

CHARGE THE POSTAL SERVICE FOR CERTAIN RETIREMENT COSTS
(A-950-a)

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1983	1984	1985	1986	1987	
Budget Authority	124	209	319	424	529	1,605
Outlays	124	209	319	424	529	1,605

Most of the 660,000 active and 380,000 retired postal workers are covered by the federal Civil Service Retirement (CSR) program. Like other federal employees and agencies, postal employees and the U.S. Postal Service (USPS) each contribute 7 percent of pay for CSR coverage. The USPS also contributes enough to cover the future retirement cost increases that result from negotiated pay raises for active workers. It does not, however, pay anything toward the expense of annual cost-of-living adjustments (COLAs) for retired postal employees. Instead, the Congress annually appropriates an amount from the general fund that indirectly covers COLAs for retirees from the USPS and other federal agencies as well.

The Postal Service could be required to pay for the cost of future COLAs for its retirees. If this were done, general fund appropriations to CSR would be lower by about \$1.6 billion during 1983-1987.

The argument for such a change is that the USPS is supposed to be self-sufficient (with the exception of certain direct subsidies contained in the law), and that the present funding arrangements for retired postal employees include a hidden subsidy that properly should be a cost to mail users rather than to taxpayers in general. Over five years, a 1.1 percent average increase for all postage rates would finance an end to the subsidy. For first-class postage, the estimated increase could push the rate up by one cent. The USPS would oppose the CSR cost assessment as adding to already considerable pressure on postage rate increases and as an unfair measure that applies to no other federal agencies.

Mail users could argue that COLAs for postal retirees are an expensive carry-over from before 1972, when postal workers were direct employees of the federal government. The Congress ordered continuing CSR eligibility for postal workers, and in effect prohibited the USPS from negotiating changes in retirement benefits. Mailers may argue, therefore, that charging them for such Congressional generosity would be unfair.

ACCELERATE RECLASSIFICATION OF FEDERAL WHITE-COLLAR JOBS
(A-ALL-a)

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1983	1984	1985	1986	1987	
Budget Authority	0	90	195	310	430	1,025
Outlays	0	90	185	295	415	985

In 1979, the Office of Personnel Management (OPM) estimated that as many as 11.5 percent of federal white-collar jobs, paid under the General Schedule, were overclassified and 3.3 percent were underclassified. Incorrect classification results in some employees' receiving higher or lower pay than their duties warrant. The extent of erroneous classification may increase the cost of the total payroll for white-collar employees by as much as 1.5 percent.

At present, employees whose jobs are found to be overclassified stay at their present salary levels, and for two years also receive the full annual government-wide pay raises; after two years, such employees receive only half of the annual pay adjustment, until the pay scale for lower grades overtakes them. Although OPM has issued several regulations to federal agencies, there are no statistics on how much job reclassification has actually occurred.

If the Congress mandated agencies to reclassify federal white-collar jobs and applied the 50 percent limit on annual pay increases without waiting two years, cumulative five-year savings could reach some \$1.0 billion.

Proponents assert that the government should not wait to realize the more efficient use of federal funds that results from job reclassification. Opponents could argue that the expected savings are highly uncertain because of the sparse sample in OPM's survey and the nonobjective nature of job classification. The General Accounting Office recommends that, instead of downgrading jobs, federal agencies consider restructuring overgraded jobs by expanding duties and responsibilities. Such an alternative would reduce the potential budgetary savings from job reclassification.

STRENGTHEN AGENCY DEBT COLLECTION
(A-ALL-b)

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1983	1984	1985	1986	1987	
Budget Authority	300	400	100	100	100	1,000
Outlays	300	400	100	100	100	1,000

The delinquent debts owed the federal government at the end of 1980 (not counting back taxes) are estimated at \$15 billion. A combination of legislative reforms and a commitment of additional administrative resources could generate savings accumulating to some \$1.0 billion between 1983 and 1987, a net amount after deduction of some \$700 million for strengthened agency collection activities.

Any estimate of the increases in federal receipts that might result from better management of federal debt collection is subject to considerable uncertainty. The savings shown above assume enactment of legislative measures similar to a bill now pending in the Senate, S.1249. That bill includes referral of information on delinquencies to credit bureaus, interest and penalties on overdue accounts, collection of federal debt by commercial firms, disclosure by the Internal Revenue Service of debtors' addresses, and garnishment of salaries for federal employees' debts.

