INCREASED INTEREST RATE ON RURAL HOUSING LOANS

Savings from	Annual Savings (millions of dollars) 1982	1983	1984	1985	1986	Cumulative Five-Year Savings
CBO Baseline						
BA	30	85	145	215	290	765
Outlays	30	85	150	220	295	780
Carter Budget						
BA	25	80	140	205	280	730
Outlays	30	85	145	210	285	755

NOTE: Preliminary estimates, subject to change.

The Farmers Home Administration (FmHA) makes reduced-interest housing loans to rural residents. The annual volume of lending is set by the Congress. Families with incomes up to 80 percent of their area's median may obtain mortgages with effective interest rates as low as 1 percent. Under regulations to take effect March 20, 1981, families with incomes between 80 and 110 percent of the area's median will pay an interest rate ranging from a minimum of 3.5 percent to a maximum tied to the government's long-term borrowing costs. While loans written at the maximum rate are characterized as "unsubsidized," the interest rate charged is generally below prevailing rates on private mortgages.

Homeownership loans totaling about $3.1 billion--enough to fund 81,000 mortgages--are expected to be written in 1981. Approximately three-fourths of the funds will go for heavily subsidized loans at interest rates expected to average 3 percent or less. The annual interest-subsidy cost for all subsidized 1981 loans will exceed $200 million--some share of which may be recaptured when the homes are resold.

If the minimum interest rate on FmHA housing loans was raised to 5 percent for new borrowers beginning in 1982, the savings to the federal government would be about $780 million through 1986, assuming an annual number of loans equal to the 1981 level. Additional savings could be realized by raising the maximum interest rate and by reducing the number of loans made.

Raising the minimum interest rate would increase monthly mortgage payments by up to $22 per $10,000 borrowed, but would leave financing charges well below prevailing market rates. The higher interest costs would work hardships on some borrowers and would make it impossible for others to qualify.

President Carter's budget recommendations for fiscal year 1982 contemplate a slightly different program level from that assumed in the CBO baseline, thus accounting for the small differences in savings shown above.

DISCONTINUANCE OF POSTAL SERVICE SUBSIDIES

Savings from	Annual Savings (millions of dollars) 1982	1983	1984	1985	1986	Cumulative Five-Year Savings
CBO Baseline						
BA	1,756	1,727	1,761	1,746	1,760	8,750
Outlays	1,756	1,727	1,761	1,746	1,760	8,750
Carter Budget						
BA	1,050	800	738	726	758	4,072
Outlays	1,050	800	738	726	758	4,072

NOTE: Preliminary estimates, subject to change.

The federal government currently supports the U.S. Postal Service through two types of payments--one for revenue forgone because of reduced postage for certain mailers, and another for public services that are not cost effective. If these annual payments were eliminated in fiscal year 1982, through either appropriation or authorization action, cumulative budget savings could total about $8.8 billion by 1986.

The revenue forgone payment reimburses the Postal Service for providing free postage to blind and handicapped persons and for reducing second, third, and fourth class postage for certain mailers--mainly religious and other nonprofit organizations, small newspapers, libraries, and educational institutions. Proponents maintain that such reduced rates promote the flow of news and educational, cultural, literary, and charitable materials. Opponents argue, with respect to nonprofit institutions, that the subsidy is not well targeted, results in overuse of solicitations by mail, and increases the volume of junk mailings; with respect to small newspapers, they contend that it serves no interest except to subsidize publication profits and the rates paid by advertisers.

The public service payment helps finance operations, such as postal facilities in remote areas and Saturday mail delivery, that are not cost effective. Elimination of this payment could require either an increase in postage rates or a cut in the services the payment supports. The General Accounting Office is analyzing

84-656 0 - 81 - 6

the postal transportation network in the belief that significant potential exists for cost reduction. If that potential should in fact be realized, the savings could be used to support some services the Congress would cease to subsidize.

The Omnibus Reconciliation Act of 1980 authorizes payment of \$1.2 billion rather than the \$1.6 billion requested by the U.S. Postal Service. But, the continuing resolution making appropriations for fiscal year 1981 included \$1.6 billion for the Postal Service.

