

EXECUTIVE SESSION

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TUESDAY, MAY 2, 1978

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United States Senate,
Committee on Finance,
Washington, D.C.

The Committee met, pursuant to notice, at 9:35 a.m.
in room 2221, Dirksen Senate Office Building, Hon. Russell
B. Long (Chairman of the Committee) presiding.

Present: Senators Long, Ribicoff, Nelson, Bentsen,
Moynihan, Hansen, Laxalt and Danforth.

The Chairman. I wanted to ask the Committee to discuss
briefly the problem of the waterway user tax. I have a
letter here, at least a copy of a letter, from Brock Adams.
Maybe it would be well for us to read it.

Do you have a copy, Mr. Stern? Why do we not read it
over?

Mr. Stern. Yes, Senator Long.

"Dear Senator Long: I am writing to advise you of the
Administration's views on legislation now pending before
the Senate concerning Lock and Dam 26 and waterway user
charges.

"When I last wrote you on the issue of waterway user
charges, it was to inform you of the President's intention to

1 veto the House bill, H.R. 8309. We remain convinced that
2 the 4 cent/6 cent tax recommended by the House is inadequate.

3 "The Administration would still prefer legislation
4 recovering 100 percent of the costs of operation and main-
5 tenance, and 50 percent of the cost of new construction of
6 the inland waterway system. This year, those costs are
7 approaching the half-billion dollar level.

8 "In order to expedite this matter, however, we will
9 accept the compromise substitute for H.R. 8309 that has been
10 offered by Senators Stevenson and Domenici. This substitute
11 offers the minimum acceptable basis from which to develop
12 an adequate House-Senate conference bill.

13 "In our view, the most important elements of the Stevenson-
14 Domenici proposal are:

15 "One, an adequate level of taxation implemented by a
16 date certain. We support the Stevenson-Domenici proposal for
17 a gradually phased-in fuel tax beginning no later than FY
18 1980 and reaching 12 cents per gallon by the end of FY 1984.
19 This tax will still be proportionally much less, for example,
20 than the dedicated highway taxes paid by the trucking industry.
21 Based on extensive studies, we believe that this tax would
22 impose no serious hardship for barge companies or their
23 shippers.

24 "Two, the principle of cost recovery. Both this Adminis-
25 tration and the Senate have supported full recovery of

1 operation and maintenance costs and 50 percent recovery
2 of the cost of the new construction on the inland waterway
3 system. While we remain convinced of the correctness of
4 our position, we are willing to postpone implementation of
5 this level of recovery pending the outcome of a comprehensive
6 study to be carried out by the Department of Transportation
7 and other agencies.

8 "In the meantime, the fuel tax discussed above should be
9 implemented. For any projects initiated prior to the enact-
10 ment or rejection of the recommendations of the DOT study,
11 a minimum of 10 percent of capital costs should be recovered,
12 as proposed in the Stevenson-Domenici substitute.

13 "Three. Comprehensive planning for the inland waterway
14 system. As the costs of the current waterway system have
15 escalated, the need for a comprehensive review of waterway
16 development policy has grown. The commercial waterway indus-
17 try, according to a recent CBO study, receives the equivalent
18 of 40 percent of its annual revenues in federal subsidies
19 in the form of free federal waterway operation and construc-
20 tion; the equivalent Federal subsidy of other modes is 3 percent
21 or less. The Stevenson-Domenici study proposal offers an
22 opportunity to develop a coordinated approach to waterway
23 costs within the context of a national transportation system.

24 "This Administration very much wants to establish a fair
25 system of waterway user charges along with the waterway

1 improvements that are needed. However, the President has
2 asked me to emphasize that our desire to establish this system
3 does not mean that we will accept legislation involving
4 insubstantial taxes which are indefinitely delayed. He has
5 asked me to advise you that he will not sign legislation
6 authorizing a new lock and dam at Alton, Illinois unless it
7 establishes a firm timetable with an early commencement date
8 for the implementation of a fuel tax which would recover
9 a substantial portion of operating costs. Moreover, accept-
10 able legislation would provide for some capital cost recovery
11 on new waterway construction, pending Congressional enactment
12 or rejection of the recommendations of the DOT study. The
13 Stevenson-Domenici proposal meets these criteria as compared
14 with other proposals that have been circulated recently in
15 the Senate which do not, and would not be signed.

16 "In addition, the President has asked me to convey his
17 hopes that this bill will not be used as a vehicle for
18 additional costly or extraneous amendments that could jeopar-
19 dize final enactment of this needed legislation.