The proposed reforms incorporate many practices followed by private enterprises in collecting accounts overdue. Strengthening agency debt collection also offers a way of reducing the federal deficit without cutting back ongoing programs. Critics of the measures now under consideration express concern over the invasion of privacy, doubts about the practicability of collecting debts from low-income persons, and apprehension about potential abuse of centralized financial records.

APPENDIX B. OPTIONS TO INCREASE TAX REVENUES

This appendix contains discussions of 41 options to increase tax revenues over the 1983-1987 period. Most of the options represent changes in tax expenditures and other incremental adjustments to the existing tax laws. Major new taxes, as well as other significant departures from the existing tax structure, are discussed in Chapter XII of this report. All the revenue increases are relative to the CBO baseline, which projects what revenues are likely to be under current law, assuming that the economy performs as presented in The Prospects for Economic Recovery, February 1982. The actual baseline used in this analysis is summarized in Baseline Budget Projections for Fiscal Years 1983-1987, February 1982.

As with the budget reduction options, the individual tax increase options cannot be added to an aggregate total because there are often complex interactions and offsets among the options. In addition, the estimates do not include any indirect effects, nor do they assume any major behavioral changes resulting from the tax changes. Only options that would raise tax revenues are included in this appendix. Possible revenue increases that would reduce net outlays are presented in Appendix A. Unless specified otherwise, the estimates assume that the proposals under discussion take effect on January 1, 1983. The items discussed in this appendix are simply illustrative examples. The inclusion of an item in the appendix, or its omission, does not imply a recommendation by the Congressional Budget Office.

The options in this appendix are ordered according to the budget function they would affect. Each option has an identification code: the B refers to Appendix B; the three digits refer to the budget function number; and the lowercase letter is an ordering within the budget function that, by and large, follows the sequence in the budget accounts.

PHASE OUT DOMESTIC INTERNATIONAL SALES CORPORATIONS
(B-150-a)

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1983	1984	1985	1986	1987	
Addition to CBO Baseline	0.1	0.3	0.5	0.8	0.9	2.6

A Domestic International Sales Corporation (DISC) is a special corporation, established as a conduit for export sales, that is allowed to defer the payment of income tax on a portion of its profits. In many cases, the DISC is a paper corporation with no employees and no actual operations. The DISC tax subsidy actually goes to the parent or to an affiliated corporation, since the export-related profits of the parent corporation can be allocated to the DISC. One-half of the tax liability on these profits measured over a base profit level can be deferred indefinitely. The subsidy is enhanced by special intercompany pricing rules governing the allocation of income between the DISC and its related suppliers.

The tax benefits of DISCs could be reduced by phasing out the tax benefits at the rate of 25 percent a year over a four-year period, beginning January 1, 1983. This would increase federal revenues by about \$2.6 billion over the 1983-1987 period. Under this plan, the accumulated tax liability on past earnings of DISCs could continue to be deferred as long as the earnings remained invested in export-related assets. Alternatively, some or all of the accumulated tax liability could be recaptured over a specified period.

The principal objective of the legislation establishing DISCs in 1971 was to increase exports as a way of improving the U.S. balance of trade and increasing domestic employment. It was intended to help offset existing tax incentives, both U.S. and foreign, that encourage U.S. companies selling abroad to establish plants abroad rather than to produce goods at home.

Some evidence suggests that the level of exports increased modestly during the 1973-1979 period because of the DISC provisions. Most of this increase took the form of one-time expansions of exports during the first few years of each DISC's operation. However, some of the increase in exports attributable to DISCs comes at the expense of non-DISC exporting companies.

Critics of DISCs contend that the subsidy has other flaws as well. They maintain that it is not flexible enough to respond to changes in the overall U.S. trade position--in particular, that it cannot be reallocated easily as prospects for growth in the exports of some commodities improve or as the need to assist ailing industries increases. In addition, other countries see DISCs as illegal tax-subsidy vehicles violating the General Agreement on Tariffs and Trade.

MODIFY TAX TREATMENT OF FOREIGN OIL AND GAS INCOME
(B-270-a)

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1983	1984	1985	1986	1987	
Addition to CBO Baseline	0.2	0.5	0.6	0.6	0.7	2.6

The income earned by U.S. corporations and their subsidiaries in foreign countries is not taxed until it is returned to U.S. shareholders in the form of dividends. In addition, to avoid double taxation, a credit against U.S. taxes is allowed for income taxes paid to a foreign country.

Modifying the application of these provisions to foreign oil and gas income, as was done in the House Ways and Means Committee version of the Economic Recovery Tax Act of 1981, would increase revenues by up to \$0.2 billion in 1983, and by up to \$0.7 billion in 1987.