President Carter's budget recommendations for fiscal year 1982 assume a phased discontinuance of the public service payment (but continuation of the revenue forgone payment), thus accounting for the lower savings shown, relative to the Carter budget.

CHANGE IN TIMING OF PAYMENTS TO THE POSTAL SERVICE

Savings from	Annual Savings (millions of dollars) 1982	1983	1984	1985	1986	Cumulative Five-Year Savings
CBO Baseline						
BA	64	62	65	57	58	306
Outlays	64	62	65	57	58	306
Carter Budget						
BA	50	40	38	32	35	195
Outlays	50	40	38	32	35	195

NOTE: Preliminary estimates, subject to change.

The Postal Reorganization Act of 1970 requires that the annual appropriation for the U.S. Postal Service (USPS) be paid in a lump sum shortly after the Congress enacts the appropriation. In this respect, it differs from disbursements to other off-budget federal corporations, which are made on a periodic basis. If the Congress mandated quarterly disbursements of USPS payments, the U.S. Treasury would save $306 million in the 1982-1986 period.

Quarterly payments to USPS would be consistent with federal financial management practices, which are designed to prevent investment of federal funds by off-budget federal enterprises, state and local governments, and other grant recipients. Interest earned on federal funds represents an unrecognized subsidy, which in the case of USPS amounts to about 0.5 percent of its revenues. Even so, the Postal Service might argue that quarterly disbursements of federal payments could mean higher postage rates.

President Carter's fiscal year 1982 budget recommendations propose a smaller payment to the USPS than that assumed in the CBO baseline, thus accounting for the differences in the estimated savings shown. This option would, of course, be irrelevant if the Congress entirely discontinued the USPS subsidy.

ELIMINATION OF TAX EXEMPTION ON SMALL-ISSUE IDBs

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	1.6	1.9	2.4	2.8	3.3	
Increase from Elimination of Exemption on New Issues	0.3	0.6	1.0	1.5	2.0	5.4
Increase under Carter Budget	0.1	0.2	0.3	0.5	0.6	1.7

NOTE: Preliminary estimates, subject to change.

Industrial Development Bonds (IDBs) are tax-exempt bonds that state and local governments issue to provide low-cost financing to private firms. Since interest from the bonds is exempt from federal taxation, private businesses are enabled to borrow funds at below-market interest costs. In general, the bonds are backed only by project revenues, so their issuance is unrestrained by state constitutional or other limitations on "full faith and credit" borrowings.

IDBs were used infrequently until the 1960s, when a growth in sales led the Congress to limit their use. Since 1968, IDBs have been taxable unless they are issued for specific purposes such as pollution control, or are eligible for the so-called "small issues" ($10 million or less) exemption.

Small issues are being used with increasing frequency to finance a wide range of facilities including manufacturing plants, fast-food franchises, and country clubs. In 1968, sales of IDBs for all purposes amounted to $1.8 billion; by 1979, small-issue sales alone amounted to $7 billion.

The widespread use of IDBs raises the question of under what circumstances the federal government should incur revenue losses, particularly of a kind that it cannot supervise or control, to subsidize the borrowing costs of private industry. Unlike direct federal expenditure programs to assist private business, IDBs are targeted neither to specific locations nor to specific kinds of businesses. If the tax exemption on new IDB issues was eliminated effective July 1, 1981, federal tax revenues would increase by about $5.4 billion over the 1982-1986 period.

The advocates of continued use of small-issue IDBs maintain that the bonds stimulate investment and promote job development. Those who would restrict their use argue that the bonds often finance investment that would take place in any event, and that their public purpose is ambiguous.

President Carter's fiscal year 1982 budget recommendations would limit, but not end, the exemption on small-issue IDBs. This, along with a six-month earlier effective date, accounts for the differences shown above in revenue increases.

LIMITING OF HOME MORTGAGE INTEREST DEDUCTION

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	25.3	31.8	39.8	49.7	62.2	
Increase from $5,000 Cap	4.3	5.4	6.8	8.5	10.6	35.6
Increase from $10,000 Cap	0.8	1.0	1.2	1.6	1.9	6.5
Increase under Carter Budget	(no proposal)					

NOTE: Preliminary estimates, subject to change.