20 "I hope that you will be able to support the Stevenson-
21 Domenici substitute, and that we can finally resolve this
22 difficult issue."

23 "Sincerely, Brock Adams."

24 The Chairman. Several thoughts occurred to me with
25 regard to this. One of them is that the Administration, to

1 the best of my knowledge, is not as adamant as they appear
2 in this letter, but I think they would settle for less than
3 the 12 cents per gallon, but I think with the House bill
4 having much less than that, they feel that you have to have
5 a tax more than that in order to compromise on some point
6 that they would settle for.

7 As far as I am concerned, I would be willing to support
8 something where we would phase in a tax that would gradually
9 go to 12 cents a gallon. I think that it should take a
10 longer phase-in than that.

11 You start with what the House is recommending -- 4 cents --
12 then in two years go to 6 cents, then to 8 cents. When you
13 get to 6 cents, as I understand it, the tax, at that point,
14 would be exceeding the entire, all the net profit of the
15 barge industry to make it go.

16 I do not think that would put it out of business, but
17 to raise rates to stay in business. By the time that it
18 gets to 12 cents, that would be more than twice what the net
19 profit is, by the best estimates that I have seen.

20 So if we said, well, we would start off with the 4 cent
21 tax then phase on up to 12 cents, we would be at the same
22 figure that they are recommending.

23 There is a question of when that ought to start. The
24 Administration has been holding hostage this Lock on the
25 basis that the President is going to veto anything that is

1 going to commence that very vital Lock which is at the
2 very crucial crossroads on the whole Mississippi system,
3 unless we put a tax, or something of that sort, into effect.

4 Now, my thought about that would be -- and it has
5 been suggested -- that the tax should not go into effect
6 until the Lock starts. Now it looks as though, even if the
7 Administration is willing to go along with the Lock and if
8 they agree with the tax situation, the environmentalists may
9 hold up the Lock over a period of quite a few years so the
10 Administration then wants some firm date when the tax would
11 start into effect.

12 My thought, if Mr. Domenici wants to start it next year,
13 my thought is that it should be delayed for a few years if
14 for no better reason than to hope that the Administration
15 would give us the go-ahead to get the Lock started. What do
16 you think, Mr. Danforth? You are very familiar with that
17 Lock.

18 Senator Danforth. I think that is true, Mr. Chairman.
19 I am told by the lawyer who is handling the litigation which
20 has been brought by the railroads and the Issac Whalton
21 League, that it is likely that this case is going to be in
22 litigation for three to five years.

23 Of course, nobody knows how the litigation is going to
24 go, but hoping that it is going to turn out favorably because
25 Lock and Dam 26 is really essential to the inland water system

1 and I think everybody recognizes that. If it is three to
2 five years, that would mean that we would be ready for
3 construction to start somewhere around 1981, 1982, 1983.

4 So my idea is that I would prefer for no tax to be
5 imposed until we know we are going to have a new Lock and
6 Dam 26. This has been held hostage for the tax, but if the
7 Administration is insistent on a date certain, it would seem
8 to me that the fairest way to arrive at a date certain would
9 be to split the difference in the range that the lawyer has
10 given us as to when he believes construction will start,
11 and to take the position that the fuel tax will be imposed
12 either in 1982 or when construction is commenced, which ever
13 is earlier.

14 With respect to the 12 cent figure, I think that you know
15 that I have not been very happy about the idea of the fuel
16 tax concept at all, because it is really a major change in a
17 waterway system which has been, as a matter of national policy,
18 free since the beginning of this country. But, if we are
19 going to have a fuel tax -- and I think we pretty well decided
20 that in June -- I am concerned personally that 12 cents is
21 just too much.

22 The fact is that a 12-cent fuel tax, by itself without
23 any capital cost recovery at all, a 12-cent a gallon fuel
24 tax would mean that the relative subsidies between what the
25 Federal government offers the railroad and the Federal

1 government offers the inland waterways system would be
2 substantially higher by the time the 12 cents is imposed.
3 than the subsidy for the railroads. That is, the subsidy per
4 ton mile for the railroads would be \$1.18 whereas the
5 subsidy for the ton mile for the waterways system would be
6 90 cents. That is considering everything, even weather
7 service, to be included what we consider the Federal subsidy
8 for the inland waterways.