The application of the foreign tax credit to U.S. oil companies has presented a special problem, since it is often difficult to determine whether the amounts oil companies pay to foreign governments should be treated as income taxes and taken as credits, or as royalties and taken as deductions. (Credits offset actual tax payments, so each dollar of credit saves a dollar in taxes; deductions offset taxable income, so each dollar is worth no more than 46 cents in tax savings for a corporation paying the top rate of 46 percent.)

Both the Congress and the Internal Revenue Service have sought for many years to devise a satisfactory way of taxing foreign oil and gas income, but without success. The House Ways and Means Committee version of the Economic Recovery Tax Act of 1981 contained provisions (Sections 611-614 of H.R. 4242) that would have exempted foreign oil and gas "extraction" income (income from drilling) from U.S. tax, but also would have denied any deductions or credits associated with that income. Because the foreign tax credit on oil and gas extraction income is frequently large enough to offset

U.S. taxes on other foreign oil-related income, these provisions would have resulted in a net revenue gain.

Another provision of the bill would have taxed foreign oil and gas "related" income (income from processing, transportation other than shipping, distribution, services, and asset sales) earned by a controlled foreign corporation on a current basis, rather than waiting until the income was returned to the United States as dividends. A foreign tax credit would have been allowed on this oil-related income, however.

In combination, all these provisions could result in a revenue gain of as much as \$500 million to \$700 million a year. Modifications in the foreign operations of United States oil companies could reduce this gain, however.

While these foreign oil and gas provisions were not included in the final version of the Economic Recovery Tax Act, they could serve as the basis for a resolution of the continuing controversy over the foreign tax credit on oil and gas income, and at the same time increase U.S. tax revenues by significant amounts.

REPEAL PERCENTAGE DEPLETION ALLOWANCE FOR OIL AND GAS
(B-270-b)

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1983	1984	1985	1986	1987	
Addition to CBO Baseline	0.8	1.6	1.9	2.3	2.4	9.0

The Tax Reduction Act of 1975 repealed the percentage depletion allowance for major oil and gas companies and phased it down for independent producers. The percentage depletion rate for independents is 18 percent of gross income in 1982, and is scheduled to drop to 16 percent in 1983 and 15 percent in 1984 and thereafter. (The rate is 22 percent for secondary and tertiary production until 1984, when it drops to 15 percent.) Percentage depletion applies only to an average of 1,000 barrels per day for each producer. About one-fourth of oil and gas production is currently eligible for percentage depletion. Eliminating percentage depletion would increase federal revenues by about \$9 billion over the 1983-1987 period.

In the absence of percentage depletion, oil and gas producers would use cost depletion, under which the actual cost of discovering and developing a well is written off over the producing life of the well. The producers would recover their investment, but no more. Under percentage depletion the allowable percentage amount can be written off every year for as long as the well is in production, thus enabling producers to shelter not only the return of their capital but part of their profits as well. When percentage depletion is combined with the expensing of intangible drilling expenses, which allows 75 to 90 percent of total development costs to be written off in the first year, the original cost of a well may be written off many times over the course of its life.

The oil and gas depletion allowance is defended as a necessary incentive for energy production, especially for independent producers who may have less ready access to capital than major oil and gas companies. But oil and gas prices have increased sharply since the Congress last considered the oil and gas depletion allowance in 1975, rising from about \$8 a barrel in that year to \$34 a barrel in

early 1982. This increase in prices has greatly increased economic incentives to produce oil and gas. It has also increased the value of the depletion allowance, since the allowance is a percentage of gross receipts.

The 1,000-barrel-per-day limitation permits independent producers with gross receipts of more than \$12 million a year to benefit from percentage depletion. Firms at that level of gross receipts would be in the top one percent of all U.S. business firms and would be unlikely to have unusual difficulties in obtaining capital.

The oil and gas industry will benefit, along with other industries, from the very large reductions in business taxes enacted in the Economic Recovery Tax Act of 1981. The increases in depreciation allowances and the investment tax credit should make large amounts of additional capital available for investment. Special incentives aimed at encouraging particular kinds of investment, such as the percentage depletion allowance, may thus be less necessary.