Home mortgage interest payments have always been deductible under the federal income tax, thus providing a large and popular subsidy for homeownership. Because the deduction stimulates homeownership, it is often said to promote better home maintenance and greater civic involvement. Moreover, the subsidy it provides has been widely incorporated into prices and investment decisions throughout the economy and could not be eliminated without causing significant short-term losses and economic dislocation.

Recent economic studies, however, suggest that the deduction may have important adverse consequences both for housing markets and for the economy as a whole. Besides creating substantial losses of federal revenues, it appears to have contributed both to a serious decline in the construction of rental housing and to the conversion of rental housing into condominiums and cooperatives. In addition, the deduction has promoted the rapid rise of home prices and encouraged the flow of individual savings into housing rather than into productive capital.

Many homeowners receive little or no benefit from the deduction. Almost 60 percent of all homeowners either have no mortgage or use the standard deduction and thus gain no direct benefit from the deductibility of home mortgage interest. While taxpayers with incomes over $50,000 save on average more than $2,400 a year in taxes from the deduction, the great majority of homeowners with incomes below $20,000 save little or nothing.

If the Congress wished to reduce the revenue loss from the deduction, the simplest option would be to limit the amount of mortgage interest that could be deducted. If the ceiling were set high enough, most homeowners would not be affected. At the same time, price increases for more expensive homes would tend to moderate and the incentives for condominium conversion would decrease. For example, if a ceiling of $5,000 was set effective January 1, 1981, the savings would be about $4.3 billion in fiscal year 1982. This ceiling would affect only 4.6 percent of all taxpayers. Homeowners with a 12 percent mortgage would be affected only if their mortgage principal was over $41,700. Homeowners with a 7 percent mortgage would be affected only if their mortgage principal was over $71,750. A $10,000 ceiling would save about $800 million in fiscal year 1982, but it would also affect many fewer persons--only homeowners with a mortgage principal of over $83,500 at a 12 percent interest rate. Under this ceiling, many recent purchasers of homes costing up to $100,000 could be shielded from a tax increase.

The current deduction could be converted to a tax credit to extend the subsidy to all homeowners, including those who do not itemize. Under a flat-rate credit, tax savings would be a constant percentage of all mortgage interest paid. Under the current deduction, by contrast, the savings range from 14 percent to 70 percent of all interest payments, depending on the taxpayer's marginal tax rate. Converting the current deduction to a 25 percent tax credit would increase revenues by about $3.5 billion in fiscal year 1982, while at the time targeting more financial assistance on low- and moderate-income homeowners.

Applying these changes only to newly purchased homes, rather than to all outstanding mortgages, would prevent tax increases for some homeowners but lead to a variety of perceived inequities among those purchasing homes at different times. It could also force some homeowners to maintain their present homes, and thus delay significant revenue gains for a number of years. Applying the changes to all outstanding mortgages would avoid these problems. Most people's taxes would not be sharply increased, since the proposed changes would involve fairly modest departures from present law.

One problem with limiting the mortgage interest deduction is that the limit could be circumvented by using a business or some other asset as collateral for the loan. This problem could be alleviated by adopting a broader limit on all nonbusiness interest deductions, similar to the $12,000 limit approved by the House of Representatives in 1975.

REDUCTION OF CAPITAL GAINS EXCLUSION ON HOME SALES

	Annual Revenue Effect (billions of dollars) 1982	1983	1984	1985	1986	Cumulative Five-Year Increase
Loss under Current Law	0.7	0.7	0.8	0.8	0.9	
Increase from Reducing Exclusion to $50,000	a	0.1	0.2	0.2	0.2	0.7
Increase under Carter Budget		(no proposal)				

NOTE: Preliminary estimates, subject to change.

a. Less than $50 million.

Persons 55 and older are allowed a one-time exclusion from capital gains tax of up to $100,000 of profit on the sale of their principal residence. This tax provision, enacted in 1978, replaced a far more limited provision that applied only to less expensive homes and only to persons aged 65 or over.