9 If it is the view of the Administration that we should
10 weight the subsidies for reasons of policy in favor of the
11 railroads, it would seem to me that this is a pretty heavy
12 weighting, but I, for the sake of getting the central struc-
13 ture moved along, would be willing to go along with a
14 phase-in up to 12 cents, provided that the phase-in began
15 no earlier than 1982, or the date of construction, when
16 construction begins, and that that would be phased in at
17 4 cents for two years, 6 cents for two years, 8 cents for
18 twoyears, 10 cents for two years, and then 12 cents.

19 The Chairman. At what point in 1982 are you talking
20 about, because it makes a difference? What date would you
21 say, January 1?

22 Senator Danforth. Yes, I would say January 1.

23 The Chairman. January 1, 1982.

24 Well, that part of it, with the understanding, with the
25 provision that if that Alton Lock is under construction,

1 Lock and Dam 26 is under construction prior to that time, the
2 tax starts to phase in, let's say the first day of the first
3 month after they start construction.

4 Senator Danforth. Right.

5 The Chairman. How does that sound to the other members
6 of the Committee? Does that sound fair enough?

7 Senator Bentsen. It is all right with me. I would
8 like a little more information from Senator Danforth. He
9 cited some figures that were very interesting concerning this
10 subsidy. Would you elaborate a little more on the subsidy
11 you are talking about for the railroads and for the barges,
12 on the \$1.18 and the 90 cents?

13 Senator Danforth. Well, the way the waterways have been
14 subsidized is to provide for maintenance and repair and
15 construction in the inland waterways. The subsidies for the
16 waterways would consist of expenditures by the Corps of
17 Engineers for those purposes. We have also included in making
18 the computation Coast Guard expenditures for aids to naviga-
19 tion and national weather service expenditures for river
20 weather forecasts.

21 The railroad subsidies would consist of investment
22 in ConRail debentures and deferred stock, interest and subsi-
23 dies to solvent railroads, grants to railroads for rail
24 continuation, Federal government pick-up of railroad retirement,
25 and Social Security payments, and tax expenditures of various

1 kinds.

2 AMTRAK appropriations are not included, although that,
3 in itself, was somewhat of a bail-out of the railroads, but
4 the form that the Federal subsidies to the railroads have
5 taken has been in the form of ConRail and picking up the
6 retirement system and so on.

7 Senator Bentsen. Thank you.

8 The Chairman. It seems to me that that is a fair pro-
9 posal. If there is no objection, let me just address myself
10 to this paragraph 2.

11 The Administration wants the principle of cost recovery
12 and the discussions that I have had with them is that, with
13 regard to the things that are in this bill, the bill pending
14 on the Senate Floor, the projects going on now, they are
15 willing to postpone that cost recovery until after a study
16 which would come back in 1981.

17 Now, my thought is whether a further cost recovery ought
18 to be brought about by a toll on a new lock or whether it
19 would be brought about by a simple tax on a fuel is something
20 that we ought to wait for the outcome of a study. One thing
21 that is fairly obvious to me, if you take a waterway such as
22 the intercoastal waterway that has had a tremendous amount of
23 traffic, and if you put a toll on that one, that is not going
24 to keep the people from operating on that waterway. They have
25 the equipment, they have the sales office.

1 If they have a cut in business, they will have to raise
2 their rate.

3 If you take a new waterway such as the Tombigbee,
4 nobody is proposing that these tolls be put on the Tombigbee
5 which is under construction now. If you are going to make
6 them pay a toll everytime they are going to go through a lot
7 on the Tombigbee, which does not have any traffic, which is
8 not there, it might never get studied, it might never get
9 off the ground at all, with the result, it is sort of like
10 looking at two men in the gym. One fellow has been working
11 out in the gym for years and he is having muscles big enough
12 to lift 300 pounds and can push it over his head and another
13 fellow has never been in the gym a day in his life. He just
14 comes in there off the street, hardly any muscles at all.
15 He would pull a muscle trying to lift one of those heavy
16 weights off the ground.

17 It is really sort of putting the weight on the wrong
18 fellow if you think that a new project might succeed to start
19 them off at a big disadvantage compared to people that they
20 are competing with.

21 I know that the Administration itself has to have doubt
22 about this approach, because if you assume that a new
23 project will work, if you assume that it is justified, it
24 seems to me that it might be better to put the tolls on the
25 people who have the traffic already where you know that they

1 can pay it, rather than putting it on somebody that does
2 not have any business hoping that he might get going but
3 might never succeed at all.

4 It is just like putting a big tax on a new business
5 but leaving it off the old business. The old business
6 probably could carry it; the new business may never make
7 that toll.

8 I think that we ought to leave that for further
9 consideration and take all of that into account at such time
10 that somebody wants to start one of these new projects.

