

PHASING OUT OF DISCs

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	1.8	2.1	2.4	2.8	3.0	
Increase from Phasing out of DISC	0.2	0.8	1.7	2.4	3.0	8.1
Increase under Carter Budget				(no proposal)		

NOTE: Preliminary estimates, subject to change.

A Domestic International Sales Corporation (DISC) is a special corporation, established as a conduit for export sales, that is allowed to defer payment of corporate 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 an affiliated corporation, since the export-related profits of this corporation can be allocated to the DISC. One-half of the tax liability on these profits (over a base level) can be deferred indefinitely. Special intercompany pricing rules governing the allocation of income between the DISC and its related suppliers enhance the tax subsidy.

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. The statute was intended to help offset existing tax incentives, both U.S. and foreign, that encourage U.S. companies to favor production abroad over production at home for sale abroad.

Some evidence suggests that the level of exports increased modestly during the 1973-1978 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. Treasury Department estimates indicate that, because of competition between DISC and non-DISC exports, the net increase in exports attributable to DISCs is at most equal to the tax receipts forgone, and probably is less.

Critics of DISCs contend that this type of tax subsidy is inefficient. They maintain that it is not flexible enough to respond to changes in the overall U.S. trade position; in particular, that it cannot easily be retargeted as prospects for growth in the exports of more competitive commodities improve or as the need for export support for ailing industries increases. In addition, other countries see DISCs as illegal tax subsidy vehicles as defined by the General Agreement on Tariffs and Trade.

The tax benefits of DISCs could be reduced in a variety of ways. One method, similar to a 1978 Administration proposal, would be to phase out the tax benefits over a three-year period, beginning January 1, 1982. This would increase federal revenues by about \$8.1 billion over the 1982-1986 period.

The accumulated tax on past earnings of DISCs could continue to be deferred as long as the earnings remain invested in export-related assets. Alternatively, some or all of the accumulated tax liability could be recaptured over a specified period.

INCREASED INTEREST CHARGES ON DEVELOPMENT LOANS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
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CBO Baseline						
BA	8	24	41	59	75	207
Outlays	8	24	41	59	75	207
Carter Budget						
BA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

The United States makes loans to developing countries to assist their development through functional assistance, food aid, and the Economic Support Fund. Currently, the same rates of interest are charged on loans to the least-developed countries as on most loans to middle-income developing countries. Interest on these loans is set at 2 percent during implementation of a project (when only repayments of interest are made) and 3 percent once the project is operating (when repayments of both interest and capital are required). In contrast, the World Bank--another major international lender--requires only a service charge on loans to the poorest countries but currently charges about 8 percent on loans to middle-income countries. If development loans to such countries were subject to 8 percent interest over the term of the loan, net savings to the United States would total about \$207 million over the next five years. The savings would take the form of offsetting receipts rather than a decline in the development loan budget.

One argument in favor of this option is that, as long as the interest rate is below the market rate, the charges should reflect a nation's level of development or ability to pay. As wealth increases, the need for highly subsidized loans presumably diminishes. The World Bank uses this reasoning in determining eligibility for certain of its loans.

Opponents of this proposal might argue that development projects tend to help the poorest people within the middle-income countries, thus making lower interest rates appropriate. Increased

interest rates would also reduce the net aid provided by the United States, and hence decrease assistance to some less developed countries. Higher interest charges could also increase pressure on the Congress to provide larger amounts in outright grants, which has been a trend in recent years.

President Carter's fiscal year 1982 budget recommendations for programs affected in this option do not include the country-by-country detail necessary to permit calculating the savings relative to his budget.

ELIMINATION OF ONE SPACE SHUTTLE ORBITER

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	199	262	122	0	0	583
Outlays	147	240	157	36	3	583

NOTE: Preliminary estimates, subject to change.

The space shuttle program calls for four shuttles, with the fourth orbiter to be completed and delivered by 1984. The first three orbiters are capable of reliably performing 27 shuttle flights per year. The fourth orbiter, estimated to cost \$979 million, would provide program flexibility, enabling additional and/or multiple flights for either civilian or military purposes.

