TABLE 11. FEDERAL GRANTS FOR GENERAL PURPOSE FISCAL ASSISTANCE (In billions of dollars in budget authority)

| | 1982 | 1983 |
|---|---|---|
| General Revenue Sharing (local governments only) | 4.6 | 4.6 |
| Other a/ | 1.7 | 1.7 |
| Total b/ | 6.3 | 6.3 |

SOURCE: Congressional Budget Office.

a. Includes payments in lieu of taxes to federally affected localities, and payments to states from federal land and forest management activities.

b. This does not include tax expenditures ($36 billion in 1982) or new loans ($0.3 billion). Tax expenditures include deductions for state and local taxes and the exclusion of interest on general purpose state and local debt from taxable incomes. The District of Columbia was the only recipient of federal loans in 1982.

The General Revenue Sharing Program

The GRS program distributes virtually unrestricted aid to all local governments that fit the Census definition of general purpose governments--about 39,900 in all. Originally, GRS payments were made to both state and local governments, with state governments receiving one-third and local governments two-thirds of the total funds distributed to each state area. In the 1980 reauthorization, however, state eligibility for payments was made conditional on appropriations specifically for that purpose, and no funds for states have been appropriated since then. The amount authorized for payments to local governments has remained unchanged since 1978, at $4.6 billion.

Funds are distributed to recipient governments by a three-step process. Funds are first allocated among the 50 states and the District of Columbia using the more favorable of either the Senate-designated three-factor formula based on population, relative income, and tax effort, or the

House-designated five-factor formula that adds factors for urbanized population and state income tax collections. 3/

Within each state, GRS funds are allocated through an elaborate tiering process designed to acknowledge the overlap that exists among local governments. The intrastate distribution system is meant to ensure that county areas with similar characteristics receive the same GRS aid, when payments to all jurisdictions in the county area are aggregated. Thus, a state's allocation is first divided among county areas on the basis of population, relative income, and tax effort. 4/ County-area funds are then divided into three pots, one each for county, city, and township governments, based on each kind of government's proportionate share of nonschool tax collections within the county. (School tax collections are excluded because independent school districts are not eligible to receive GRS payments.) Finally, the city and township shares are divided among all cities and townships, respectively, on the basis of their population, relative income, and nonschool tax effort. The size of any government's payment is limited, however, by several constraints that set minimum and maximum payment standards. 5/

Effects of Current Policy. GRS payments have never been large relative to spending by state and local governments, and their importance has declined steadily since the program's inception. In 1973--the first full year of the program--GRS payments accounted for 3.1 percent of all spending by state and local governments, or 2.8 percent of direct expenditures made by states and 3.3 percent of those made by local governments. By 1980--the last year payments to state governments were made--GRS had dropped to 1.9 percent of state and local spending. Payments were 1.6 percent of state spending and 2.0 percent of local spending. In 1981, when

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3. In the interstate allocation, relative income is defined as the ratio of U.S. per capita income to per capita income in the state. Tax effort is defined as all state and local tax collections in the state as a fraction of state personal income.

4. In the intrastate allocation among counties, relative income is defined as the ratio of state per capita income to county per capita income, and tax effort is the ratio of county nonschool tax collections to county personal income.

5. See Congressional Budget Office, General Revenue Sharing: The Administration's Reauthorization Proposals and Other Options for Distribution Funds (September 1980), Appendix, for a detailed description of the allocation process.

only local governments received payments, GRS accounted for 1.9 percent of direct expenditures made by all local governments.

The equalizing effects of the GRS program are also modest, both among and within states. Estimates for 1982 indicate that the effect of GRS payments was to reduce interstate disparities in fiscal capacity by less than 2 percent, on average. An allocation of funds based solely on population would have had nearly the same equalizing effect in the aggregate, although individual states would have fared differently. For example, energy-rich states with a high tax effort factor due to severance taxes would have received less. 6/ Studies of the intrastate effects of GRS payments conclude that needier jurisdictions--defined in various ways--tend to receive somewhat higher allotments than less needy jurisdictions, although governments of different types (county, city, or township) in similar circumstances may receive widely varying amounts of assistance because of the tiered allocation process. 7/ Greater equalization could be accomplished by modifying the allocation formulas, as discussed in the next section.