11 Is there someone here that would like to speak for
12 the Administration on that point? about the toll on these
13 new navigation projects?

14 (Pause)

15 Mr. Walsh. Mr. Chairman, of course the Administration's
16 bill, that is the bill that they have offered support to,
17 does not, at this time, contemplate differential taxation by
18 segment. That decision was put off to be covered by a
19 study which will subsequently be considered by the Congress.

20 I believe that it has always been our intention to
21 treat developmental rivers differently than we treat the
22 fully-developed river system and our recommendations, I would
23 suspect, would put that forward.

24 The Chairman. It seems to me that if we are going to have
25 a study, the study ought to include the various suggestions

1 as to the way that you could go about raising more money.
2 I do not know what the answer is.

3 Let's take the intercoastal, for example. If any water-
4 way could carry a toll, I think that one can, but that one
5 was not built, as I understand it, it started to handle
6 something there, but what built the intercoastal waterway
7 was World War II. Back at that time, when the ships would
8 go out to the Gulf of Mexico, those German submarines would
9 torpedo them.

10 In order to move that tonnage, was moving coastwise,
11 without giving those German submarines a shot at it, they
12 just dug that waterway through those marshes and the result
13 was then you could load those barges down and go through
14 those marshes with the same cargo and the German subs could
15 not get at it.

16 Just like we have a lot of assets, old air bases and
17 everything else that the cities could use from World War II,
18 that is how the Gulf Coast got that intercoastal waterway.

19 Now, in renewing those locks, it maybe that they might
20 want to put a toll on, but I would think that that ought to
21 await the outcome of a study.

22 What is the Administration's view on that part of it?
23 Mr. Walsh. I believe that we agree with you.

24 The Chairman. It seems to me that if we could do that,
25 we could say, all right, we would have a tax which could only

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1 be borne, the profits figure I have is that the tax figure
2 that we are talking about can only be borne, the figures I
3 indicated, that the tax, when it is up to 12 cents, it would
4 be twice what the net profit of the barge industry is.

5 The only way they can pay that is to raise their
6 rates, but in the phasing-in, we can take a look at it to
7 see what the effect of it would be and meanwhile, when
8 someone comes in with a new project, that would be an appro-
9 priate time to talk about well, there should be some addi-
10 tional charge to pay for that project.

11 If that could be the case, I would think that we could
12 hopefully recommend something that the Administration could
13 go along with.

14 Mr. Walsh. Senator, I believe that you rather accurately
15 described the kind of capital cost recovery that we are
16 supporting.

17 The Chairman. Please understand that I do not vote for
18 all of these taxes just because I want somebody to pay the
19 tax. I just recognize the facts of life. The President's
20 position, the Administration's position, the Secretary of
21 Transportation's position, and the position taken by the
22 Senate, that it is felt that there ought to be a tax on the
23 waterways to help to pay for the costs of these improvements.

24 But my thought is that there is no point in us suggesting
25 that when somebody works very hard to get some project

1 authorized, we ought to deauthorize it.

2 My thought is, just before we start it, we ought to get
3 this study in here and if somebody wants to start some pro-
4 ject between now and then we ought to talk about, how do
5 we go about paying for it.

6 Mr. Grayson. My understanding of the amendment that
7 Senators Stevenson and Domenici have offered and the Presi-
8 dent has supported, would say, with regard to any of these
9 new authorizations, none of which are expected to go in the
10 next three-year period or the period of study, but in case
11 any of them should go, that we would attempt to recover 10
12 percent of the capital construction costs.

13 I believe that that recommendation is based upon the
14 Section 80 study required by the 1974 Rivers and Harbors Act
15 that the water resources concept, with the Corps of Engineers
16 voting in the affirmative, agree that, as a floor, 10 percent
17 costs recovery on navigation was a reasonable beginning.

18 So that it was felt that the original Senate position
19 that was taken by Senator Domenici and others and a majority
20 of the Senate that took the position of 100 percent operation
21 and maintenance and 50 percent new construction costs should
22 be dropped back to a position of 10 percent for the purposes
23 of compromise. And even then that we were not anticipating
24 any major projects going through during the period of the
25 study.

1 The Chairman. It seems to me that we can compromise
2 that by just saying that 10 percent capital recovery will be
3 a part of what the study will be about and basically that
4 we do not anticipate starting any new projects between now
5 and then.