Eliminating the fourth orbiter would save less than its estimated cost of \$979 million. About \$51 million has already been authorized for fiscal year 1981. Moreover, part of the cost of the fourth orbiter cannot be separated from the common costs of manufacturing all the shuttles and from subcontractor overhead costs. Some of these costs would be redistributed over the remaining three orbiters if the fourth was eliminated. When NASA deleted its planned fifth orbiter, it estimated the savings to be \$365 million, or 63 percent of the estimated total costs for that shuttle. A realistic total savings estimate for deletion of the fourth orbiter would be 63 percent of the \$979 million, or \$583 million over the 1982-1986 period.

There might be some offsetting costs in the defense budget if any of the three orbiters was rendered inoperable and the planned flight schedule was maintained. In this event, the Department of Defense would need to purchase expendable launch vehicles, each costing about \$100 million, to execute its critical missions; or military missions might be given priority over civilian flights with the remaining orbiters.

ELIMINATION OF DOE FUNDING FOR SYNTHETIC FUEL DEVELOPMENT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
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CBO Baseline						
BA	545	690	600	710	700	3,245
Outlays	250	465	605	710	725	2,755
Carter Budget						
BA	802	1,285	838	352	425	3,702
Outlays	697	1,085	1,074	546	371	3,773

NOTE: Preliminary estimates, subject to change.

The 96th Congress established the Synthetic Fuels Corporation to fund production of commercial-scale plants for synthetic fuel production processes. The plants must have passed an initial stage of development. Some processes that are not as far along are to be demonstrated on a smaller scale by the Department of Energy (DOE).

Five plants are now scheduled for small-scale demonstration. Two involve making synthetic liquids from coal: Solvent Refined Coal-1 (SRC-1), and Solvent Refined Coal-2 (SRC-2). Two would make high-BTU gas from coal, and a fifth would make medium-BTU gas. The plants are to demonstrate these technologies on a scale large enough to provide assurances that a full-size plant employing them is feasible. The demonstration plants will be funded through DOE.

Such demonstration plants may assist in eliminating technological uncertainties that deter private investment in full-scale synthetic fuel plants. Yet they need not be funded through the DOE budget. There is reason to believe that sufficient private capital is available in the energy industry to develop new energy technologies. Moreover, the funding of any technology through DOE undermines the competition among technologies for fixed funds within the Synthetic Fuels Corporation, and reduces the long-term effectiveness of federal expenditures to develop synthetic fuels production. Eliminating DOE funding of the five demonstration plants would save approximately \$2.8 billion in outlays over the next five fiscal years.

President Carter's budget recommendations for fiscal year 1982 include the deferral of one of the high-BTU gas plants. This will not significantly affect the savings given above. The President's budget also assumes a faster rate of plant completion than does the CBO baseline.

TERMINATION OF THE CLINCH RIVER BREEDER REACTOR PROJECT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	300	350	350	300	200	1,500
Outlays	175	275	325	330	275	1,380
Carter Budget						
BA	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

NOTE: Preliminary estimates, subject to change.

Breeder reactors are nuclear reactors that produce more fuel material than they consume. Public debate over the commercialization of breeders has centered on the dangers of theft and diversion of nuclear materials, proliferation of nuclear weapons, increased accidents, and hazards to health. The economic efficiency of breeder reactors is also debatable, as are the questions of if and when they will be needed.

The federal government has been supporting breeder reactor research and development to ensure that, if the country moves forward with breeder reactors, the safest and most efficient technologies will be used. Approximately \$750 million was appropriated in each of fiscal years 1979 and 1980 for programs supporting breeder research and development.

One part of these efforts, the Clinch River Breeder Reactor Project, has caused particular controversy. The Clinch River project was originally intended to demonstrate that a liquid-metal fast breeder reactor could be operated reliably and safely as part of a public utility electric supply system. This demonstration project is considered by some authorities to be outdated and unnecessary. Their objections are based, in part, on the project's escalated costs and engineering and technical uncertainties. In addition, France has made a strong commitment to the breeder reactor and appears to have more advanced technologies at later stages of development. The need for the Clinch River demonstration reactor may therefore be obviated by the possibility of licensing a French design. Terminating the project could save the government approximately \$1.4 billion over the five-year period 1982-1986.