## OPTIONS FOR MODIFYING THE GENERAL REVENUE SHARING PROGRAM

Reauthorization of the GRS program is currently pending in the Congress. Some have suggested that it should be eliminated because of the unprecedented size of federal deficits, but reauthorization seems certain. 8/ Although major changes in the program are not likely at this time, a number of proposals for modifying it (including elimination) will likely arise again in later years. 9/ The options discussed in this section include eliminating GRS or changing its funding provisions if it is continued.

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6. Congressional Budget Office estimates. See Robert B. Lucke, "Rich States--Poor States," for the methodology.

7. See Congressional Budget Office, General Revenue Sharing, p. 21; and General Accounting Office, "Removing Tiering from the Revenue Sharing Formula Would Eliminate Payment Inequities to Local Government," Report GGD-82-46, April 15, 1982.

8. Funding of $4.6 billion for GRS was included in the Administration's budget request, and $5.0 billion was included in the First Concurrent Budget Resolution for 1984.

9. The House bill (H.R. 2780) would reauthorize the current program with funding for payments to local governments increased to $5.3 billion. A

Eliminate the GRS Program

At current funding levels, eliminating GRS would reduce the federal deficit in 1984 by about 2.5 percent and would have only a small effect on federal goals for realignment of public resources, since both the vertical and horizontal realignment of fiscal resources brought about by the current program is so limited. Substantial realignment--both vertically and horizontally--would still take place through categorical aid. About 95 percent of the federal aid currently provided to state and local governments through grants would remain after elimination of GRS. In addition, more than 85 percent of the interstate equalization resulting from current federal aid would still be accomplished, due to the redistributive effects of categorical grants. 10/ Further, categorical aid would allow the Congress to ensure that federal funds are used to further federal goals.

On the other hand, the GRS program is very popular with local governments because it is the only source of federal aid virtually free of restrictions. A decline in aid available for general purposes would run counter to the goal of reducing the coercive nature of current federal-nonfederal relations. In addition, elimination of GRS would reduce the proportion of federal aid that goes directly to local governments. Local governments contend that direct aid for general purposes is important to them because their state governments are often unresponsive to their needs. It is argued that states are sometimes unwilling either to provide sufficient state aid to help local governments meet their expenditure responsibilities, or to modify the division of public service responsibilities, or to allow hard-pressed localities to expand their tax capacity by annexing surrounding areas or using new tax bases.

Change Funding Provisions

If continued, there are a number of ways in which the allocation of funds might be changed in the GRS program. The options discussed here include making state governments once again eligible for payments, modify-

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9. (continued)
bill reported out of committee in the Senate (S. 1426) would reauthorize the current program at the current funding level of $4.6 billion for payments to local governments, but would implement certain changes in the intrastate allocation process if any increased funding for payments to local governments was provided.

10. Congressional Budget Office estimates.

ing the formulas used to distribute funds among state areas, and altering the intrastate allocation process.

Make State Governments Eligible for GRS Payments. One option would be to resume GRS payments to state governments. Resumption might be justified by the states' poor fiscal condition currently. GRS payments to states were eliminated in 1980 because most states had accumulated substantial surpluses, while federal deficits were growing. 11/ In 1983, however, few states will end the fiscal year with a surplus despite recent spending reductions and tax increases during the past couple of years, because of the combined effects of recession and cuts in federal aid. On the other hand, most states expect to begin building surpluses again if the economic recovery continues, while the federal deficit is projected to increase despite recovery. Reinstituting GRS payments to state governments would either add to the federal deficit or reduce the payments going to local governments, unless offsetting actions were taken in other spending or tax programs. 12/

Resumption of GRS payments to states might also be justified by a desire to strengthen the role of states in the federal system. Some experts on intergovernmental relations have advocated the eventual channeling of most federal aid through state governments, eliminating the direct federal-to-local link characteristic of GRS and some other current grant programs. The rationale for this is that the division of responsibilities within states varies so much from state to state that federal aid directly to local governments is likely to treat similar localities in different states inequitably and to disrupt intergovernmental financing arrangements within states.

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11. Payments to local governments were continued because their fiscal condition--especially that of urban centers--was still considered precarious and because it was not certain that states would address local needs adequately.

12. One offsetting action would be to finance increased GRS by limiting the deductibility of state and local taxes, as was proposed by Senator Durenberger in the State and Local Fiscal Assistance Act (S. 700). This would, in effect, be an increase in taxes. Another offsetting action would be to require that state governments receiving GRS decline or refund an equal amount of categorical aid, which would then return to the federal government rather than being reallocated to other states. A refund requirement exists in the current legislation, but it would apparently allow categorical funds declined by one state to be reallocated to other states, and therefore would not offset federal spending for GRS payments to states.