The provision encourages older homeowners either to become renters or to move to less expensive homes, thus freeing up some larger homes for younger, larger families. On the other hand, it may also discourage some homeowners just below the current age limit from moving. The provision probably helps to raise housing prices, as buyers become willing to pay more in the expectation of future tax-free gains. While this increases the investment value of homes, it also diverts funds away from other, possibly more productive investments, such as business plant and equipment.

If the $100,000 exclusion was cut back to $50,000 effective July 1, 1981, and if taxpayers were allowed to use it cumulatively, rather than for just one sale, the revenue loss would be reduced. A homeowner would continue to be able to shelter gain on a home sale by purchasing another residence costing at least as much as the home sold. Moreover, since the 1978 decrease in capital gains taxes, no gain is taxed at more than 28 percent.

REPEAL OF CONSUMER INTEREST DEDUCTION

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	6.0	6.8	7.8	8.9	10.1	
Increase from Repeal of Deduction	6.0	6.8	7.8	8.9	10.1	39.6
Increase under Carter Budget			(no proposal)			

NOTE: Preliminary estimates, subject to change.

Interest payments have been deductible ever since the federal income tax was enacted in 1913, at a time when nonbusiness credit transactions were virtually unknown. Over the years, however, the use of consumer credit has become widespread, and the interest deduction now has the effect of providing more than $6 billion a year in tax relief to those who pay for their goods on credit instead of in cash. Only a small fraction of borrowers share in the $6 billion, however; the consumer interest deduction was claimed by just 17 percent of all taxpayers in 1979. If the deductibility of consumer interest was ended effective January 1, 1981, federal income tax receipts would increase by $39.6 billion over the 1982-1986 period.

The argument for repeal of this deduction is that it is a policy accident which discourages saving and promotes consumption, is very costly in terms of lost revenue, and provides more financial assistance to an upper-income borrower than to a lower-income borrower making the identical purchase. The 2 percent of taxpayers with incomes over $50,000 receive 22 percent of the tax relief provided by this deduction.

An argument in favor of retaining the deduction is that it is sometimes difficult to distinguish interest paid for business or other purposes from interest paid on consumption purchases (for example, when a small business or a home serves as the collateral for a loan). This problem could be dealt with by putting a limit on all nonbusiness interest deductions, such as was done in legislation passed by the House in 1975 which limited nonbusiness interest deductions to $12,000.

There may also be a national interest in encouraging some kinds of borrowing for consumption, such as for education, medical expenditures, automobile purchases, and the like. But selective retention of the consumer interest deduction would make for administrative complexity, and other actions that the Congress could take would be more efficient and more equitable than this deduction, if it wished to subsidize particular kinds of consumption.

REDUCED FUNDING FOR AMTRAK

Savings from	Annual Savings (millions of dollars) 1982	1983	1984	1985	1986	Cumulative Five-Year Savings
CBO Baseline						
BA	200	340	400	425	550	1,915
Outlays	200	340	400	425	550	1,915
Carter Budget						
BA	120	270	335	370	480	1,575
Outlays	120	270	335	370	480	1,575

NOTE: Preliminary estimates, subject to change.

Amtrak currently operates passenger railroad trains along 36 intercity routes and in the Northeast Corridor between Boston and Washington. The system serves cities in 45 states but accounts for less than 1 percent of intercity passenger traffic. Nevertheless, Amtrak receives over one-third of all federal subsidies for intercity passenger travel. Amtrak passenger mileage increased about 8 percent between 1977 and 1980, but the federal subsidy for its operating losses rose 35 percent over the same period, from $483 million in fiscal year 1977 to $650 million in 1980, and it is projected to increase to approximately $1.2 billion in 1986 if the present system is maintained. The federal government also provides all of Amtrak's capital funding, which was approximately $200 million in fiscal year 1981.