REPEAL EXPENSING OF INTANGIBLE OIL AND GAS DRILLING COSTS
(B-270-c)

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1983	1984	1985	1986	1987	
Addition to CBO Baseline	3.5	7.7	8.4	9.0	9.6	38.2

Under standard accounting practices, the cost of acquiring or improving an asset designed to produce income over several years is recaptured by a depreciation allowance spread over the useful life of the asset. Taxpayers engaged in oil and gas drilling, however, can generally deduct the amount spent on "intangible drilling costs" in the year that the expenditure is made--that is, they may "expense," rather than "capitalize," the qualifying costs. The costs that are permitted this special treatment include amounts paid for fuel, labor, repairs, hauling, and supplies that are used in drilling oil and gas wells; the costs of clearing ground in preparation for drilling; and the intangible (that is, nonsalvageable) costs of constructing derricks, tanks, pipelines, and other structures and equipment necessary for the drilling and preparation of wells. Typically, these outlays account for 75 to 90 percent of total costs. By expensing rather than capitalizing these costs, taxes on income are effectively deferred; the difference is equivalent to an interest-free loan in the amount of the delayed tax liability. If expensing was repealed, federal revenues would increase by about \$38.2 billion over the 1983-1987 period.

The major argument for repeal is that the subsidy is no longer necessary in light of the sharp increases in oil and gas prices in recent years, the decontrol of all domestically produced oil in January 1981, and the scheduled decontrol of new natural gas in 1985. Moreover, the expensing of intangible drilling costs is an inefficient subsidy since it provides the same incentive for low-risk drilling in already developed and producing fields as it does for high-risk exploratory drilling. If intangible drilling costs were required to be capitalized, the costs of dry holes could continue to be written off immediately under normal accounting rules. This standard tax treatment would give exploratory drilling a comparative advantage over developmental drilling, thereby encouraging more exploration.

Unlike the percentage depletion allowance for oil and gas, which is no longer available to major integrated oil and gas companies, the expensing of intangible drilling costs provides significant tax savings to the majors. In 1980, for example, the expensing of intangibles reduced Gulf's effective tax rate by 5.9 percentage points, Exxon's by 4.2 percentage points, Atlantic Richfield's by 6.7 percentage points, and Standard Oil of Indiana's by 5.6 percentage points.

The major argument for retaining the expensing of intangibles is that, with the substantial increases in depreciation allowances and the investment tax credit enacted in 1981, most forms of equipment now receive tax treatment that is at least as favorable as expensing, and in many cases more so. Requiring the capitalization of intangible drilling costs would thus give these costs less favorable treatment than is now accorded to investment in equipment, thereby possibly distorting some investment choices.

REPEAL RESIDENTIAL ENERGY TAX CREDITS
(B-270-d)

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1983	1984	1985	1986	1987	
Addition to CBO Baseline	0.1	0.7	0.9	0.9	<u>a/</u>	2.6

a. Less than \$50 million.

The Energy Tax Act of 1978 provided homeowners and renters a tax credit of 15 percent of the first \$2,000 spent on insulation, storm windows and doors, caulking, and other items that increase the energy efficiency of their principal residences. The credit applies only to residences completed before April 20, 1977, and the cumulative credit per taxpayer for any one principal residence cannot exceed \$300. The credit is scheduled to expire at the end of 1985.

The Energy Tax Act also established a larger credit for the installation of solar, geothermal, or wind energy equipment in a taxpayer's principal residence. The Crude Oil Windfall Profit Tax Act of 1980 increased this "renewable energy source" tax credit to 40 percent of the first \$10,000 spent, for a maximum credit of \$4,000 on any one residence. The credit applies to equipment installed between April 20, 1977, and December 31, 1985.

Repeal of the residential energy credits could increase federal revenues by about \$2.6 billion over the 1983-1987 period. In 1979, the latest year for which information is available, the revenue loss from the insulation tax credit was \$435 million and the loss from the renewable energy source tax credit was \$42 million. Eighty-three percent of the amount spent under the insulation tax credit was for insulation and storm windows or doors, and 90 percent of the amount spent under the renewable source tax credit was for solar energy equipment.

These residential energy tax credits were enacted at a time when price controls were in effect for both crude oil and natural gas. With the decontrol of crude oil prices in January 1981, and

with the scheduled partial decontrol of natural gas prices, the cost of energy has risen to world market price levels for oil and is approaching those levels for natural gas. The need for additional energy conservation incentives has thus substantially diminished. A substantial portion of the revenue loss from the energy tax credits represents a windfall to taxpayers for doing what high energy prices would induce them to do in any event.

