

# Off-Budget Federal Outlays

By Stephen H. Pollock

The Federal budget, one of the nation's most important annual economic documents, sets forth the government's fiscal records and its plans for taxation and spending. The budget underwent a major reform in 1969 when the unified budget concept was put into use. However, although designed to be comprehensive in coverage, the unified budget does not reflect all the outlays of the Federal government.

Since 1973, the activities of some federally funded agencies have been excluded from the budget totals. These off-budget agencies are now quite significant in size. They are projected to have net outlays of \$23.2 billion in fiscal year 1981, which is 42 per cent as large as the stated unified budget deficit for that year.<sup>1</sup> Moreover, the net outlays of these agencies account for most of the discrepancies between the stated budget deficit and the increase in the public debt. As a result, the existence of off-budget

agencies prevents the unified budget from completely fulfilling its stated objectives.

The purpose of this article is to describe the content, the budgetary mechanics, and the role of off-budget Federal outlays. First, the concept of the unified budget is reviewed. Special emphasis is given to the budgetary treatment of loans, since most off-budget outlays are in the form of loan programs. Then the operations of each off-budget agency and the reason for its off-budget status are explained. Next, the case for and against returning off-budget agencies to the budget is discussed. The article concludes with an examination of the extent to which off-budget outlays are currently monitored and controlled, and of various suggestions for improvement.

## THE UNIFIED BUDGET AND GOVERNMENT LENDING

The several purposes of the Federal budget are officially listed as follows:<sup>2</sup>

It is an economic document that reflects the taxing and spending policies of the government for

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<sup>1</sup> All figures cited in this article prior to fiscal 1981 are actual budget figures, and the 1981 outlay estimates are from the president's 1982 Budget and Special Analyses of the 1982 Budget, Office of Management and Budget released January 15, 1981.

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<sup>2</sup> Special Analyses, Budget of the United States Government, Fiscal Year 1981, Executive Office of the President, Office of Management and Budget, Washington, D.C., p. 47.

promoting economic growth, high employment, relative price stability, and a strong balance-of-payments position.

It proposes an allocation of resources between the private and public sectors and within the public sector. Through its impact on consumption and investment decisions and the distribution of income, it also affects allocation decisions within the private sector.

It sets forth the president's request to the Congress for appropriation action on existing or new programs and for changes in tax legislation.

It is a report to Congress and the people on how the government has spent the funds entrusted to it in the past years.

The unified budget, first implemented in 1969, resulted in part from conclusions of the President's Commission on Budget Concepts. The Commission's 1967 report stressed a need for a single Federal budget "comprehensive of the full range of Federal activities"<sup>3</sup> and recommended that the budget include all borderline agencies and transactions unless there are exceptionally persuasive reasons for exclusion.

One notable exclusion is the category of agencies referred to as government-sponsored enterprises. These federally chartered organizations, which are wholly owned by the private sector, include the Federal Home Loan

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<sup>3</sup> *Report of the President's Commission on Budget Concepts*, U.S. Government Printing Office, Washington, D.C., October 1967, p. 25.

Banks, the Federal Land Banks, the Banks for Cooperatives, and Federal Intermediate Credit Banks. These agencies are left off the budget because they are privately owned and financed and because they generate their own income. They thus meet the criterion recommended by the President's Commission that government-sponsored enterprises be omitted from the budget when they are completely privately owned.<sup>4</sup>

Many credit programs are included in the unified budget because several on-budget agencies engage in lending activity. Budgetary treatment of direct loans may be on a gross or a net basis. Gross loan statistics, however, often give a considerably different impression of Federal credit activity than do net loan figures, defined as gross loan disbursements less repayments (Table 1).<sup>5</sup> In practice, loans have always been included in the unified budget on a net basis. This is more appropriate because it is net lending which dictates the amount of new revenue that must be raised to finance the credit programs. Also, it can be said that one dollar of net lending is more likely to have the economic impact of a dollar directly spent than is a dollar of gross lending. Loan repayments, then, are

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<sup>4</sup> Although the federally sponsored agencies are exempt from the normal budget process, their transactions are displayed within the budget document.