If 40 percent or more of the Amtrak routes--those with the poorest ridership, the highest deficits, and the least potential--were dropped by the beginning of fiscal year 1982, the annual federal subsidy could be reduced by over $500 million by fiscal year 1986. Additional savings, not shown in the table above, could be achieved by ending federal support for routes now subsidized jointly by federal, state, and local authorities, and by reducing Amtrak's support of routes that operate principally as a commuter service.

Three main arguments are made for reducing the Amtrak subsidy. First, most routes outside the Northeast Corridor hold little or no promise for either increased patronage or reduced costs, thus presenting continually increasing demands for federal subsidies. Second, the federal subsidy for Amtrak--roughly 18 cents per passenger mile in fiscal year 1980, or almost $40 per passenger--already far exceeds that provided other transportation modes. Commercial aviation receives less than 1 cent per passenger mile in federal subsidies. The intercity bus industry, a more direct competitor with Amtrak, receives even less--approximately one-tenth of a cent per passenger mile. Third, there is little evidence that the return on the federal investment in Amtrak, expressed in such terms as environmental benefits or energy savings, justifies the subsidy. A 1979 CBO report suggested that the nation would actually save energy if all Amtrak service outside the Northeast Corridor were halted. Department of Transportation studies contain similar evidence.

The argument for maintaining the current Amtrak system is that it provides reliable transportation to many areas that have no air service and where bus service is often subject to weather interruptions. Also, some persons argue that Amtrak ridership will increase dramatically when new equipment is introduced and service is improved.

President Carter's fiscal year 1982 budget recommendations for Amtrak are lower than those assumed in the CBO baseline thus accounting for the savings differences shown in the table.

PHASING OUT OF CONRAIL FUNDING

Savings from	Annual Savings (millions of dollars) 1982	1983	1984	1985	1986	Cumulative Five-Year Savings
CBO Baseline						
BA	0	250	300	300	300	1,150
Outlays	0	250	300	300	300	1,150
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.

Since its organization in 1976, Conrail has received $3.3 billion in federal funds, mostly for capital improvements. Conrail will probably seek at least another $2 billion from the government during the next five years to cover operating deficits and to make further capital improvements. Conrail is a consolidation of eight bankrupt northeastern railroads; it operates 17,000 miles of track, serves 15 states, carries 270 million tons of traffic a year, and hauls 4.5 million carloads annually. The system continues to lose money ($178 million in 1979) and thus cannot generate the funds it needs to rehabilitate the system and finance new capital facilities.

If federal support for Conrail were gradually phased out, Conrail would have an opportunity to negotiate a sale of some of its routes, to abandon uneconomic secondary and branch lines (possibly more than one-third of the 17,000-mile system), to impose surcharges on light-density lines, to arrange for state or local subsidies in some instances, and to negotiate downward adjustments in current collective bargaining agreements. It is also possible that some capital improvements could be postponed.

The Congress could begin reducing Conrail's funding level in 1983 (by one-half) and eliminate it after that, resulting in savings of $1.15 billion over the next five years. Conrail would thus have a short transition period in which to enact major changes in rail service in the northeast, but this should not mean the abandonment of basic rail service.

Critics of this proposal make several arguments. Operating efficiencies necessary for a reduction in costs may not materialize without additional track work and general physical upgrading. If these are not done, Conrail may be unable to attract additional traffic or even to maintain present levels of traffic, and will have to return to the Congress for assistance. Moreover, in the absence of federal support, many of the states, counties, and cities served by Conrail would have to provide higher subsidies themselves to assure continued service; and Conrail employees would face possible wage cuts and layoffs.

President Carter's fiscal year 1982 budget recommendations do not contain a specific proposal for Conrail funding. Instead, the issue is deferred pending the outcome of studies scheduled to be completed by April 1, 1981.

REDUCTION IN NEW SUBWAY COMMITMENTS

Savings from	Annual Savings (millions of dollars) 1982	1983	1984	1985	1986	Cumulative Five-Year Savings
CBO Baseline						
BA	290	910	1,120	1,230	1,310	4,860
Outlays	20	120	300	560	800	1,800
Carter Budget						
BA	400	970	1,140	1,210	1,230	4,950
Outlays	20	130	340	580	880	1,950

NOTE: Preliminary estimates, subject to change.