One argument against repeal is that the reward of a tax credit is more effective than high energy prices alone in stimulating conservation efforts since it is more visible, tangible, and easy to calculate than the cost savings from reduced energy use. Another argument is that many taxpayers have made their energy conservation plans on the assumption that these credits would be available until the end of 1985, so that earlier repeal might be unfair to some who have postponed making investments. If repeal were made prospective in order to allow a few months more for people to make investments, it might induce a short-term increase in demand that could drive up energy conservation prices to levels offsetting much of the tax savings from the credit.

ELIMINATE THE EXCISE TAX EXEMPTION FOR ALCOHOL FUELS
(B-270-e)

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1983	1984	1985	1986	1987	
Addition to CBO Baseline	0.1	0.1	0.1	0.1	0.1	0.5

Gasohol, a fuel mixture that is 10 percent alcohol and 90 percent gasoline, is exempt from the 4-cents-per-gallon federal tax on motor fuels. Thus, each gallon of alcohol generates a subsidy worth 40 cents, and a barrel of alcohol leads to a \$17 subsidy. The likely 1982 cost to the Treasury will be \$66 million, the bulk of which will subsidize alcohol production from corn and sugar cane. The government also provides loan guarantees to facilitate the building of large-scale alcohol fuel plants. Eliminating the tax exemption would add about \$0.5 billion to federal revenues in the 1983-1987 period.

The tax exemption for alcohol fuels has several drawbacks. First, especially when combined with the loan guarantee program, it leads to investment decisions that the market would not otherwise make. (With oil currently at \$34 a barrel, the \$17 subsidy enables producers of alcohol fuels to compete even though charging over \$50 per barrel.) Second, since alcohol fuels are made mainly from corn, an upward pressure is put on corn prices as production rises. A 60,000-barrels-per-day program (the 1982 goal) would consume 7 percent of a normal U.S. corn crop. Finally, the tax exemption cuts highway trust fund revenues by over 1 percent.

There are reasons for encouraging the production of gasohol. Unlike coal or nuclear energy, it is a liquid transportation fuel. Hence it can potentially displace large amounts of oil in uses for which there is limited substitution. Moreover, in contrast to synthetic fuels, gasohol comes from proven technologies and is available now. However, for the reasons outlined above, the excise tax exemption may not be an efficient way to encourage production of gasohol.

FINANCE THE STRATEGIC PETROLEUM RESERVE WITH A PETROLEUM TAX
(B-270-f)

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1983	1984	1985	1986	1987	
Addition to CBO Baseline	2.9	2.9	2.9	2.9	2.9	14.5

The Strategic Petroleum Reserve (SPR) is intended to mitigate the economic problems that would be caused by an interruption in the supply of imported oil. The oil stockpile can be considered "insurance" for oil users against unexpected, rapid oil price increases or unavailability caused by events beyond their control. Although the several billion dollars required annually to purchase oil for the SPR is off-budget, its economic impact is the same as if it were on-budget. By imposing a fee on the users of oil, the cost of this insurance program would be paid by those who could be expected to benefit most directly if the reserve is used.

One method of charging oil users this premium would be to impose a fee of 50 cents per barrel on U.S. refined oil products. An equivalent tax on imported refined products would be necessary to avoid subsidizing foreign refiners. The increase in federal revenues of almost \$3 billion annually could be dedicated to the SPR or counted as general revenues.

While such a tax could generate sufficient funds for SPR oil purchases, it would result in higher petroleum and product prices, although increases would probably be less than 2 percent. These increases would marginally contribute to inflationary pressures throughout the economy. Such pressures might, however, be somewhat alleviated by the current weakness in the world oil market, which may result in short-run declines in the real price of oil. One other potential disadvantage of imposing such a fee is its effects on the international competitiveness of domestic manufacturers relying on petroleum products.

Revenues for the SPR could also be generated by establishing a fee on imported oil or a tax on gasoline. The distribution of the tax burden of such fees would vary, as would the specific effects on oil and petroleum product markets.

ELIMINATE CAPITAL GAINS TREATMENT OF TIMBER
(B-300-a)

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1983	1984	1985	1986	1987	
Addition to CBO Baseline	0.3	0.6	0.7	0.8	0.8	3.2

Income from harvested timber held for at least one year before cutting is taxed at preferential capital gains rates. This special provision overrides the tax code's general denial of capital gains treatment to "stock in trade . . . or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business." (Otherwise any manufacturer could produce a product, put it on a shelf for one year before selling it, and reduce the tax owed by 60 percent.) Repealing it would add about \$3.2 billion to federal revenues over the 1983-1987 period.

