

Users fees will dismantle America's inland waterways

by Anthony K. Wikrent

The Clinton administration has proposed user fees for America's waterways that will increase the tax paid per gallon of towboat fuel from 17¢ currently, to \$1.17 a gallon by 1997. Representatives of the barge industry have described the effect of the proposed users fees in apocalyptic terms, declaring that the doubling, trebling, and quadrupling of their fuel bills will eliminate all use of U. S. waterways.

The 525% increase in fees is so outrageous, that President Clinton himself has sputtered that they were probably "a mistake." No one will admit to knowing how they came to be proposed as official policy. A *Washington Post* article on March 12 reported, "A consensus is growing that the idea was almost an accident—perhaps brought about by the newly easy flow of ideas between a Democratic White House and a Democratic Congress." The *Post* attributed the origin of the idea to a Congressional Budget Office report issued in May 1992 entitled "Paying for Highways, Airways, and Waterways: How Can Users Be Charged?"

Crucial role in nation's history

The development of the U. S. inland waterway system is intimately bound up with the development of the United States as a republic spanning the North American continent. The 1789 Constitutional Convention in Philadelphia was initiated by a convention held a few months earlier in Annapolis, Maryland. The Annapolis convention was called to consider how to make the national government strong enough to overcome disputes between states in the building of important infrastructure; one project of immediate concern was the construction of a canal between the Chesapeake and Delaware bays.

Even before the creation of the United States, George Washington, Benjamin Franklin, Alexander Hamilton, and their collaborators had formulated certain ideas for the creation of a continuous line of water communications from the eastern seaboard to the Mississippi River Valley, and beyond. Washington was one of the moving forces behind the Patowmack Company (the precursor of the Chesapeake and Ohio Canal) and frequently promoted the construction of a canal linking the Potomac or James rivers with the Ohio River via the Kanawha.

The Erie Canal, completed in 1828, was the first of two crucial links that brought these ideas to fruition, opening the western territory of New York State, and the entire Great

Lakes region, to rapid settlement and industrial development.

The second crucial link was the Illinois and Michigan Canal, connecting Lake Michigan with the Mississippi River via a canal along the Chekawgo River portage to the Illinois River. The Illinois and Michigan Canal, the precursor of today's Illinois Waterway, was promoted by the fifth son of Alexander Hamilton, Col. William S. Hamilton, in the 1820s, when he was a state legislator from Sangamon County, Illinois. In the 1830s, another state legislator from Sangamon, Abraham Lincoln, continued W. S. Hamilton's work. Lincoln shepherded legislation through the General Assembly, and in the 1850s, even served as a commissioner of the Illinois and Michigan Canal.

The city of Chicago, and its associated complex of heavy industries, owes its creation and first six decades of existence to the Illinois and Michigan Canal. The canal was completed in 1848—the same year that 10,000 people converged on the small but booming town of Chicago for a National River and Harbor Improvement Convention to protest and overcome President James Polk's stubborn vetoing of all bills authorizing "internal improvements." Among the delegates to the convention were Abraham Lincoln representing Illinois, and William S. Hamilton representing the territory of Iowa.

What Washington, Lincoln, both Hamiltons, and others understood, was that the construction and maintenance of canals and other internal improvements at government expense represented the creation of a *social surplus*, which was the only means for providing the physical infrastructure through which the nation's lifeblood, its commerce, could flow.

In its booklet on the Chesapeake and Ohio Canal, the U.S. National Park Service provides figures which show that one horse on a maintained turnpike, circa 1820, could move 6.75 ton-miles a day. The same horse, used on the canal, could move 600 ton-miles a day. This difference of two orders of magnitude is what made it feasible for farmers in the interior, and manufacturers in the seacoast towns and cities, to begin to exchange their products, creating a national economy, as well as a "market."

There is still some understanding of this concept of dirigistic economics among the nation's waterways operators. Harry N. Cook, president of the National Waterways Conference, explained in an interview with *EIR* that "for 200 years, waterways and ports were tollfree. The idea was that the

FIGURE 1
Principal U.S. waterways



Source: Army Corps of Engineers.

Note: Tenn-Tom = Tennessee-Tombigbee; ACF = Apalachicola-Chattahoochee-Flint.

waterways were providing a public way, providing almost unlimited access to a public right of way, which would guarantee competition, which would ensure that savings in transportation costs would be passed on to the operator, then to the shipper, the receiver, and ultimately passed on to consumers.

"In 1978 this policy was changed. Legislation was enacted which required users to pay a percentage of new construction costs. The federal government continued as a partner in the waterways, by continuing to provide the funding for operations and maintenance. The federal government role, however, has been limited to the waterway channel. The state and local governments have had to provide all the onshore facilities."

Today, the U.S. inland waterway system consists of some 11,000 miles of rivers and canals, with 167 lock sites and 267 lock chambers, under the general care of the Army Corps of Engineers. About 1,800 firms operate 5,000 towboats, 27,000 dry cargo barges, and 4,000 tank barges on the system. In 1989, these firms used the U.S. inland waterway system to convey 606 million tons of freight an average of

450 miles, for a total yield of 272 billion ton-miles. This accounted for about one-tenth of the nation's freight—but the waterway operators were able to charge only about 2% of the nation's fuel bill, because water provides the most efficient means of transporting bulk commodities yet devised by man. About one-half of all U.S. grain exports is conveyed on the inland waterway system, as is about one-fifth of all U.S. coal exports.