The Urban Mass Transportation Administration (UMTA) will have unfunded commitments of about $200 million at the end of fiscal year 1981 for new subway systems under construction in Atlanta, Baltimore, Buffalo, and Miami, and for a downtown people-mover for Los Angeles. If these commitments are met, but no additional ones undertaken, the outlay and budget authority savings over the next five years will be about $750 million and $3.2 billion, respectively. These savings would represent a 6 percent cut in total UMTA obligations for 1982 and 11 percent for 1986. If, in addition, construction of Washington, D.C.'s subway system was halted at the 69 miles of track for which funds are now available, federal outlay savings would total $1.0 billion through 1986. This would eliminate almost all new federal construction funds for the Washington subway after 1982.

The argument against starting new subway systems is based on doubts about their cost effectiveness. Typically, they save little, if any, energy; have only transitory effects on congestion and pollution; incur very large operating deficits; and, by themselves, have only a minor effect on land use. Funds spent on alternatives such as buses, exclusive lanes for high-occupancy vehicles, and coordinated traffic signals appear much more efficient.

A counterargument is that new subway systems are important, job-creating public works projects that enjoy considerable popularity. Most state and local governments would probably be unable to finance large new systems on their own.

President Carter's fiscal year 1982 budget recommendations propose a higher 1982 funding level for new subway commitments than assumed in the CBO baseline, but a somewhat lower level in the outyears. This accounts for the differences in savings estimates shown in the table.

REDUCED SPENDING ON HIGHWAYS

Savings from	Annual Savings (millions of dollars) 1982	1983	1984	1985	1986	Cumulative Five-Year Savings
CBO Baseline						
BA	1,200	1,300	1,500	1,600	1,800	7,400
Outlays	95	475	885	1,145	1,340	3,940
Carter Budget						
BA	1,240	1,290	1,330	1,360	1,390	6,610
Outlays	90	490	900	1,090	1,220	3,790

NOTE: Preliminary estimates, subject to change.

The federally aided highway system is composed of 42,500 miles of Interstate System roads and 824,000 miles of primary, secondary, and urban system roads. Although this federal highway system represents only 22 percent of the nation's total 3.9 million highway miles, it accounts for about 79 percent of vehicle miles traveled.

Of the approximately $9.1 billion in budget authority for highways in fiscal year 1981, $3.5 billion is allocated to the Interstate System; $1.3 billion to the repair, rehabilitation, and replacement of unsafe bridges; $3.2 billion to the primary, secondary, and urban system roads; and the remaining $1.1 billion to a variety of programs.

If federal responsibility were limited to the Interstate System, the bridge program, and the primary, secondary, and urban systems roads, the 1982-1986 budget authority savings would be approximately $7.4 billion with outlay savings of approximately $3.9 billion over the five years. These savings could not, however, be obtained through the appropriations process. The federal-aid highway program is not subject to regular appropriations review because of its special status as a self-financed trust fund--known as the Highway Trust Fund. The spending authority for 1982 was provided in the Surface Transportation Assistance Act of 1978 (Public Law 96-599), which authorized the highway programs for fiscal years 1979 through 1982. Thus, any reduction in fiscal year 1982 would require a specific rescission, while reductions in

84-656 O - 81 - 7

subsequent years could be accomplished by not reauthorizing the affected programs.

The effect of this cut would be to shift back to the states the full responsibility for a variety of highway programs, including pavement marking, removal of hazards, rail-highway crossings projects, and the 3-R program (resurfacing, restoration, and rehabilitation).

Federal aid could also be concentrated on important national routes by redefining completion of the Interstate System to include only those gaps needed for interstate commerce. While this would reduce the federal costs to complete the system from over $50 billion (in 1979 dollars) to $20-25 billion, it would also place greater responsibility on the states. No budget savings are likely from this proposal over the next five years, although it could produce important long-run savings.

Another approach would be to cut back the federal matching share except in the Interstate System program. Current matching rates are at historic highs. The non-Interstate match was 50 percent from 1916 to 1973, when it was raised to 70 percent. In 1978, it was changed to 75 percent, with the bridge program set at 80 percent. If the match was two-thirds in all non-Interstate categories, the savings would be about the same as those estimated under the CBO baseline for the first option.