Local governments in some states fear, however, that their state governments would be less sensitive to their needs than the federal government is.

If payments to state governments were resumed, differences among states in the division of public service responsibilities could be accommodated by dividing state and local shares for GRS funds based on their proportionate share of direct expenditures. The original one-third, two-thirds division between state and local governments was based on the fact that local governments accounted for about two-thirds of aggregate state and local expenditures, on average, at the time of enactment. 13/ In 1981, the average local share of direct expenditures was 59 percent, but it varied from a low of 23 percent in Hawaii to a high of 73 percent in Nebraska. Consequently, a uniform division of GRS funds between state and local governments in every state, based on this nationwide average, would favor local governments over state governments in states like Hawaii, and state governments over local governments in states like Nebraska. A similar effect exists in the current GRS program. Because allocations to local governments do not take account of the widely differing service responsibilities of local governments across states, GRS payments to localities in Hawaii, for example, are far more generous relative to local service responsibilities than they are in Nebraska. 14/

Modify the Interstate Allocation Formulas. The elements in the formulas used to allocate GRS funds among state areas might be changed to better reflect fiscal capacity differences. 15/ The formulas currently include population, tax effort, and per capita income. They could be changed by using a more comprehensive measure of fiscal capacity than per capita income. In addition, the tax effort factor could be modified or eliminated.

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13. Richard P. Nathan, Allen D. Manvel, and Susannah E. Calkins, Monitoring Revenue Sharing (The Brookings Institution, 1975), p. 151.

14. If GRS payments continue to be made only to local governments, the interstate allocation formula could be changed to take better account of the different service responsibilities of local governments across states by using only local tax collections, rather than state and local tax collections, in calculating the tax effort factor.

15. GRS payments could be even more highly targeted on low-capacity states if payments were made only to those states whose fiscal capacity was below the national average. Currently, some payments go to all states. This change would require modification of the structure of the GRS allocation formula.

The Representative Tax System (RTS) might be used as a more comprehensive measure of fiscal capacity than per capita income. Per capita income is a poor measure of fiscal capacity because only 19 percent of state and local tax collections is from the personal income tax, and because there is no close correspondence between the geographic distribution of income and the distribution of other state and local tax bases, such as property values and retail transactions. 16/ The RTS provides a measure of tax capacity that considers the tax revenues that could be raised by state and local governments, relative to other states, if all tax bases in the state were taxed at the average rates for the nation as a whole. The data required for updating the RTS depend in part on nongovernment sources, however, so that new government data series might have to be developed to implement this option. In addition, the RTS is itself an incomplete measure of a state's fiscal bases, since it excludes user fees, for example, such as university tuition and highway tolls. In 1980, user fees generated more state-local revenues than the individual income tax. An expanded RTS--including user fees--could be developed, but there would be difficulties in determining what new bases should be included and in maintaining accurate and up-to-date measures for them.

Although tax effort is a factor the Congress has deemed to be important in the allocation of GRS funds, the tax effort measure used is a poor one. Currently, tax effort is measured by the ratio of state and local tax collections (from all bases) to personal income in the state. As already discussed, income is only a partial measure of the tax bases a state has. One problem with the tax effort measure, then, is that it overstates the tax effort of states with substantial tax bases other than income. A second problem is that tax collections by a state may overstate taxes paid by residents of that state, because a substantial portion of some taxes may be "exported," or paid by residents of other states.

As a result of these measurement problems, the tax effort factor has distributional effects that are probably undesirable. Substantial allocations are made to energy-rich states, for example, because severance taxes--paid partly by the residents of other states--are included in the tax effort measure, while the mineral wealth on which these taxes are assessed is not. In the 1983 entitlement period, the average GRS payment per capita will be $19.91. During this period, Alaska--the richest state in the Union--will receive a per capita payment of $89.71, about 4.5 times the national average. At the same time, Mississippi--the poorest state--will receive $25.13 per capita.

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16. Nathan et al., p. 136.