The private ownership criterion also applies to the Federal Reserve Banks, but not to the Board of Governors of the Federal Reserve System. The Board's off-budget status is justified by the argument that its inclusion in the budget process might jeopardize the flexibility and independence of the monetary authority. Further references to off-budget agencies in this article will pertain to those agencies that are federally owned and controlled, not to the privately owned government-sponsored agencies, nor to the Federal Reserve System.

<sup>5</sup> More specifically, gross loan disbursements are the sum of disbursements to make new loans, disbursements to pay loan guarantee claims, and purchases of existing loans. Repayments of direct loans also include liquidation of collateral, loan writeoffs, and sales of loan assets. Net lending is equal to the change in loans outstanding.

**Table 1**  
**BUDGET AND OFF-BUDGET**  
**OUTLAYS AND LENDING**

(in Billions of Dollars)

	1979	1980	1981 <sup>e</sup>
Total Outlays			
Budget	493.7	579.6	662.7
Off-Budget	12.4	14.3	23.2
Unified Budget			
Deficit	-29.7	-59.6	-55.2
Gross Direct Lending*			
Budget	31.9	37.8	41.2
Off-Budget†	6.4	11.5	15.5
Net Direct Lending‡			
Budget	6.0	9.5	3.9
Off-Budget	13.6	14.7	23.2
Guaranteed Loans			
New Transactions	60.5	66.2	87.1
Net Change	26.1	32.4	51.3

SOURCE: The Budget of the United States Government, 1982, and Special Analyses, Office of Management and Budget.

<sup>e</sup> estimated by Office of Management and Budget.

\* Disbursements to make new loans, to pay loan guarantee claims, and to purchase existing loans.

† To avoid double-counting, new loan assets purchased from Federal agencies by the off-budget Federal Financing Bank are deducted. The amount of the loan assets are already recorded as gross direct loans by the originating agency.

‡ Net of repayments, liquidation of collateral, loan writeoffs, and sales of loan assets.

treated as income and are counted as an offset against outlays.<sup>6</sup>

<sup>6</sup> Federal law requires that loan repayments be appropriated before they are repaid by the lending agency. That is, loan repayments are an offset to both an agency's outlays and its budget authority. This rule does not apply if the credit program is designated as a revolving fund, nor does it apply to 'repayments' resulting from loan asset sales, which are discussed later.

Another type of Federal credit, which has increased recently, is Federal loan guarantees. These guarantees are usually attached to loans made between two private entities. The Federal agency guarantees the lender against some portion of any default on principle or interest by the borrower. These guarantees result in lower interest rates to the borrower because of the reduced risk. This interest subsidy is not reflected at all in the unified budget totals, though it is estimated in an accompanying special analysis of Federal credit. In fact, no aspect whatsoever of loan guarantees shows up in the unified budget except when there is a default requiring the government to pay the lender's claim for losses.<sup>7</sup> Loan guarantees have become a popular Federal policy tool because they appear to be a potentially costless activity to the agency using them.

In a move to focus greater attention on Federal credit activity, the 1981 budget contains, for the first time, an actual credit budget. In addition to displaying relevant totals for all Federal loan programs, the credit budget suggests limits to the total amount of new direct and guaranteed Federal lending that can take place.

### OFF-BUDGET AGENCIES

Off-budget agencies are those Federal agencies that are not covered by the unified budget—i.e., whose operations are not governed by the normal appropriations process. Although excluded from the budget, these off-budget agencies do not meet the private ownership criterion for exclusion

<sup>7</sup> According to the Office of Management and Budget, budget expenditures for guarantee claims on more traditional programs have been relatively small, partly because most of the loans were protected with claims on marketable property. Some of the newer loan guarantee programs, such as student loans, have suffered greater losses.

recommended by the 1967 President's Commission. Federal borrowing required to fund them, however, is subject to the statutory debt limit. Table 2 lists the off-budget Federal agencies and their net outlays since 1973 (such outlays were practically nonexistent before 1973).

Brief summaries follow for each off-budget entity. In general, exclusion of these agencies from the budget process has been justified on the basis of their self-financing nature and their need for flexibility in operation.