The need for this project has been debated extensively. The General Accounting Office has, for example, argued that the general breeder programs need the direction and focus provided by such a demonstration facility. From 1977 onward, the Carter Administration tried to terminate the project, although the Congress continued to fund it. The project was not included in the President's 1980 budget recommendation, but \$172 billion was nevertheless appropriated for that purpose. The President's 1981 budget recommendation was once again to stop funding it, which could have saved the federal government a total of about \$1.7 billion--the cost of completing the project. Nevertheless, the Congress continued funding for the project through June 5, 1981, at the fiscal year 1980 levels.

Terminating the Clinch River project would not necessarily imply permanent rejection of the fast breeder reactor program. It would indicate only that this specific project was deemed no longer appropriate. In fact, the Congress has provided over \$490 million in fiscal year 1981 for continued research and development in other breeder reactor programs. If in the future another demonstration facility should be deemed necessary, spending on such a project might exceed the savings from terminating the Clinch River Breeder Reactor.

President Carter's budget recommendations for fiscal year 1982 again assume no funding for the Clinch River project, so adoption of this item will not result in any savings relative to the Carter budget.

PRIVATE FINANCING OF THE STRATEGIC PETROLEUM RESERVE

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
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CBO Baseline						
BA	3,780	4,600	3,815	3,740	2,820	18,755
Outlays	4,100	4,850	4,395	4,030	3,020	20,395
Carter Budget						
BA	3,898	3,645	2,517	2,948	7,127	20,135
Outlays	3,660	4,050	2,703	2,425	4,491	17,329

NOTE: Preliminary estimates, subject to change.

Now that the price of domestically produced crude oil has been decontrolled, the purchase of oil for the Strategic Petroleum Reserve (SPR) will be funded entirely through direct appropriations. The benefits of the SPR would be sizable if oil supplies should be disrupted in the future. CBO analysis suggests that each barrel of Strategic Reserve oil might save up to several hundred dollars in lost GNP. The Energy Security Act of 1980 mandated that the reserve be filled at a minimum average rate of 100,000 barrels per day. This proposal assumes a fill rate of approximately 180,000 barrels per day over the next five fiscal years, which would result in outlays of \$20.4 billion for the period. Filling the reserve at these rates will be expensive.

An alternative would be to finance the Strategic Reserve through private funds. Since the price of oil will almost certainly rise in real terms over the next decade, shares in the reserve could be made attractive to investors. One option would allow the public to buy shares of the reserve in the same way that any other speculative asset is bought. Holders of reserve barrels could sell the titles to them on an open market. When the reserve was drawn upon during a disruption in foreign supplies, the holders of titles to the oil in the reserve would be compensated at the market price.

Another option would entail directing (through regulation) or inducing (through tax incentives) refiners and major oil users to hold excess inventories--an Industrial Petroleum Reserve, as it has

been called. Under the Energy Policy and Conservation Act of 1975, the Secretary of Energy has the right to direct such firms to hold up to 3 percent of their average annual use of oil in special inventories that cannot be depleted without government approval. This would place a financial burden on the firms involved. If the inventory requirement were reduced to 1 percent, however, this would still be the equivalent of a fill rate of 170,000 barrels per day for one year.

President Carter's budget recommendations for fiscal year 1982 contemplate a slightly different SPR five-year funding pattern from that in the CBO baseline. The savings relative to the Carter budget, if this item is enacted, are thus also slightly different.

REDUCED FUNDING FOR THE ECONOMIC REGULATORY ADMINISTRATION

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	62	69	77	84	93	385
Outlays	60	67	74	82	90	373
Carter Budget						
BA	51	27	18	12	12	120
Outlays	53	27	18	12	12	122

NOTE: Preliminary estimates, subject to change.

The Department of Energy's Economic Regulatory Administration (ERA) implements regulatory laws, intervenes in regulatory procedures, plans for energy emergencies, and exercises emergency responsibilities. Almost half of the \$177 million 1981 ERA budget, however, is associated directly with the price controls on crude oil and petroleum products. The recent decontrol of domestic oil prices reduces the need for many of these oil pricing and allocation functions. Eliminating the funds for these oil-related activities could save about \$373 million between 1982 and 1986. In addition, an immediate reduction in the funding for these activities could save about \$25 million in fiscal year 1981. This proposal allows about \$60 million for resolving outstanding cases.