The measure used for tax effort might be improved by using the ratio of tax collections to the RTS, in place of the current measure using the ratio of tax collections to personal income. This would reduce the tax effort factor for states with significant tax bases other than personal income, relative to other states. Consequently, relatively smaller GRS allocations would be made to wealthy states despite their large tax collections. It would not, however, eliminate the problem of exported taxes, with the result that states with tax collections paid in large part by residents of other states would receive the same GRS payments as other states with the same fiscal capacity but with taxes that must be paid by state residents. Although it is conceptually possible to eliminate the portion of taxes that are exported to residents of other states, it is impossible to do so with accuracy, since unknown portions of a number of different taxes are paid by non-residents. 17/

Alternatively, the tax effort factor could be eliminated because of problems in measuring fiscal capacity accurately and in eliminating exported taxes from the measure of tax collections. This would also eliminate the incentive created under the current formula for nonfederal governments to increase their tax collections in order to increase their GRS payments. There are objections to this incentive because it may induce nonfederal governments to finance services through taxes rather than through user charges, although the latter would be more efficient in some instances. 18/ In addition, the reward for tax collections under the GRS program may tend to increase the size of the government sector at the state and local level. On the other hand, the latter effect is one of the goals of the GRS program.

Alter the Intrastate Allocation Process. Two changes in the intrastate allocation process for GRS payments are discussed. First, the tiering process--by which allocations are made first to county areas, then to types of governments within county areas, and finally to individual governments--might be eliminated. Second, constraints on the minimum and maximum payments received by any government might be relaxed or eliminated. 19/

17. Other taxes that can be exported include corporate income and both general and selective sales taxes.

18. If tax collections were expanded to include user charges, the basis for this objection would be eliminated.

19. Detiering and relaxation of the constraints on the minimum and maximum payments are changes that would be authorized under S. 1426 if additional funding for GRS payments to local governments is provided.

Modifications might also be made to the factors in the intrastate allocation formula, which has problems similar to those that were discussed in connection with the interstate formula. It is generally believed that these problems are less severe in the intrastate allocation, however, and that improvements--by development of an RTS for local governments, for example--would not be feasible at reasonable cost.

Eliminating the tiering procedure would allow all local governments within a state to compete for funds from a single state-area pot. Consequently, within each state, all local governments with similar characteristics in terms of the factors used in the allocation formula would receive similar GRS payments, regardless of their type of government. As a result, there would be equality of treatment across individual jurisdictions instead of equality of treatment across county areas. Estimates by the General Accounting Office indicate that "detiering" would increase the proportion of state-area GRS funds going to the jurisdictions in which the states' low-income populations are concentrated. It would also mean, however, that some county areas would benefit from higher payments than total income and tax effort in the county would otherwise warrant. Further, the aggregate effects of detiering would be modest since only about 3 percent of GRS funds would be shifted. 20/

Relaxing or eliminating the constraints on minimum and maximum per capita payments would help to concentrate GRS funds on jurisdictions experiencing the most fiscal distress and would reduce the tendency of current law to bolster marginally useful jurisdictions. 21/ With GRS funds distributed less uniformly among jurisdictions, however, political support for the program might decline.

About 25 percent of eligible local governments benefit from the per capita allocation floor--equal to 20 percent of the state per capita allocation. Many of these jurisdictions perform limited functions, although they meet the Census definition of general purpose governments. As a result of the minimum constraint, they receive GRS payments that are disproportionately large relative to the functions they perform, thereby reducing funds available to other jurisdictions in the state. Most counties and larger cities would gain substantially from elimination of the floor. 22/

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20. See General Accounting Office, "Removing Tiering."

21. Nathan et al., pp. 155-162.

22. Statement by Arthur R. Goldbeck, Associate Director, General Government Division, General Accounting Office before the Subcommittee on Intergovernmental Relations, Senate Committee on Governmental Affairs, April 5, 1983.

GRS payments are also subject to a maximum per capita amount--equal to 145 percent of the state per capita allocation--that limits payments received by about 3 percent of eligible jurisdictions. The primary effect of eliminating this cap would be to increase the payments going to the nation's hardest-pressed large cities. Some additional funds would also go to a much larger number of small local governments in low income areas. The net effect would be to increase the tendency of the GRS program to narrow the fiscal mismatch between central cities and the suburbs and to reduce the tendency to provide greater relief to small cities than to large cities. 23/

## RELINQUISHING FEDERAL TAX BASES

The Congress might enhance the fiscal resources of nonfederal governments by relinquishing part or all of some federal tax bases, rather than providing federal aid through grants. This approach could achieve some vertical realignment of resources, but would be ineffective for reducing fiscal disparities among jurisdictions since resources would merely be returned to their place of origin.

