navigation in 1980 ranged from around $0.50 per ton to foreign-flag shipping to about $22.00 per ton for U. S.-flag international shipping (see Table 2). As with inland waterways, deep-draft subsidies make up a sizable share of total shipping costs. When current federal subsidies are allocated to the different forms of deep-draft navigation, they represent about 7 percent of the cost of coastwise navigation, 19 percent of cost for Great Lakes shipping, and 23 percent of cost for U. S.-flag international shipping.

The deep-draft port fees proposed by the Administration would substantially reduce the subsidies to coastwise, foreign-flag, and Great Lakes shipping. If Coast Guard user fees were also enacted, then subsidies

TABLE 2. APPROXIMATE FEDERAL SUBSIDIES AS A SHARE OF THE COSTS OF DEEP-DRAFT NAVIGATION IN 1980

	Total	Great Lakes	Coast-wise	International	
				U. S. Flag	Other
Subsidies in Dollars per Ton (1982 dollars)	1.20	0.70	0.90	22.00	0.50
Federal Subsidies as a Percent of Total Cost	11.0	19.0	7.0	23.0	5.0

to coastwise, Great Lakes, and foreign-flag shipping would be virtually eliminated. U. S.-flag international shipping would still be heavily subsidized through Maritime Administration programs, although the Administration has proposed some reductions in these programs as well.

The Senate bill would leave all forms of domestic deep-draft navigation with substantial subsidies relative to other forms of freight transportation. The subsidies to coastwise shipping would be about 6 percent of total costs, subsidies to Great Lakes shipping about 14 percent of total costs.

Effects on Shippers. Under either the Senate proposal or that of the Administration, the impact of user fees for ports is likely to be small. The maximum user fee of 6.9 cents per ton contained in the Senate bill would add about 3 percent to present port charges for shipping coal, and less than

1 percent to charges for grain and other commodities. This would add less than one-third of 1 percent to the total transportation cost of any international movement. Most traffic would bear even less of a burden; 67 percent of the tonnage through U. S. ports passes through the 41 that would set charges at less than the maximum.

Under the Administration proposal, full recovery of operating and maintenance costs would increase the average total transportation cost of most exports and imports by less than 1 percent. It would, however, add about 4 percent to present port charges for grain shipments, and 8 percent to port charges for coal. Many smaller harbors, which have relatively high operation and maintenance costs, would experience increases above these averages.

Compared with the effects of proposed inland waterway fees, the proposed port user charges would influence shipping costs and traffic volumes only slightly. For example, the Administration's proposed fees for inland waterways would increase the transportation costs for grain exports by roughly 6 cents per bushel. By contrast, the port user fees proposed by the Administration would add only one-half cent per bushel to shipping costs.

This could change, however, if major capital improvements were made. New, deep-draft coal ships, for example, would require widescale

dredging to deepen port channels. A typical cost estimate, that for the port of Norfolk, would be about $480 million. If these costs were amortized over 50 years as the Administration has proposed, the resulting user fee would be around $1.00 per ton of coal. Nevertheless, this fee is much less than the anticipated savings from using the very large ships.

SUMMARY

In summary, Mr. Chairman, there is a strong economic case for charging those who benefit from federal investments in our transportation infrastructure the full cost of those expenditures. Full cost recovery would be a small but important step toward a reduced federal deficit. But more important, the proper application of user fees would result in long-term investments that would ultimately yield the most efficient transportation system. To be sure, there are short-term costs to be borne. But the aggregate estimates presented here do not suggest that these would forbid the widescale application of user fees, even recognizing that the actual costs will vary sharply among regions and groups. To the contrary, full cost recovery of the government's investment in the transportation infrastructure would make a strong contribution to the long-term health of the economy.

Mr. Chairman, that concludes my prepared remarks. I will be happy to answer any questions.