POLITICO

Mining for dollars

With taxes off the table, Congress searches for creative new ways to pay for government.

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In July, the House passed a marquee program to fund drug research, one of the year's most forward-looking pieces of legislation, with a huge lineup of sponsors in both parties. It would cost more than $10 billion. Some of that would come from cuts in Medicare and Medicaid: paying less for x-rays, for example, or reducing reimbursements to states for certain medical equipment.

And almost $7 billion would come from selling oil.

Yes, oil.

The bill's top sponsors, House Energy and Commerce Committee Chairman Fred Upton (R-Mich.) and Rep. Diana DeGette (D-Colo.), were getting creative. New programs cost money to operate, and money usually means taxes. But taxes these days are almost a declaration of war—so lawmakers with ambitious new plans, from health care to highways, have started to scour the landscape for new sources of funds.

Money without taxes sounds like wishful thinking, but in this age of political polarization and congressional gridlock, congressional aides and budget thinkers have started to get innovative about locating new pots of money for the government to spend without taxing its citizens.

What are these ideas? They tend to fall into a few big categories. One is running government programs by charging their users rather than the population overall; another is to cash in assets the government currently owns, like land and quasi-government entities. And there are certain pots of money, like oil reserves and untaxed overseas corporate profits, that have long been eyed by Congress, and could—in theory—be tapped to help fund new laws.

All of them have shortcomings, some political and some accounting. But a tour through the possibilities gives a sense of the range of ideas in the congressional playbook—and a menu of ideas that might just find their way into a budget deal between President Barack Obama and congressional Republicans.

PERHAPS THE BIGGEST family of idea is user fees. The federal government already charges people all kinds of fees. Many are quite small—you might pay $15 admission to a national park, or 47 cents for a stamp. Others are huge: A drug company pays more than $1 million to apply for a new-drug approval. Ranchers pay to allow their livestock to graze on federal lands; drivers pay 18.4 cents per gallon of gas, whether they know it or not, to fund federal highway maintenance. In theory, user fees are supposed to ensure that those who benefit from certain government programs pay for them. There's an element of fairness that appeals even to conservatives: Drivers, roughly speaking, pay for highways to the extent that they use them. But in practice, user fees can end up as a bit of a slush fund for government, which is actually less fair than a normal tax: The Murray-Ryan budget deal, for instance, raised airline fees as a way to offset sequestration overall, so air travelers found themselves subsidizing a whole swath of domestic programs.

There's a lot of money in such fees. The White House estimates that user fees will bring in more than $500 billion in 2016 alone, and it proposes raising another $133 billion over the next decade by increasing a wide assortment of fees. The largest change the White House proposes, an increase in premiums under Medicare Parts B and D, would raise more than $66 billion over the next 10 years. Another increase in airline fees would bring in an additional $6 billion during that time.

Creating new fees is also an option. The administration's proposal includes a number of new fees, including a $2.50 charge that livestock producers would have to pay per head per month for cattle to graze on Forest Service lands and a new administrative fee from the Federal Housing Authority. (The revenue generated from these fees would be tiny—$15 million per year from the grazing fee and $30 million per year from the new FHA fee.)

But increasing fees or creating new charges face their own political obstacles. Some conservatives deny that there's any distinction between a user charge and a tax—and, in the case of Murray-Ryan, they're surely right. Raising revenue through fees also faces what political scientists call an "intensity problem," where the costs for people forced to pay the increased fee are concentrated while the benefits are diffused. Politically speaking, that means a new fee can trigger very motivated lobbying opposition from whoever it affects—and requires tricky negotiating, and even some big concessions, to get done.

IT MIGHT BE unthinkable to privatize the Pentagon, but there are plenty of ways the U.S. government could spin off agencies for cash. The most attractive, for many people, are company-like assets such as Amtrak and the Tennessee Valley Authority.

Privatizing public agencies tends to trigger instant political reaction: Democrats argue that they serve the public interest and are better left in the government's hands; Republicans like both the idea of private management and the smaller government that would result. In many of these cases, the ideological weight dwarfs any financial payoff.

"The main benefit is not so much raising government revenue," said Chris Edwards, the director of tax policy studies at the Cato Institute. "The main benefit is greater economic efficiency."

When it comes to government accounting, earning money from privatizing those agencies faces a hurdle. When the Congressional Budget Office considers the benefits of selling off an asset, it considers all the future revenue the government will be giving up to the new owners. In 2014, for instance, the Tennessee Valley Authority collected almost $50 billion in user fees on the sale of energy—money the government would no longer collect. Even so, CBO still estimates that selling parts of the TVA could be a win for the government, and generate tens of billions of dollars over a decade. How? Edwards says the real money in selling government assets comes not from the actual sale but in future tax revenue collected from the owners of the land in the future.

