

STATEMENT OF ADMIRAL JAMES S. GRACEY  
COMMANDANT, UNITED STATES COAST GUARD  
U.S. DEPARTMENT OF TRANSPORTATION  
COMMITTEE ON MERCHANT MARINE AND FISHERIES  
SUBCOMMITTEE ON COAST GUARD AND NAVIGATION  
JUNE 27, 1985

Mr. Chairman, Members of the Subcommittee,

I am pleased to have this opportunity to testify this morning in support of the Administration's proposal to recover part of the cost of certain Coast Guard services through user charges.

This Administration believes that the cost of Federal transportation services or facilities should be recovered, wherever possible, through charges levied directly on their users or immediate beneficiaries rather than through general taxes levied on the population as a whole. Insofar as practicable and otherwise appropriate, these charges should reflect the Federal cost of the service or facility with each individual user paying according to the extent and character of his use. We believe that exceptions to this policy should be made only on the basis of overriding national considerations.

Today, the vast bulk of Federal transportation spending is governed by this policy, and user charges are also the rule in many other areas of Federal activity. Highway users, as a group, have long covered the Federal government's highway expenditures through user charges. Commercial aviation has traditionally

covered its share of Federal air system costs, and continues to do so. Although private aviation has lagged in its contribution to system costs, Congress, at our urging, approved increases in 1982 in the aviation fuel tax that bring this group closer to full coverage of their costs. The policy towards the freight carrying railroads is equally clear, and that is "no subsidy." We have ended subsidy to Conrail, and, thanks to deregulation and good management at Conrail, we hope soon to be able to turn that railroad completely back to the private sector.

On the marine side, the Saint Lawrence Seaway Development Commission is entirely self supporting and in 1980 user charges began to be collected from commercial barge operators on the inland waterways. As you know, this Administration has worked to increase the share of costs which users pay for our Nation's ports and inland waterways and while the specific degree of cost sharing may still be in dispute, there is now, I believe, a broad consensus, including both the barge industry and the port industry, that greater reliance on user charges is necessary. Recovery of the cost of certain Coast Guard services through user fees, therefore, is a logical step in implementing this user fee policy.

The primary justification for Coast Guard user fees is, of course, equity. There is no good reason why the general taxpayer should be expected to pay for Coast Guard expenditures which are of primary benefit to either commercial operators or recreational

boaters. Moreover, sound economic principles support the internalization of all costs to any commercial activity. Public subsidy of commercial activity distorts the workings of the free market on which our economy depends to allocate resources in the most efficient manner. Similarly recreational users should pay the costs incurred by the Coast Guard specifically on their behalf and not ask non-boaters to share them.

We recognize that user fees will not be especially popular with either recreational boaters or commercial operators. No one likes to pay for something which they have long been receiving free of charge. Many of them will object because they do not receive any new or additional services from these fees. The fees change the method of financing some Coast Guard services from the general taxpayer to the beneficiaries of those services. Considerations of fairness and equity require that direct users and beneficiaries of Coast Guard services begin to pay at least a portion of the costs of providing these services.

Mr. Chairman, the President's 1986 Budget requested Coast Guard user charge legislation that would permit the collection in FY 1986 of \$476 million in new fees. That legislation has been introduced as H.R. 1936 by Representative Conte. We believe that those proposed charges are both equitable and sound. Congress' action to date on the budget resolution, however, makes it clear that the legislation most likely to pass will not permit the collection of more than \$ 150 million. If that is the Congress'

judgment, the Administration is willing to adjust its sights and work with the Congress to develop a Coast Guard user charge program of those dimensions. However, I must say that we view the \$ 150 million level as the minimum acceptable amount, and were it to drop below that level, the Administration would have to reassess its support of this compromise.

I will be pleased to answer any questions that you may have.