Although many of its activities concern the pricing and allocation of crude oil and petroleum products, the ERA has begun concentrating more heavily on the implementation of the Fuel Use Act and the Public Utilities Regulatory Policies Act. The ERA is also responsible for maintaining standby fuel rationing plans and participating in other emergency preparedness activities. Therefore, budget cuts reflecting the decreased need for oil pricing and allocation activities might limit the ERA's ability to shift its resources to these other areas.

President Carter's budget recommendations for fiscal year 1982 include \$65 million in 1982 outlays for ERA activities related to oil price controls. This represents a \$19 million reduction from 1981 spending levels, and allows for ongoing audits and litigation. The budget request proposed further reductions in these programs through 1986, reflecting implementation of this proposal, although more gradually than assumed here.

INCREASED WATERWAY USER CHARGES

	Annual Added Revenues (millions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
CBO Baseline						
No subsidy	1,170	1,280	1,400	1,530	1,650	7,030
50 percent subsidy	560	610	660	710	760	3,300
Carter Budget						
No subsidy	1,210	1,590	1,650	1,640	1,630	7,720
50 percent subsidy	580	770	790	760	750	3,650

NOTE: Preliminary estimates, subject to change.

The federal government has subsidized inland waterway transportation through construction, operation, and maintenance of inland waterway facilities. Over the next five years, the Army Corps of Engineers will spend an estimated \$7.5 billion for inland navigation purposes. Approximately \$440 million of these expenditures will be recovered through the existing waterway user charges, leaving a federal subsidy of about \$7.0 billion over the 1982-1986 period.

Current waterway user charges, in the form of a fuel tax, were established under the Inland Waterways Revenue Act of 1978. These charges take effect in 1981 and will be phased in over the next five years, rising from 4 cents a gallon at the outset to 10 cents in 1986 and thereafter. The estimated \$440 million in receipts for the five-year period 1982-1986 will cover only 6 percent of projected federal expenditures for waterway navigation purposes during the period.

Full recovery of these costs through a fuel tax would require a tax equal to about \$1.30 a gallon. Such a high tax is impractical and unlikely to be imposed because of administrative problems and because fuel consumption does not necessarily reflect the benefits received by a given waterway user. The same revenues could be raised through fees or tolls that reflect the actual costs of constructing, maintaining, or operating a particular waterway seg-

ment. The use of segment tolls would mean that some marginal projects would not be built and others might be closed down. Thus, the estimated savings would consist of two parts--increased revenues through user fees and reduced outlays by the Corps of Engineers as certain projects were dropped.

The full recovery of total federal expenditures for inland waterways would result in taxpayer savings of approximately \$7.0 billion in 1982-1986. Most of the costs of increased user charges would be passed along to shippers and ultimately to consumers in the form of higher prices. The cost burden of waterway facilities would thus be shifted from the general taxpayer to the beneficiaries of these facilities--specifically, the barge industry, shippers, and consumers.

Shifting the full cost of waterway navigation facilities to the beneficiaries (or users) of such facilities would promote more efficient resource allocation. 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.

Users of waterway facilities might object to the imposition of charges to cover the full costs on the grounds that other forms of transportation are still subsidized. If charges were imposed to cover half of the costs of these projects, the cumulative savings over the 1982-1986 period would be approximately \$3.3 billion.

President Carter's budget proposal for fiscal year 1982 recommends a slightly higher program level for waterway projects than assumed in the CBO baseline. Thus, the savings from increased charges are even larger relative to the Carter budget.

ELIMINATION OF THE STATES' SHARE OF LAND AND WATER CONSERVATION FUND

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	290	315	345	370	400	1,720
Outlays	135	185	255	315	345	1,235
Carter Budget						
BA	185	220	240	255	270	1,170
Outlays	85	125	170	220	240	840

NOTE: Preliminary estimates, subject to change.

The Land and Water Conservation Fund (LWCF) has two components: at least 40 percent of the fund is for federal purchases of land for parks, wildlife refuges, and recreation facilities; the balance is allocated to the states on a 50-50 matching basis for the acquisition and development of outdoor recreation facilities. If the portion allocated to the states was reduced in 1982 and ended thereafter, the annual savings would exceed \$300 million by 1985. In fiscal year 1981, the Congress appropriated \$229 million for the state share of the LWCF, compared with \$300 million in fiscal year 1980.