THE GOVERNMENT HAS other assets as well, some of them notably old-fashioned, and some would like it to liquidate its reserves. The United States Bullion Depository—known as Fort Knox—holds 147.3 million ounces of gold. With gold worth more than $1,000 an ounce, selling U.S. gold reserves could bring in billions of dollars—although trying to sell it would depress the price as the supply increased. But Fort Knox has great symbolic value, and the libertarian right opposes such a move on policy grounds, since it would make it harder for the U.S. to return to the gold standard.

More immediately, for 40 years, America has been sitting on a huge backup supply of crude oil, an insurance policy in case of another oil crisis as happened in the early 1970s. At the current price of $48 per barrel, it's worth more than $33 billion, and it hasn't escaped Washington's notice that it could be used as a piggy bank. This summer, Senate Majority Leader Mitch McConnell (R-Ky.) and Sen. Barbara Boxer (D-Calif.) proposed partially paying for a new highway bill by selling those oil reserves.

Many energy experts believe it's shortsighted to reduce these reserves to pay for random government functions; it could be part of a long-term energy strategy, they suggest, but not a short-term budget fix. But there's money in the reserves if lawmakers want it. And one bonus, for fans of government accounting creativity: Thanks to CBO's lavishly overestimated price of oil right now, it has budget benefits far beyond its actual cash value.

ANOTHER IDEA THAT has emerged from conservative circles is for the government to sell land. The federal government owns a lot of little-used real estate, particularly in the Western U.S. One recent analysis suggests that this land is worth $1.9 trillion.

Some of the land is random desert. But some is very valuable real estate, lying on mineral veins, or in major cities. In the 1970s and 1980s, the Sagebrush Rebellion movement in the West heavily advocated for the sale of public lands. Such calls have grown quieter in recent years, although some Western lawmakers still propose that the federal government at least transfer the land to the states. In 2005, for instance, then-Rep. Richard Pombo (R-Calif.) created a stir when he proposed selling off Roosevelt Island, an 88.5-acre piece of parkland in the middle of the Potomac River, within sight of the Washington Monument.

Even by Washington standards, $1.9 trillion is an astonishing amount of cash, and it's hard to see why the government needs to own quite so much of America's land area. But from an accounting perspective, again, it isn't so easy to count sales as income. CBO uses the same scoring methods with selling land as it does with selling assets: The government makes money now, but loses the revenues it might have brought in.

For instance, the budget office estimated that a bill requiring the Bureau of Land Management to transfer 9,400 acres of land containing coal deposits to a private company would cost $2 million in total due to lost lease fees.

There are other, less tangible kinds of property the government owns, and sells—though it's not always that good at selling them. For instance, the government is currently sitting on unneeded wireless spectrum. Auctioning off these airwaves would put billions of dollars in the government's coffers. But there's one big problem: As POLITICO's Kate Tummarello reported, the Congressional Budget Office is drastically undervaluing the potential profits from selling the spectrum, according to lawmakers. Until CBO changes its scoring, and the budget can count the full likely value, this money will remain effectively unavailable.

MULTINATIONAL CORPORATIONS HAVE more than $2 trillion stashed overseas to avoid the steep U.S. corporate income tax, which currently stands at 35 percent. Congress would bring in billions of dollars if it could figure out a way to bring that money back to the U.S. and tax it. So-called repatriation proposals usually take the shape of a deal: Lawmakers would allow multinationals to pay at a reduced rate if they bring the money back.

This idea was actually tried before: Back in 2004, Congress passed a so-called repatriation tax holiday and multinationals, in turn, brought $312 billion back to the U.S.

But there's a problem. Economists calculate that such tax holidays actually lose money in the long run, since they basically tell multinationals to keep future profits overseas in anticipation of the next tax holiday. For that reason, the Joint Committee on Taxation's most recent estimate is that a repatriation tax holiday would lose nearly $100 billion over 10 years.

This doesn't mean there's no way to bring the money home. It just requires a broader corporate tax reform that eliminates the incentives for corporations to keep their cash abroad in future. But corporate tax reform—like any kind of tax reform—is an elusive goal in Washington.

THERE IS ONE other financial scheme the government can run to bring in money—and, in fact, it's already doing it: Act like a bank.

Like a bank, the government can make money by lending it out. So it may sound strange, but appropriating new money for agencies to issue loans could raise even more money in the long term.

Many economists, including those at the CBO, don't like this idea: They believe that the government doesn't adequately account for the costs in creating loans, and the money could be illusory. Under a different accounting metric—known as fair-value accounting—the profits from those loans start to look more like subsidies for the borrowers.

And even if the government figures out a way to profit from loans, that raises a bigger issue: should it? Lending opens the government to risk, which creates big potential future costs. It also raises the unsavory prospect of making money off its own citizens, often the needy ones who require government help the most, such as the parents of needier college students. This is already becoming a political issue: Senate Democrats, led by Elizabeth Warren (D-Mass.), are pushing for legislation to reduce rates on student borrowers and eliminate those profits. Maybe it's not such an appealing piggy bank after all.