6 Mr. Grayson. It was believed by the President and the
7 Secretary, and I believe by both Senators Domenici and
8 Stevenson, that this would be -- that to put the principle
9 into effect at this point was, both on the basis of the
10 vote of the Water Resources Council on a substance basis and
11 on a political basis, that perhaps it would be a disincentive,
12 at least while this study was going on, during the three-
13 year period, for projects to go in which were not planned
14 in the general sense that we are trying not to plan the
15 river system as a transportation system.

16 The Chairman. I would hope that we could avoid getting
17 involved in this, that the Administration could take the
18 view -- I do not quarrel with this -- about the other things
19 that come in, and I assume we are talking about these major
20 new river projects in places where they do not have naviga-
21 tion and they want to extend navigation to it.

22 They take the view that we are not going to go along
23 with that. The President can veto it, if he wants to. Unless
24 some arrangement has been made that we do not see at this
25 moment to pay for it. That being the case, it would just have

1 to be postponed until we can work out something. What that
2 is going to be, I do not know, but meanwhile, everybody can
3 adjust himself to the new situation, that is, that it is
4 going to cost a lot of money. For example, no one can tell
5 just how much shift in cargo is going to be as a result of
6 these taxes. Obviously, it is going to raise the cost.

7 Mr. Grayson. We have had fairly extensive studies and
8 I guess part of the question that Secretary Adams faced in
9 the initial question on this was the potential impact on
10 cargo, both on rail cargo and on water cargo, using the 150
11 percent figure, and there were extensive studies.

12 Dick, perhaps you can address yourself to them. As
13 you know very well, Senator, one of the serious problems we
14 face and the President faces in terms of the transportation
15 system is the decline of the railroads in the Midwest and the
16 potential impact that that would have -- we have had two
17 bankruptcies this year -- that the waterways system would
18 have on the total transportation system.

19 So we have done rather extensive studies that, as you
20 stated, have not really laid out in specific fashion the best
21 and fairest possible way of getting to a full recovery system,
22 but have taken a hard look at the trade-offs in terms of
23 potential price increases on cargo movement and potential
24 cargo shifts.

25 Dick, I would ask you to address that question, because

1 we have looked at it extensively.

2 Mr. Walsh. Senator, any academic study can be criticized,
3 can be doubted. Nevertheless, we believe that we have done
4 probably the best economic impact study of the waterway user
5 charges that it is possible to do without actually having
6 some experience.

7 The result of that study, in sum, said that we could
8 not discern any significant economic impact at all from the
9 imposition of waterway user charges, considering that they
10 would be phased-in over a considerable period of time, and
11 the fact that there was long-term secular trend of expanded
12 traffic in the area in which the waterways operated. That
13 is, it would seem to be that the waterways would not absolutely
14 use traffic. They would perhaps not share fully in the
15 growth of that traffic over time, and ultimately, all of the
16 costs of operating and constructing the inland waterways
17 through the approximate users of that system.

18 The Chairman. Let me just look at the point involved
19 here. If you are really trying to move towards a good
20 transportation system, you would want to encourage the type
21 of thing that is going out there in the Midwest where the
22 Milwaukee Railroad -- I think that is the one that is doing
23 it -- is taking that grain and moving it to the waterway and
24 putting it on a barge line. Then the grain comes down by
25 barge and those farmers save \$5 a ton.

1 That is a lot of money for those farmers to make by
2 moving the grain by rail to the waterway and down the water-
3 way.

4 Up until, for all of these years, that type of saving
5 would have been available, but until just recently, those
6 railroads would fight the idea of taking something off the
7 rail, moving it on the rail to where the waterway is, and
8 then taking it off the rail and putting it on the waterway
9 to save those farmers \$5 a ton. They would hate that like
10 the Devil hates holy water.

11 The very thought of saving those farmers \$5 a ton by
12 moving it by the most expeditious way -- is there anybody
13 in your group who would agree that it is in the interest of
14 those farmers and in the national interest, it is cheaper
15 to move it by water than rail? You ought to use the rail
16 when the water is not available and take the cheaper form
17 going down the river.

18 Mr. Walsh. Every transportation expert agrees completely
19 with you.

20 The Chairman. In terms of what is involved here, that
21 is one of the things that the railroads like to resist. Why
22 is that Milwaukee Railroad doing that? Because they do not
23 have a rail going into New Orleans, so that being the case,
24 they are happy to have some grain to haul to the Mississippi
25 and put it on the barge and send it on down and save the

1 farmers \$5 a ton.

2 That is the type thing that we ought to be encouraging
3 with this. I am not opposed to having these railroads own
4 some barge lines and let them provide the service all the way
5 down. It is all right with me.