Grants to state governments for state park land acquisition and similar purposes were not a federal responsibility until the mid-1960s. Since the program's inception, with virtually no exceptions, the states have provided the required matching funds, and the program enjoys wide support. In a sample of eight states, LWCF grants accounted for 18 to 37 percent of the state land acquisition and development budgets.

The argument for ending federal support for state recreation programs is that state facilities mainly serve state residents. Each state has the right to select whatever level and type of recreation it chooses, but it has no claim on taxpayers nationwide.

The case for continuing the federal grant program is based on two assumptions: first, that development of state facilities reduces public dependence on federal facilities; second, that

national benefits, even if not directly measurable, accrue from expansion of state-managed outdoor recreational facilities. If such facilities were not available, the public use of federal parks and refuges would increase substantially. The unique nature of certain federal facilities could be lost if they were overused.

President Carter's budget recommendations for fiscal year 1982 contemplate a lower LWCF share for the states than that assumed in the CBO baseline. This accounts for the differences in savings shown above.

ELIMINATION OF URBAN PARK GRANTS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	70	80	85	90	100	425
Outlays	5	30	50	70	70	225
Carter Budget						
BA	75	75	75	75	75	375
Outlays	5	25	45	60	65	200

NOTE: Preliminary estimates, subject to change.

In 1978, the Congress enacted a five-year grant program for the rehabilitation of urban park and recreational facilities. The program matches 70 percent federal to 30 percent local funds to rehabilitate urban recreational facilities that have deteriorated. Local communities will continue to operate and maintain the facilities after rehabilitation. The savings from ending the program (assuming that it would otherwise be renewed on expiration of the current authorization) would total about \$225 million during the next five years.

The argument for eliminating the urban park grant program is the same as that for ending the state share of the Land and Water Conservation Fund. In both cases, federal funds simply substitute for local funds. It is not clear that the national taxpayer should support a level of local recreational opportunity that local taxpayers are unwilling or unable to support.

The counterargument holds that there is a national interest in preserving or improving the "quality of life" for urban residents. Furthermore, it is argued that some urban facilities serve many more than local users--that in fact some are national resources and should receive federal support.

President Carter's budget recommendations for fiscal year 1982 contemplate a slightly lower 1983-1986 funding level for this program than that assumed in the CBO baseline. This accounts for the differences in savings shown above.

INCREASED CHARGES FOR OUTDOOR RECREATION AND TOPOGRAPHIC MAPS

	Annual Added Revenues (millions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
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CBO Baseline and Carter Budget						
Recreation fees	45	65	70	70	75	325
Map charges	5	10	10	15	20	60

NOTE: Preliminary estimates, subject to change.

State and local parks support much of their programs through entry and user fees, yet the U.S. Park and Forest Services collect only about \$35 to \$40 million a year in user fees--far less than 10 percent of their budgets for recreational services. The Services collect fees from only a portion of their users for several reasons: collecting is often not cost effective; the Services face a number of legislative restrictions on fees; the Services are not allowed to retain their receipts; and there is some sense that public facilities should be free. As a result, many visitors pay no entry fees, and most user fees are little more than nominal charges. For example, hook-up fees for camping vehicles have been so low--about \$2.00 a night--that neighboring private facilities cannot compete with the federal facilities. Visitors are thus given an extra incentive to use park facilities, often overcrowding them. The savings estimates given here assume a doubling of existing entry fees and the imposition of fees at more facilities. Furthermore, they assume that service or user fees would be increased until they covered all costs of the Services. Total added collections in the 1982-1986 period would be about \$325 million.

The Geological Survey produces topographic maps at different scales for a wide variety of users. In fiscal year 1981, receipts for sales of maps were about \$7 million, while program costs were about \$75 million. By law, the Geological Survey is now only allowed to recover only printing and distribution costs through its charges for maps. This option assumes that fees would be increased during the next five years until about one-third of all program costs were recovered.

REDUCED FUNDING FOR EPA CONSTRUCTION GRANTS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
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CBO Baseline						
BA	1,260	1,390	1,530	1,670	1,820	7,670
Outlays	70	260	600	1,030	1,360	3,320
Carter Budget						
BA	1,240	1,330	1,470	1,570	1,670	7,280
Outlays	70	250	590	1,010	1,320	3,240

NOTE: Preliminary estimates, subject to change.