*The United States Postal Service* became an independent, self-financing agency through the

Postal Reorganization Act of 1970. The act also provided borrowing authority (not to exceed \$10 billion) for the Postal Service, as well as collective bargaining rights for its employees. Table 2 shows that the U.S. Postal Service, which was given off-budget status in 1974, has had some surplus years and some deficit years, and that it will need to borrow \$200 million to cover its net outlays in fiscal year 1981. These borrowing requirements are net of the annual on-budget subsidies granted by Congress to the Postal Service. The borrowing has been done by selling securities to the Federal Financing Bank (FFB) since 1974. Putting the U.S. Postal

**Table 2**  
**OFF-BUDGET OUTLAYS BY AGENCY**  
(Billions of Dollars)

	1973	1974	1975	1976	TQ	1977	1978	1979	1980	1981 <sup>e</sup>
Federal Financing Bank	—	.1	6.4	5.9	2.6	8.2	10.6	13.2	14.5	23.1
Rural Electrification and Telephone Revolving Fund†	.1	.5	.5	.2	-.1	.4	.1	—	—	—
Rural Telephone Bank	*	.1	.1	.1	*	.1	.1	.1	.2	.2
Pension Benefit Guaranty Corporation‡	—	—	—	—	*	—	—	—	—	—
United States Postal Service Fund	—	.8	1.1	1.1	-.7	-.2	-.5	-.9	-.4	.2
United States Railway Association	—	*	*	.1	*	.2	.1	.1	*	-.3
<b>Total Off-Budget Outlays</b>	<b>0.1</b>	<b>1.4</b>	<b>8.1</b>	<b>7.3</b>	<b>1.8</b>	<b>8.7</b>	<b>10.3</b>	<b>12.4</b>	<b>14.3</b>	<b>23.2</b>

**NOTES:**

<sup>e</sup> estimate—Office of Management and Budget estimate in fiscal 1982 budget document.

\* less than \$50 million.

† No net outlays are authorized after fiscal 1980.

‡ Put on-budget by PL 96-364, September 26, 1980—retroactively included in fiscal 1980 budget.

TQ—In calendar year 1976, the Federal Fiscal Year was converted from July 1-June 30 basis to an October 1-September 30 basis. The TQ refers to the transition quarter from July 1 to September 30, 1976.

Detail may not add to total because of rounding.

SOURCE: Budget of the United States Government, Office of Management and Budget.

Service back on the budget, it is argued, would damage its need for flexibility, and would bring the President and Congress into wage and compensation disputes between the Service and its employees.

*The United States Railway Association* (USRA) was established in 1973 to help revitalize the railroad industry in the Northeast and the Midwest. Specifically, USRA was directed to establish the Consolidated Rail Corporation (Conrail) as a self-sustaining private sector corporation to acquire, rehabilitate, and operate designated rail properties. All administrative expenses of USRA are on-budget, as are most of its loans to Conrail to cover previous claims on acquired property and to financially troubled railroad companies in the general system. The off-budget status of USRA has been deemed beneficial in getting loans to troubled railroads quickly. It is argued that delays in the appropriations process might have resulted in bankruptcy of certain railroads or in a considerable delay in reaching the final objectives of USRA.

*The Rural Telephone Bank* (RTB) and the *Rural Electrification and Telephone Revolving Fund* (RETRF) both exist to help fund the rural telephone loan programs of the Rural Electrification Administration (REA), an agency of the Department of Agriculture. These programs support capital investment with both direct loans and loan guarantees. The RTB and the RETRF were removed from the budget in 1973 by amendments to the Rural Electrification Act, apparently to shield the rural telephone program's funding entities from impoundment and statutory limits on outlays. The RTB is funded by borrowing from the FFB, and it also may acquire funds by selling stock. The RETRF, having become self-sustaining, is not authorized to make any net outlays after fiscal 1980.

*The Pension Benefit Guaranty Corporation*

(PBGC) was established in 1974 to insure qualified private pensions against plan termination. The corporation is funded entirely by the premiums assessed and is therefore self-financing. It typically retains a small profit each year. Apparently its self-sufficient character was the justification for its off-budget status. However, through a provision of Public Law 96-364, passed September 26, 1980, the PBGC's activities have been brought into the unified budget, and its small surplus was added retroactively to the fiscal 1980 budget.