As the Congressional Budget Office (CBO) report itself notes: "The inland waterways are a major component of the nation's transportation system. They are especially important in the transportation of heavy, low-value, bulk commodities such as coal, petroleum, chemicals, construction materials, and grain. . . . Barges are an efficient method of moving bulk commodities that have a low value-to-weight ratio. Water transportation is especially energy-efficient in transporting large loads over long distances."

EIR calculated that a towboat operating on U.S. waterways can move 173,000 ton-kilometers for every ton of fuel consumed. This compares to 87,600 ton-kilometers moved

TABLE 1

Traffic and operation and maintenance (O&M) costs by U.S. waterway, 1989

Waterway	Ton-miles (thousands)	O&M costs (millions \$)	O&M cost/ ton-mile (cents)
Mississippi (Ohio R.-Baton Rouge)	112,908,248	52.486	0.047
Ohio	51,595,916	52.184	0.101
Gulf Intracoastal Waterway	22,202,858	28.387	0.128
Mississippi (Missouri-Ohio rivers)	17,515,644	22.414	0.128
Black Warrior-Tombigbee	4,862,584	12.213	0.251
Tennessee	6,512,433	17.383	0.267
Illinois Waterway	7,870,314	24.746	0.314
Kanawha	1,269,365	4.973	0.392
Mississippi (Minneapolis-Missouri R.)	15,760,281	82.361	0.523
Columbia-Snake	1,437,536	9.134	0.653
Red	546,594	3.597	0.658
Monongahela	1,523,674	11.911	0.782
Missouri	796,735	7.373	0.925
Cumberland	1,215,034	11.573	0.953
Arkansas System	1,788,528	26.569	1.486
Tennessee-Tombigbee Waterway	791,309	18.040	2.280
Atlantic Intracoastal Waterway	461,104	13.507	2.929
Alabama-Coosa	181,909	9.710	5.338
Kentucky	14,695	1.480	10.072
Allegheny	52,168	7.304	14.001

Source: U.S. Army Corps of Engineers, in *Paying for Highways, Airways, and Waterways: How Can Users Be Charged?* by the Congressional Budget Office, May 1992.

by rail for every ton of fuel used, and 2,080 ton-kilometers moved for every ton of fuel used by trucks (see *EIR*, May 29, 1992, p. 34).

If the aim of national government policy is the promotion of energy-efficient means of transportation—as all the environmentalist groups and cost-efficiency textbooks preach—then it would seem that the environmentalist-minded Clinton administration would be promoting the use of the nation's barges, rather than seeking to sink them under a killer tax.

The assumptions of U.S. policy

The CBO report is one of the most virulent parodies of "free-market" and "cost-benefit" dogmas to be issued by official Washington in years. For example, the introduction to the report contains sections such as "Economic Efficiency and Other Goals," "The Role of Prices in Fostering Economic Efficiency," "Cost Recovery Under Economies of Scale," "Efficiency in Investment," and "The Transition from Taxes and Subsidies to Prices." The assumptions underlying the study, and the Clinton proposal, are fairly captured in the following quotes from the study: "If existing infrastructure

services are priced, the reaction of users can provide information about their demand for new services. . . . If users expect to pay fees for using a new investment, they may press more vigorously for an efficient investment than if it were paid out of general tax revenues."

The CBO study reports that the federal government spent \$776 million in 1990 to "build, operate, and maintain the nation's inland waterway system for navigation purposes," while only \$63 million was collected from users in the form of a tax of 11¢ per gallon of fuel used by waterway users. Another \$384 million of the \$776 million went for operation and maintenance, and \$392 million went for construction. Arguing that "if users pay less than their share of the cost, they tend to overuse the system . . . [and] may demand excessive additional investment in the waterway system," the CBO concludes that "the substantial imbalance between costs and user taxes . . . suggests that it is desirable to explore ways of placing a larger share of the burden on the users."

What it will cost

Clinton's dollar per gallon tax is intended to cover *all* costs of using the inland waterways. The tax is to be phased in over time: 10¢ per gallon in 1994; 25¢ in 1995; 45¢ in 1996, and \$1 in 1997.

The CBO study estimates that a tax rate of 15¢ a gallon would cost a 17-barge tow traveling 450 miles and getting 500 ton-miles per gallon of fuel about \$3,400 in taxes. A 40-barge tow, such as operates on the lower Mississippi, would pay about \$8,100 in taxes. A simple extrapolation shows that Clinton's proposed tax rate of \$1 a gallon, would cost a 17-barge tow \$22,678, and a 40-barge tow \$121,500. The average towboat uses 5,000 gallons of fuel a day, and now pays about \$1 for each gallon. So, the proposed Clinton fee will quadruple the fuel bill of the average towboat. And, fuel usually accounts for 40-50% of the total expenses for operating a towboat. Michael Hagen, president of American Commercial Barge Lines Co. of Jeffersonville, Indiana, estimates that ACBL's tax bill would rise by \$70 million—\$20 million more than the company's yearly pre-tax earnings.

As Harry N. Cook, president of the National Waterways Conference, noted: "Barge lines really are a service industry: What they do is move large volume of bulk freight very cheaply. Twenty percent to 35% of barge traffic is coal, which is largely exported. You're going to lose that export. A tax of this magnitude would mean that U.S. coal was no longer competitive on world markets. The cost of transportation would just be too high.

"Grain is another large commodity moved on the waterways. Ninety-five percent of the grain exported by the U.S. is moved to port by barge. . . . So, you're going to lose all your coal exports, and I don't see how farmers are going to want to export grain," he concluded. "That's why we say a \$1 a gallon tax would lead to a dismantling of the inland waterway system."