The current large tax preferences for timber divert investment resources to timber from more productive uses. In addition to the capital gain tax preference, the timber industry also benefits from two other favorable tax provisions, the 10 percent investment tax credit and seven-year amortization for up to \$10,000 of reforestation expenditures (enacted in 1980). The timber preference disproportionately benefits a small number of large, vertically integrated wood and paper producers who can, it is argued, assign some of their taxable income from other operations to the cutting of timber, thereby increasing their tax savings from the preference.

Defenders of the timber tax preference argue that its benefits have long been capitalized into timberland prices. More stringent tax treatment would likely depress the price of timberland, hitting hard at recent purchasers who expected tax code stability. Further, nonpreferential treatment of timber income could create an incentive for timber producers to make sham sales to one another of both the timber and the land upon which it stands--with the proceeds taxed at capital gains rates--rather than selling timber directly to processors with the proceeds taxed at ordinary rates. Finally, it is argued that ordinary income treatment would be burdensome to producers because of the long development time of timber.

ELIMINATE TAX-EXEMPTION FOR POLLUTION CONTROL BONDS
(B-300-b)

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1983	1984	1985	1986	1987	
Addition to CBO Baseline	a/	0.2	0.5	0.7	1.0	2.4

a. Less than \$50 million.

In 1981, sales of tax-exempt pollution control bonds (PCBs) reached \$3.9 billion, up from \$2.5 billion in 1980, and accounted for approximately 7 percent of all new long-term tax-exempt bond issues. PCBs finance approximately 40 percent of all private investment in pollution control equipment. Eliminating the subsidy would add \$2.4 billion to federal revenues in the 1983-1987 period.

The availability of PCBs--or any other subsidy for pollution control--can have only limited influence on a company's decision to invest in pollution control equipment. Federal pollution control regulations are highly prescriptive, so that an existing firm must choose between making the required improvement or closing.

There are several arguments against the use of tax-exempt bonds for pollution control. The large business tax cuts in the Economic Recovery Tax Act of 1981 may have reduced the need for interest-cost subsidies in general. Even if they had not, a direct subsidy would be less costly than tax-exempt bonds because it would provide benefits only to the investor in pollution control equipment. With tax-exempt bonds, bondholders and intermediaries also realize gains. Moreover, substituting direct subsidies for tax-exempt bonds would ease the strain on the municipal bond market, where interest rates have reached record highs and are approaching those for taxable issues. Finally, PCBs encourage technological inefficiency because they are available only for "end-of-pipe" capital expenditures, thereby discouraging selection of other, possibly more effective, solutions to the underlying pollution problem--such as the use of less-polluting raw materials or production processes. Direct subsidies would encourage more efficient use of resources.

INCREASE WATERWAY USER CHARGES
(B-300-c)

	Annual Added Revenues (millions of dollars)					Cumulative Five-Year Addition
	1983	1984	1985	1986	1987	
Addition to CBO Baseline	0.7	0.8	0.8	0.9	0.9	4.1

The U.S. Army Corps of Engineers will spend an estimated \$4.4 billion for inland navigation purposes during the 1983-1987 period. At the same time, waterway user charges (6 cents per gallon of fuel in 1982, rising to 10 cents in 1986) will generate about \$330 million in receipts--less than 8 percent of projected federal expenditures.

Raising the current fuel tax to recover fully the \$4.4 billion in 1983-1987 federal inland waterway costs would require a levy of more than \$1.00 per gallon. Such a fuel tax would be neither an efficient nor an equitable means of recovering these costs, however. Fuel consumption does not necessarily reflect the benefits gained by individual waterway users. Moreover, significant administrative problems would accompany the imposition of such a large fuel tax.

Direct fees or tolls would be a more efficient and equitable means of generating the same revenues. Fees or tolls could be set at levels that reflect the actual costs of building, maintaining, or operating a particular waterway segment. Moreover, the use of segment tolls would mean that some marginal projects would not be built and others might be closed down. Savings would thereby result from both increased revenues and reduced outlays.

One argument in favor of increased waterway user charges is that the cost burden of waterway facilities would be shifted from the general taxpayer to the particular beneficiaries of these facilities--specifically, the barge industry, shippers, and consumers. Shifting the full costs of waterway navigation facilities to the beneficiaries would promote more efficient allocation of resources. The rates charged to shippers would more nearly reflect the true economic costs of this form of transportation. Distortions in the choice among forms of transportation resulting from taxpayer subsidies would thus be reduced.