The Environmental Protection Agency (EPA) makes grants to municipalities for the planning, design, and construction of wastewater treatment facilities. EPA provides 75 percent of the allowable construction costs, or 85 percent if the project employs alternative or innovative technology. Funding levels have averaged almost \$4 billion a year, making it by far EPA's largest program in terms of direct budgetary outlay. EPA estimates that \$106 billion (in 1978 dollars) will be needed for construction and repair of municipal wastewater treatment facilities and sewers between 1978 and 2000. An additional \$62 billion will be needed for control of storm water runoff.

The program has three principal problems. First, because of the 75-85 percent federal payment for capital costs with no assistance for operating and maintenance costs, overly expensive and needlessly sophisticated treatment plants are built, which are then poorly maintained. Second, because the Congress has repealed the section of the 1977 Clean Water Act that allows industrial plants to be charged for the portion of wastes they generate, the program does not change the incentives of waste generators. Third, because the states must use their allocated funds within a specified period or lose them through reallocation, many projects receiving funding are those "ready to go," rather than those that may be of higher priority but are not yet ready.

One possible change would reduce the federal share of construction costs (perhaps to 50 percent, and to 55 percent for

innovative technology), with corresponding funding reductions. The estimated savings from this action are shown in the table above. Additional outlay reductions of \$10 million in fiscal year 1982, and totaling \$950 million over the five-year period, could be achieved by a 25 percent reduction in the building program. Still further savings could be achieved by removing the current two-year time limit on the obligation of funds. While these changes were being considered by the Congress, EPA could institute controls so that the \$6 billion currently appropriated but not obligated would be spent in a more cost-effective manner.

A reduced federal role in the construction of treatment facilities would increase the burden on municipalities and states. This could be partially offset if the reduced federal payment for construction costs was coupled with a partial federal payment for operations and maintenance costs, perhaps leading to more efficient wastewater treatment than the present system.

Deferrals in the building program would be made up in later years, but the delay would permit capturing future improvements in technology and in understanding of measures for dealing with toxic pollutants. However, long-run costs could be greater than the short-run savings, if construction costs continue to increase faster than general inflation, and some short-run gains in water quality would be lost.

President Carter's fiscal year 1982 budget recommendations assume slightly lower program levels for EPA construction grants, thus accounting for the small differences in estimated savings shown.

ELIMINATION OF TAX EXEMPTION FOR POLLUTION CONTROL BONDS

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	0.8	0.9	1.0	1.1	1.2	
Increase from Elimination of Exemption on New Issues	0.1	0.2	0.3	0.4	0.5	1.5
Increase under Carter Budget			(no proposal)			

NOTE: Preliminary estimates, subject to change.

Industrial development bonds for pollution control (PCBs) finance 40 percent of all pollution control investments. In the past few years, annual sales have amounted to approximately \$2.5 billion.

The use of PCBs raises two questions: Should the subsidy be continued? If so, are tax-exempt bonds the best way to provide it? Like all tax-exempt bonds, PCBs have several beneficiaries--the recipient of the subsidy, the purchaser of tax-exempt bonds, and intermediaries. An alternative subsidy, such as a tax credit, would be less costly because it would provide benefits only to the recipient of the subsidy. If the tax exemption on new issues of PCBs was eliminated effective July 1, 1981, federal revenues would be increased by \$1.5 billion in the 1982-1986 period.

If the subsidy is to be continued, then its form and the regulations governing it warrant reexamination. At present, 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 use of less-polluting raw materials or adoption of production processes that produce less pollutants.

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. This is because federal

pollution control regulations are highly prescriptive, so that an existing firm must choose between making the required improvement or closing.

The main argument for eliminating the subsidy is that private industry should pay its own pollution control bills, just as it pays for complying with other requirements imposed by law. On the other hand, some argue that industry's efforts to avoid contaminating the environment confer a public benefit and thus warrant some subsidy from the public.

ELIMINATION OF FARM DEFICIENCY PAYMENTS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	0	0	90	131	187	408
Outlays	90	131	187	117	122	647

NOTE: Preliminary estimates, subject to change.

