

GNP v. GDP for Cost Adjustments Under RCRA

The RCRA financial assurance regulations at 264/5.142(b) require the owner or operator of a TSD to provide financial assurance to cover closure and post-closure costs. The regulations require the owner or operator to calculate closure and post-closure cost estimates and adjust them annually by either recalculating the cost estimate in current dollars, or by multiplying the previous estimate by an inflation factor. The inflation factor is calculated by dividing the current Implicit Price Deflator (IPD) by the previous IPD. For those owner/operators who choose this method, must the inflation factor be calculated using the IPD based on Gross National Product (GNP), or may the IPD based on Gross Domestic Product (GDP) be used instead?

Although 264/5.142(b) specifies using an IPD based on GNP, EPA allows owners/operators to update cost estimates using the annual IPD based on GDP. The IPD based on GDP produces similar results to the IPD based on GNP, however, the IPD based on GDP is available to owners/operators two months before the IPD based on GNP. The IPD based on GDP was not available at the time this regulation was issued. When financial assurance regulations were originally promulgated, the Department of Commerce used GNP figures to calculate the IPD, but in recent years has favored GDP as a basis for the IPD because the data better represent national output. The IPD is a measure of the change in the relative nominal value of a dollar due to inflation as well as to changes in the composition of GNP or GDP. Because changes in inflation will affect the value of a dollar, IPDs are used to accurately compare costs over time. Whichever type of deflator is used, be it the IPD based on GNP or GDP, the owner/operator must use only that type for all cost estimates and adjustments, since each deflator is based on different data. An owner/operator may choose to switch deflators, but must adjust previous cost estimates accordingly. Annual IPDs based on GNP are usually published by the Department of Commerce each March; annual IPDs based on GDP are published each January. In the interest of maintaining as accurate records as possible, the Department of Commerce reviews IPDs for the previous three years each August, making any changes to previous figures as necessary. Facilities cost adjustments should reflect as soon as practicable any changes to previous IPDs as a result of this review. Annual IPDs since 1987 are as follows:

	GNP	GDP
1987	100.0	100.0
1988	103.9	103.9
1989	108.5	108.5
1990	113.2	113.3
1991	117.7	117.7
1992	121.1	121.1

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