One argument for such a change is that the Highway Trust Fund is currently disbursing more funds than it takes in, and with declining gasoline consumption this condition is likely to persist unless state claims on the fund are cut back. The states can, of course, increase their own highway user fees in order to replace any lost federal funding.

Opponents of such a proposal argue that all the nation's roads contribute to national commerce, that the federal government should protect its already large investment in the highway system, and, finally, that the federal government is best able to raise revenue and fund the highway system in a uniform and comprehensive manner. They point out that the present federal excise tax on motor fuels of four cents a gallon has not been increased since 1959. Each additional one cent in fuel taxes applied nationwide would raise almost $1 billion in revenues. Therefore, an excise tax increase of 1.5 cents would finance continuation of the current programs. Other fees (truck, bus, and trailer taxes, and tire and rubber taxes) could be allocated among users according to their proportionate share of highway costs.

President Carter's budget recommendations for fiscal year 1982 assume a slightly higher program level than that in the CBO baseline, but the President's budget also assumes that the program will grow more slowly than does CBO in later years. Thus, the savings shown above appear slightly larger under the Carter budget relative to the CBO baseline in early years, and substantially smaller in later years.

REPEAL OF DAVIS-BACON REQUIREMENTS

	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	130	155	172	199	215	871
Outlays	124	140	149	170	193	776
Carter Budget						
BA	160	179	194	210	228	971
Outlays	125	147	168	180	199	819

NOTE: Preliminary estimates, subject to change.

The 1931 Davis-Bacon Act and 77 related federal statutes require that wages paid on most federal and federally assisted construction projects equal the prevailing wage in the local area of a project. Where there is no majority of workers paid at an identical rate, the wage scale paid to at least 30 percent of local workers is used. The practical effect, particularly in urban areas, is that workers on federal projects receive the union scale, instead of an average locality rate. In 1979, the value of new construction put in place totaled almost $230 billion. Nearly 13 percent of that amount ($29 billion) was federally assisted construction, and hence potentially covered by Davis-Bacon. Of the $29 billion, approximately one-third was paid in wages.

Repeal of Davis-Bacon might result in cumulative outlay savings of $776 million by 1986 in just the three largest federal construction programs: military construction, Environmental Protection Agency construction grants, and ground transportation construction. An alternative to outright repeal would be to raise the dollar volume threshold required to activate the coverage from the current level of $2,000 set by the original act. The raised threshold could be indexed to some measure of construction costs, such as the Department of Commerce's Composite Cost Index, to ensure that inflation did not erode its impact. To result in significant savings, however, the new threshold would have to be raised considerably since contracts of less than even $100,000 account for only a small fraction of federal construction outlays.

The estimated cost of the Davis-Bacon requirement, as given above, is based on recent studies by the General Accounting Office and the Council on Wage and Price Stability. Those studies have been criticized for using limited data and failing to adjust for asserted productivity differences between high- and low-paid workers. To the extent that higher-paid workers are more productive, higher wages need not translate directly into higher costs, thus reducing the potential for federal savings.

Defenders of Davis-Bacon argue that it saves the government money by excluding unqualified contractors and by preventing labor relations problems at construction sites. They also contend that the law's requirements add stability to the construction industry, thereby making it less difficult to recruit, train, and maintain skilled labor. While there are probably some offsetting costs of this kind, their magnitude cannot be calculated.

President Carter's budget recommendations for fiscal year 1982 assume slightly different construction program levels from those in the CBO baseline, thus accounting for the difference in projected savings.

SHIFTING CERTAIN AIRWAYS COSTS

The federal government spent about $3.1 billion in fiscal year 1980 for capital and operating expenses of the nation's air traffic system. General aviation (mainly, planes owned by firms and individuals for their own business and personal use) accounted for an estimated $740 million of the total but paid only $80 million in the form of user charges, primarily through a 7 cents per gallon tax on aviation fuel. On the other hand, commercial airline travelers, through ticket taxes and other fees, paid about 90 percent of the costs attributable to them, and under current projections will be paying approximately 100 percent, or possibly more, by 1982.