6 I have heard barge operators testify against it, but
7 it is all right with me to let them use the best method,
8 the most efficient way, of getting something from one point
9 to another.

10 Part of what is implicit in this, the railroads are
11 suffering -- and I sympathize with them -- so they want to put
12 a charge on the other guy.

13 So I would hope, as we go along, that this study, and
14 the upshot of all of this is that we will find a way where
15 we will try to make use of the best possible method rather
16 than do just the opposite. If we can do that, I think that it
17 would benefit all concerned.

18 Obviously, the railroads have problems. I swear it has
19 to do with all the featherbedding practices where they make
20 them take a great deal of personnel aboard those railroads,
21 more than they need.

22 Here is Southern having to discontinue their train to
23 New Orleans and they say they think all they need to have is
24 four people on that train and change their crew once in Atlanta
25 and instead, they have five people on the train and change it

1 four times between here and New Orleans -- 20 men instead
2 of 10 or 8.

3 I suspect that is more the problem that the railroads
4 have than this fuel thing on the barge line, but I think that
5 if we could agree to this now, we could agree later on
6 whether there is some way. Maybe in your study you could
7 help work out some way to help resolve the differences
8 between the two.

9 This thing is not a quarrel between the truckers and
10 the barge lines, it is between the railroads and the barge
11 lines, and I would hope in your study you may find some way
12 to help to get the warring interests together.

13 Mr. Walsh. In the mode of equity, in terms of financial
14 support, is the side benefit of including waterway user
15 charges. It is not the main purpose. The main purpose of
16 the waterway user charge is to shift the burden of the finan-
17 cing of waterways from the general taxpayers to the approximate
18 users who can best make the decision as to whether to use the
19 service or not.

20 I agree with you that that does not seem to be -- let
21 me put it this way. Internalizing waterway operating and
22 capital costs to the users of the system is not going to solve
23 all the railway's problems. Their problems go way beyond the
24 kind of competition that they have from the waterways.

25 Over a long period of time, however, we would have a better

1 transportation system if all forms of transportation in
2 fact pay their own way.

3 Senator Bentsen. Mr. Chairman, if I might, for a
4 moment here, I tookam concerned about the problems of the
5 railroads, but I think when you talk about long passenger
6 hauls, it is the airlines which put you out of business in
7 that regard. I think the Congress makes a drastic mistake
8 when it subsidizes long passenger trains along population
9 corridors; that is fine. When you are talking about running
10 somebody from Washington to Lubbock to Los Angeles, we would
11 be better off to give them a free airway ticket and give
12 all the railroad buffs a free Lionel train set. The tax-
13 payers would be ahead.

14 What we want to do is help the trains when it comes to
15 long hauls on freight and on passenger hauling on high
16 population corridors. But I get concerned about the numbers
17 that are given me from each side.

18 I note here in this letter you are talking about a 40
19 percent subsidy. It is equivalent of 40 percent of annual
20 revenues and the government subsidies, that is the CBO study
21 on commercial waterways industries, where you say the equiva-
22 lent Federal subsidy of other modes is 3 percent or less.

23 That is why I asked Senator Danforth about his numbers,
24 and I understand he says his numbers are after the increase
25 in the rates, after the increase in the Federal tax, if I

1 understood him correctly.

2 I would like for you fellows to tell me why we have
3 such a great difference in the two estimates.

4 Senator Danforth. I think I understand it. The Admin-
5 istration harks on subsidies as a percent of revenue and I
6 think that is the way we phrase it in this letter.

7 Senator Bentsen. That is true.

8 Senator Danforth. That is not the relevant measure,
9 because subsidy as a total percent of total revenue means
10 nothing. All that means is if you have a high revenue
11 producer, that the subsidy is a lower percent of the revenue.

12 The point is not subsidy as a percent of revenue. The
13 point is for a ton mile of shipment, what is the relevant
14 subsidy. That is, you are subsidizing an activity, not a
15 percent of revenue. You are subsidizing the shipment of
16 freight, a ton of freight, a mile on one system or another
17 system.

18 And so if you take what I consider to be the relevant
19 measure of how the subsidies line up, my figures are the right
20 ones. At 12 cents it would be about 90 cents per ton mile
21 would be the subsidy that the barges would be getting and
22 \$1.18 would be the ton mile subsidy that the railroads are
23 getting.

24 The Chairman. You are saying, in effect, if you make
25 a comparison of moving people around, the relevant figure

1 would be a subsidy per passenger mile?