Substantial federal aid is already provided in this way through federal tax expenditures, including the exclusion of interest on state and local debt and the deductibility of state and local taxes (see Table 12). It is estimated that in 1983 state and local governments paid $10.4 billion less in interest costs because of their ability to issue bonds that are not subject to federal taxation. In addition, individual taxpayers reduced their federal tax liability by $28.9 billion because of federal deductions for state and local taxes. Deductibility of state and local taxes does not aid nonfederal governments directly, but it may reduce resistance to state and local tax increases among those who itemize deductions on their federal income tax returns. 24/

Additional ways in which aid could be provided by relinquishing federal tax bases include:

- Allowing individuals or businesses to claim a credit against their federal tax liability for similar state or local taxes;

- Vacating certain tax bases entirely; or

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23. Nathan et al., p. 159.

24. In 1980, itemized deductions were claimed on 31 percent of returns for the individual income tax.



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TABLE 12. TAX EXPENDITURES FOR GENERAL PURPOSE FISCAL ASSISTANCE (In billions of dollars)

| | 1982 | 1983 |
|---|---|---|
| Exclusion of Interest on General Purpose State and Local Debt | 5.8 | 10.4 |
| Deductibility of State and Local Taxes | | |
| Income and sales taxes | 20.4 | 20.1 |
| Property taxes | 10.1 | 8.8 |
| Total | 36.3 | 39.3 |

SOURCE: Congressional Joint Committee on Taxation.

- o Providing "tax room" without entirely vacating a tax base, by cutting or holding down rates on a federal tax that is also used by nonfederal governments.

Credits Against Federal Taxes

All three approaches could augment the resources of state or local governments, but the first approach--a credit against a federal tax for similar state or local taxes--would be more effective than the last two. This is because the first approach would provide a uniform federal tax rate to serve as a kind of "umbrella" from which state or local governments could benefit. Since all taxpayers would have to pay the full amount of the tax--regardless of whether their jurisdiction took advantage of the credit--they would have no incentive to change jurisdictions in order to lower their tax burden (unless they were willing to move out of the country). Consequently, nonfederal governments would be less reluctant to impose their own taxes. There would be less accountability under the tax credit approach compared to the others, however, because there would be no political cost to nonfederal governments for raising their tax rates up to the level of the federal credit.

The federal estate tax credit is cited as evidence of how well this approach works in transferring tax resources from the federal to nonfederal governments. The federal government has allowed taxpayers to apply state estate taxes against their federal estate tax liability since 1926, with the result that all states except Nevada now levy a tax equal to or greater than the maximum federal tax credit. 25/ A second example is the tax credit employers may take for state unemployment insurance taxes against the federal unemployment payroll tax. This was effective in inducing the development of unemployment insurance systems in all states in the 1930s.

The federal government could relinquish part or all of the corporate income tax base by allowing businesses to claim a federal tax credit for corporate taxes paid to states. 26/ This would allow states to make more aggressive use of the corporate tax than they do now, because the uniform federal rate nationwide would enable them to increase their rates--up to the limit set by the federal credit--without fear of losing businesses to other states with lower corporate tax rates. Forty-six states impose corporate income taxes currently, but the maximum rate is 12 percent. A full tax credit would allow states to increase their maximum rates to the top federal rate of 46 percent. This would benefit only state governments, however, and could reduce federal revenues substantially--by up to $60 billion in 1984. If the federal tax credit was limited to half the federal corporate tax liability, states could still increase their maximum rates substantially--to 23 percent--while the loss in federal revenues would be cut in half.

An alternative would be to institute a federal general sales tax, and then to allow businesses to claim a credit for sales taxes paid to states. 27/ This would allow states with low rates to increase them--up to the federal rate--without fear of tax competition. Even states with rates higher than

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25. The importance of this credit has been reduced by recent changes in federal tax law that have eliminated federal estate tax liability on all but large estates.

26. Claiming the tax credit would be easier for businesses if their states defined taxable corporate income in the same way it is defined in the federal tax code. Some states use different definitions currently, but there would probably be pressure to adopt the federal definition if a federal tax credit was implemented.