Increasing User Fees. If general aviation user fees were increased in line with their associated costs, about $5 billion would be generated over the next five years. The taxes paid by private plane owners would increase 600 percent, although their overall operating costs would increase by less than 15 percent. The rest of the nation's taxpayers would continue to subsidize the one-quarter of expenditures that represent costs not attributable to any one class of air traveler.

	Annual Added Revenue (millions of dollars)					Cumulative Five-Year
	1982	1983	1984	1985	1986	Increase
CBO Baseline	800	900	1,000	1,100	1,200	5,000
Carter Budget	510	490	480	470	450	2,400

NOTE: Preliminary estimates, subject to change.

An argument for this proposal is that having users of the airway system pay their own way would encourage more efficient use of airports and airways, and would be more fair as well. An argument against it is that greatly increased taxes might disrupt the general aviation industry, though transition effects could be cushioned by using the approximately $3 billion surplus in the Airport and Airways Trust Fund to introduce increased user charges gradually.

President Carter's 1982 budget recommendations for fiscal year 1982 propose user charges for general aviation that by 1982 would recover about 50 percent of their associated costs, instead of 100 percent as in the proposal described above, thus accounting for the revenue differences shown in the table.

Ending Grants-in-Aid. The Congress might also consider ending grants-in-aid for capital improvements at large and medium hub airports. This action is suggested because such airports are already close to financial self-sufficiency, and the federal grants are now so thinly spread that their replacement by local user charges should be possible. If grants to large airports were eliminated, the five-year savings would be about $1.1 billion, as shown in the following table.

Savings from	Annual Savings (millions of dollars) 1982	1983	1984	1985	1986	Cumulative Five-Year Savings
CBO Baseline						
BA	260	300	330	360	390	1,640
Outlays	50	180	250	300	350	1,130
Carter Budget						
BA	250	260	280	300	320	1,410
Outlays	50	170	230	260	290	1,000

NOTE: Preliminary estimates, subject to change.

The reduction in grant support for large and medium hub airports was passed by the Senate in 1980, but the 96th Congress did not complete action on Airport and Airways Trust Fund reauthorizations. The savings estimates given above assume that it will do so in 1981. President Carter's 1982 budget recommendations assume slightly lower program levels for the airport grant program than those in the CBO baseline, accounting for the somewhat different savings estimates shown.

ELIMINATION OF MARITIME INDUSTRY SUBSIDIES

Savings from	Annual Savings (millions of dollars) 1982	1983	1984	1985	1986	Cumulative Five-Year Savings
CBO Baseline						
BA	168	206	245	292	339	1,250
Outlays	33	83	154	241	300	811
Carter Budget						
BA	128	176	232	295	369	1,200
Outlays	29	77	143	223	292	764

NOTE: Preliminary estimates, subject to change.

The Maritime Administration (a unit of the Department of Commerce) pays an annual subsidy of roughly $150 million to U.S. shipyards so that they can meet the competition of foreign shipbuilders. Foreign shipyards can build ships for about half the cost at U.S. shipyards. The subsidies for ship construction administered by the Maritime Administration reduce this differential so that U.S.-built ships are priced only slightly higher than foreign-built ships. Further subsidies of about $350 million a year are paid to offset the higher operating costs of U.S. shipping companies, again for the purpose of meeting competition from foreign ships that operate for about two-thirds of the costs of U.S. ships.

If the Congress ended the two subsidy programs, the savings in the first five years would be about $800 million. Because the operating subsidy is a contractual obligation tied to a particular ship, typically for 20 years, full savings from eliminating it would take about that long to capture.

The argument for eliminating the construction subsidy rests on the fact that only three or four ships a year are built with the subsidy, so that it has minimal effects in maintaining shipbuilding capacity. If the two subsidies were ended, there would be some loss of shipbuilding capacity, some possible adverse effects on U.S. export and import prices, and some loss of employment in shipbuilding regions and in the industries that furnish shipbuilding materials.