2 Senator Danforth. That is correct, and the subsidy for
3 whatever the earnings of the railroad, or revenues of the
4 barge line, is totally irrelevant. In fact, the higher the
5 revenue of the carrier, if it was very profitable and just
6 bringing in money hand over fist, the lower the percentage
7 would be.

8 Senator Bentsen. I want to be sure that annual revenues
9 is not profits. Are you talking about gross revenues or net
10 profit?

11 Mr. Grayson. Gross profits, which is the fairer test,
12 which is the basis of the CBO study. (On the other hand, we
13 have included, in the measure that Senator Danforth used,
14 a number of subsidies which I do not think that I would want
15 to recognize as subsidies for the railroads.

16 For example, much of the ConRail financing is perceived
17 as loans. The funds that are invested in the waterways, or
18 spent on their annual operation and maintenance are outright
19 grants. I find a very considerable difference between the
20 two.

21 The Chairman. Are you counting on getting back the
22 money and putting them into ConRail?

23 Mr. Walsh. I hope so.

24 The Chairman. All I can tell you is do not count on it.
25 I am Chairman of that Subcommittee. I know what that operation

1 is. If we can get that thing off our back without having,
2 at some point, not putting anymore money into it, I think
3 we would be pretty lucky.

4 Senator Danforth. I have one more observation. We
5 fought this battle last June on the whole question of user
6 fees and we fought it very hard and we lost. We lost the
7 fight.

8 We are going to have user fees on the inland waterways.
9 We even concede 12 cents will be the fuel tax. That is the
10 user fee.

11 We have waved the white flag. We have lost the battle.
12 And now, what we are down to now, is a question of bickering
13 over how it is going to be phased in and whether cost
14 recovery is going to precede the study or not precede the
15 study. Three years, that is what we are talking about in
16 the cost recovery thing if we have it, and what we are saying
17 why have a study? If you are going to anticipate the finding
18 of the study, and we say you are already making major economic
19 analysis, why have the study?

20 If you are going to have the study, put it in later.

21 It seems to me that our side has already lost. I do not
22 like the idea of user fees at all. I certainly do not like
23 the idea of a 12-cent fee. I think it is on fair. I think,
24 on balance, it is not going to come out of unlimited future
25 growth for the reason that there is a physical limitation of

1 how much traffic can move along the waterways. It is not
2 unlimited growth in the future.

3 What we are talking about is trying to help the rail-
4 roads by diverting traffic from the barge industry. That is
5 what is involved here, and I am not against helping the
6 railroads. I served with Senator Long on the Surface
7 Transportation Subcommittee; I am all for the railroads.
8 But it seems to me that there just has to be some limit as
9 to how much and how fast you hurt one means of transportation
10 in terms of helping the other.

11 We have lost this thing. All we are asking for is a
12 little bit of reason. We have been skinned. Just give us a
13 little barrel or a fig leaf of something to walk around
14 with.

15 Mr. Grayson. Senator, if I can respond to that, or try
16 to, I would not characterize it that way. I think -- and I
17 would compliment you as someone who comes from your hometown
18 as I think someone who has put up a very strenuous and a very
19 hard fight on behalf of the barge constituency.

20 The initial Senate bill, as I understand it, was passed
21 and it provided for 100 percent for operation and maintenance
22 and 50 percent for new construction. That, I believe, trans-
23 lated into, just in terms of the fuel tax, if you were
24 suddenly to translate it into fuel tax terms, approximately
25 42 cents.

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That was the position supported by the Administration.
That was the position supported by the United States Senate.
The House of Representatives, on the other hand, passed a
bill which provided for a fuel tax of 6 cents, 4 and 6
cents. The difference between 42 cents and 6 cents is not
12 cents. It seems to me that the Administration has
retreated very substantially from a position and that Senator
Domenici has retreated very, very substantially from the
initial position that he took.

I would compliment you for that. I do not think,
without Senator Long's work particularly, and with Senator
Danforth and Senator Eagleton and others, that the Adminis-
tration would have come to this kind of compromise. We would
not have come nearly as far, in my view.

It is only because of that that the President has
retreated this far. He does not feel at this point that he
can retreat further in the Senate.

Obviously, Senator Long and others will be in the confer-
ence.

The Chairman. Let me make it clear. Here is all we
are talking about. We are saying, look, the Administration
picked Lock and Dam 26 as a point to make their stand and to
say all right, the President is not going to sign anything to
build Lock and Dam 26 unless you give us revenue from the
waterways, a user fee.

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1 Well, all right. We all agree the gasoline tax is a
2 user fee.