Until the mid-1960s, the principal objective of federal agricultural policy was to maintain domestic prices for wheat, feed grains, upland cotton, and rice above world prices in order to increase the incomes of farmers. This was accomplished through high domestic price supports and supply controls that took about 15 percent of all U.S. cropland out of production. The government accumulated huge stocks of commodities.

In 1965, federal policy began to shift away from high domestic price supports and rigid supply controls, allowing domestic commodity prices to adjust gradually to world price levels. To assist in the adjustment process, farmers producing these major commodities have been given deficiency payments whenever the market price for a commodity falls below its target price. These direct payments protect farm income without directly affecting market prices.

Farm deficiency payments have now largely fulfilled their function and could be eliminated without detriment to domestic agriculture. Elimination of deficiency payments could result in savings of \$647 million over the next five years. Most of the savings would stem from the elimination of deficiency payments to rice growers, since demand for wheat, feed grains, and cotton is expected to keep their market prices substantially above their likely target prices through 1985.

Those who support elimination of deficiency payments argue that other provisions of existing commodity programs--price support loans, a multiyear grain reserve, and acreage diversion payments--could be used, if needed, to hold farm production and marketing within reasonable bounds and prevent large drops in farm

income. Further, they argue that deficiency payments are concentrated on a few large-scale farmers and tend to be capitalized into land values, making it more difficult for others to enter farming and resulting in higher food prices.

Proponents of deficiency payments argue that they are needed to induce farmers to take land out of use during periods of surplus production. In their judgment, the other provisions of commodity programs would not, by themselves, offer a sufficient incentive to encourage farmer participation and thereby stabilize agricultural prices and supplies.

REDUCTION IN DAIRY PRICE SUPPORT LEVELS

Savings from	Annual Savings (millions of dollars)				Cumulative Five-Year Savings	
	1982	1983	1984	1985		1986
CBO Baseline						
BA	0	0	400	700	900	2,000
Outlays	400	700	900	1,200	1,400	4,600
Carter Budget						
BA	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

NOTE: Preliminary estimates, subject to change.

The federal government maintains a nationwide support price for milk by purchasing manufactured dairy products. Under laws passed in 1977 and 1979, the Secretary of Agriculture is required, first, to set the support price for milk between 80 and 90 percent of its parity price at the beginning of the marketing year (October 1), and second, to adjust the support price six months later (April 1) to account for changes in the index of prices paid by farmers. Since 1978, the level of support has been set at 80 percent of parity on October 1.

If the Congress does not act to extend the 1977 law, the minimum level of dairy price support will revert under permanent legislation to 75 percent of parity on October 1, 1981. The Secretary then would have discretion to set the support price between 75 and 90 percent of parity, and a semiannual adjustment would not be mandated.

With steady escalation in both the parity price of milk and the index of prices paid by farmers, current policy mandates two milk price support increases each year regardless of supply and demand conditions. When farm milk prices are near the support price, increases in the support price tend to raise farm and retail milk prices, encourage additional milk production, discourage commercial consumption, and increase federal outlays for the purchase of manufactured dairy products. Net support outlays for the purchase of surplus dairy products were \$1.3 billion in fiscal year 1980 and are estimated to be \$1.7 billion in 1981. Current government stocks are about twice as high as average stocks during 1975-1979.

The dairy price support program has increased farm milk prices at the expense of consumers and taxpayers, but it has also helped to stabilize the dairy industry, resulting in a reliable supply of milk and dairy products. However, continuation of current policy (price support at 80 percent of parity with semi-annual adjustments) will further increase milk production and government purchases beyond what is needed to assure relatively stable supplies.

If the price support was set at 75 percent of parity on October 1, 1981, and maintained at that level through September 30, 1986, without semiannual changes, the estimated savings over the five years would be \$4.6 billion compared to a continuation of current policy. Milk production would increase at a slower rate, commercial consumption would increase moderately, and consumer expenditures would decline. Dairy farmers' incomes would be reduced by over 5 percent. After the current surplus was eliminated, the support price could be increased, if necessary, to provide relatively stable supplies and prices.

President Carter's budget recommendations incorporate the proposal described above, so its adoption would not produce savings relative to the Carter budget.