27. Alternatively, the tax credit could be for local sales taxes, or for both state and local sales taxes. In the latter case, states might be more successful than local governments at capturing most of the benefits, though.

the federal rate might increase them by the amount of the federal tax, since there would be no reason to be more fearful of having higher rates relative to neighboring states than prior to implementation of the federal tax. This option could increase state revenues substantially with little effect on federal deficits, since the tax relinquished would be a new one. Federal income tax revenues might be reduced somewhat, however, because of increased deductions for sales taxes by individual taxpayers. In addition, this option would tend to increase state reliance on sales taxes in preference to income taxes. Some would see this as an advantage, since it would fall upon consumption rather than penalizing saving as the income tax does. Others would see it as a disadvantage, since state income taxes are probably somewhat more progressive than sales taxes, even though state income tax rates tend to be nearly constant over all taxable income classes.

## Vacating or Reducing Federal Taxes

The last two approaches--vacating a tax base or reducing federal rates so that nonfederal governments could increase their tax collections if they chose--would be less effective at augmenting state and local resources because they would not eliminate the problem of tax competition among jurisdictions. If nonfederal governments fear losing business and high-income taxpayers to other communities, they may not raise taxes despite federal efforts to aid them by vacating tax bases or reducing federal tax rates. In this case, taxpayers and the private sector would benefit instead. Past experience indicates that fear of tax competition is a serious constraint. States failed to take over revenues from repeal of the federal electrical energy tax in the 1950s or from reduction of the federal excise tax on amusement tickets in the 1960s. 28/ Nor were states quick to increase their income tax rates in response to reductions in the federal income tax legislated in 1981, despite substantial reductions in federal aid. Instead, they allowed service levels to decline, cushioned somewhat by increases in minor taxes, such as taxes on alcohol and tobacco.

Current tax bases that could be vacated or reduced to aid state or local governments are limited, especially so for local governments (see Table 13). The federal government does not use the property tax or general

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28. States did pick up the real estate transfer tax (eliminated by the federal government in 1965), but this was due as much to the need for information as for revenue. See Advisory Commission on Intergovernmental Relations, "Changing the Federal Aid System: An Analysis of Alternative Resource/Responsibility Turnbacks and Program Trade-Offs" (Staff Working Paper, December 1981), Appendix F, p. 140.

TABLE 13. TAX REVENUES BY SOURCE AND LEVEL OF GOVERNMENT, 1981

| Tax Base | Collections by All Governments (billions of dollars) | Percent of Collections by Government | | |
|---|---|---|---|---|
| | | Federal | State | Local |
| Property | 75.0 | 0 | 4 | 96 |
| Individual Income | 332.0 | 86 | 12 | 2 |
| Corporate Income | 75.3 | 81 | 19 | 0 |
| Customs | 8.2 | 100 | 0 | 0 |
| General Sales | 55.6 | 0 | 83 | 17 |
| Selective Sales (Excise) | 70.7 | 57 | 37 | 6 |
| Motor fuels | 14.5 | 32 | 67 | 1 |
| Alcoholic beverages | 8.5 | 67 | 31 | 2 |
| Tobacco products | 6.6 | 39 | 59 | 2 |
| Public utilities | 9.0 | 26 | 47 | 27 |
| Other a/ | 32.0 | 79 | 18 | 3 |
| Estate and Gift | 9.0 | 75 | 25 | 0 |
| Vehicle and Operators Licenses | 6.1 | 0 | 93 | 7 |
| All Other | 18.3 | 20 | 60 | 20 |
| Total | 650.2 | 62 | 23 | 15 |

SOURCE: Bureau of the Census, Governmental Finances in 1980-81, Table 4, p. 17.

a. Revenues in this group come primarily from severance taxes, including the federal windfall profits tax on oil of $23.3 billion in 1981.

sales tax, and it has already effectively relinquished the estate tax. The only widely available tax bases that might be vacated would be excise taxes on motor fuels, alcohol, and tobacco. Federal revenues from these taxes are expected to be about $21 billion in 1984. Half of these revenues--from the federal motor fuels tax--are essentially user fees earmarked for federal highway and mass transit programs, however, although it might be appropriate to relinquish some portion of them to states if they assumed greater financial responsibility for highways--as discussed in Chapter IV. It is not necessary for the federal government to vacate these tax bases in order to induce nonfederal governments to use them, though, since state and local governments have been raising their rates on these bases despite the federal presence.

# APPENDIXES