3 So what we are saying then is all right, we want a good
4 faith effort to go along with us to build Lock and Dam 26
5 if we are going to vote for the user fee. If the Adminis-
6 tration wants a definite date, we will give you a definite
7 date, but we would like to set the date somewhere around
8 the point where we think the fee ought to be there.

9 If you can get it started before four years, fine. If
10 you can start it next month, go right ahead, go to it. We
11 will start the tax right then and there.

12 Just getting a lawyer's estimate on how long it is going
13 to take to overtake this environmental thing, it looks like
14 three to five difference, so we split the difference to four.
15 That is our suggestion.

16 We say, all right. If you can get it going before that
17 time, great. We will go ahead and initiate the user fee at
18 that point. So we are together on what the tax would be
19 and with regard to further projects, when further projects
20 are initiated, my view there is if you are going to have a
21 study you will not have projects going between now and then
22 anyway and, that being the case, let us see what the study
23 comes up with and see how we think we ought to do it.

24 Meanwhile, I would hope that when this study is being
25 made that you give us tentative conclusions and how you are

1 arriving at them so we can look at them.

2 I regret to say that the studies, for example, on the
3 energy bill, are going to be subject to very severe criticism.
4 I think that will be released sometime soon -- a study by
5 the Chase system, an assumption upon which the energy bill
6 was founded. In my judgment, that was devastating, because
7 the assumptions just leave a great deal to be desired. It
8 is just the type thing we are talking about here.

9 If we on this Committee, and other committees, can look
10 at the assumptions on which you are relying, and then we can
11 suggest why we think they are awry and why we think they are
12 in error, and we can get together on them. Then so if the
13 thing goes on, not just by presenting a final conclusion,
14 but showing us what is going into the computer and let us
15 crosscheck that with you, maybe by the time the study comes
16 in we can all be agreed on it. I hope so.

17 We are agreed here on the 12 cents and if we do that,
18 I would hope that we can work together.

19 In the last analysis, you can settle these things by
20 just calling the roll. I do not think that the Senate
21 necessarily agreed to a 40-cent tax. The Senate, I think,
22 was voting for the principle of putting some cost on the
23 waterway users to help pay for the cost.

24 Nobody really contends that the gasoline tax that those
25 truckers pay is taking care of all the burden that they are

1 putting on the highways. I do not believe you do; I know
2 I do not. I do not think it begins to take care of all of
3 the burden on the highways. It seems that you are shaking
4 your head that you do not think so either.

5 And when we try to see what is being done for these
6 various modes of transportation, we ought to see what the
7 proper comparative basis is. We have time to get together
8 on that. All we are trying to do now is to get together
9 on an amount.

10 I would suggest, then, that we support this study and
11 that we try to support a date of 1981 for the study to come
12 back in. I think that is a fair date. It gives us time to
13 do it.

14 Senator Danforth. 1981 for the study?

15 The Chairman. 1981.

16 Is that all right with the Administration?

17 Mr. Grayson. Yes.

18 The Chairman. All right. Bring us a table back in
19 1981. I would hope we would not have a commitment for
20 further taxes until we see what the study recommended and how
21 it recommends it, being implicit that we would not expect
22 to initiate any new projects between now and 1981.

23 Does that sound all right with the Administration?

24 Mr. Grayson. I am not in a position to pull back from
25 what the President considered to be his bottom line position.

1 I am just not in a position. I do not have that authority.

2 The Chairman. Let me ask you, on the House side, what
3 would their date be that the tax would go into effect?

4 Mr. Shapiro. In the House bill, the tax begins on
5 October 1, 1979. It begins at the rate of 4 cents a gallon
6 for the first two years and goes up to 6 cents in 1981,
7 October 1, 1981.

8 The Chairman. So we would have the dates between 1979
9 and 1981. That would be in conference, right?

10 Mr. Shapiro. That is correct.

11 The Chairman. If this type of proposal were agreed
12 upon.

13 We do not have a quorum here. Senator Bentsen left
14 his proxy to support this type of proposal. I would suggest
15 that we draft it up and then those who would like to support
16 it can let that be known.

17 Senator Danforth. I have the proxies of Senator Hansen
18 and Senator Laxalt, Mr. Chairman.

19 The Chairman. In any event, I think I will support the
20 Nelson proposal about the environmental aspect of it.

21 Senator Nelson. Everybody is for that one.

22 The Chairman. I do not know how Senator Nelson got all
23 of the people for his proposal. That is where it stands.

24 If there is no further discussion of this matter, we can
25 go about our business.

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