*The Synthetic Fuels Corporation* (SFC) was created to help private industry finance the development of oil substitutes. The corporation, scheduled to begin operations in 1981, will itself be off-budget, but it will fund its operations with on-budget loans from the Treasury (financed from the windfall profits tax). These loans will be treated as income to the SFC, and thus will be an offset to its outlays, so its net off-budget outlays will be approximately zero. For this reason, all subsequent references to off-budget agencies in this article will exclude the SFC.

By far the most active off-budget agency is the *Federal Financing Bank* (FFB). Although the FFB interacts with on-budget and off-budget agencies alike, the focus here, for clarity and relevance, will be on its transactions with on-budget agencies. In order to accommodate financing needs of various on-budget Federal agencies, the FFB, which is contained within the Treasury Department, engages in three distinct types of activity. The Bank purchases (1) agency debt, (2) agency loans and loan assets, and (3) Federal agency loan guarantees. Although these functions serve closely related purposes, their budgetary treatments differ in subtle but important ways. These differences, explained in the following paragraphs, are technical in nature, but they are important in understanding the role of most off-budget outlays. For a detailed illustration of how the

three types of FFB activities affect agency accounts, see the Appendix.

The first type of FFB activity, purchasing agency debt, accomplishes what the FFB was originally created to do: consolidate and coordinate the borrowing of various Federal agencies. Prior to the start of FFB operations in May 1974, these agencies fulfilled their credit needs by independently marketing their own securities. Their offerings were usually small and irregular and, together with the public's unfamiliarity with the agency securities, resulted in interest rates that were significantly higher than rates on U.S. Treasury issues. In an effort to eliminate the costs of this interest premium, the FFB was authorized to buy the agency issues at one-eighth of a per cent over the Treasury's cost of borrowing. Originally, the FFB was to obtain its funds by direct borrowing from the public. However, the FFB's first offering also resulted in interest rates that were considerably higher than on Treasury borrowing. Since then, the FFB has obtained its funds by borrowing directly from the Treasury.<sup>8</sup>

The FFB was designed to be a financial intermediary between various on-budget Federal agencies and the U.S. Treasury. The agencies' borrowings from the FFB were treated not as budget receipts to the agencies, but as a means of financing the agencies' debt, exactly as if the agencies had gone into the private credit market with their debt issues. Thus, the FFB was to be strictly a pass-through mechanism. Any outlays facilitated by the FFB were to be attributed to the spending agencies. To avoid double-counting, purchase of agency debt is properly excluded from the budget.

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<sup>8</sup> FFB borrowing from the Treasury is not included as part of the Treasury's budget outlays; however, interest payments from the FFB to the Treasury are counted as offsetting receipts, i.e., deductions from Treasury outlays.

As a second major type of FFB activity, and as part of its service to Federal agencies, the FFB has been authorized to purchase agency loans and loan assets. This type of financing has more profound budgetary implications. When an agency sells a loan to a private entity, the loan is considered repaid for budgetary purposes. Loan sales are afforded the same budgetary treatment when the FFB is the purchaser. Proceeds from the sale are counted as loan repayments (rather than a means of financing), and thus are an offset to the agency's gross outlays. Thus, an agency's on-budget loan can be converted to an off-budget loan by selling it to the FFB. In 1981, about seven-eighths of all Federal agency loan and loan asset sales will be to the FFB, resulting in off-budget financing. The remaining one-eighth will be sold to the public, resulting in private financing.

Rather than selling actual loans, an agency can sometimes pool its loans and issue securities backed by those pooled loans. These securities, a type of loan asset, are called Certificates of Beneficial Ownership (CBO's) and can be sold to the FFB. The budgetary treatment of such transactions is similar to that of the loan sales case.<sup>9</sup> The only difference is that the lending agency continues to hold and service the loan. This controversial accounting procedure is contrary to the President's Commission recommendation that CBO sales be treated as agency debt rather than income.<sup>10</sup>

The remaining activity of the FFB is its

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<sup>9</sup> At present, only the Farmers Home Administration and the REA, both of the Department of Agriculture, have the special statutory authority to count sales of CBO's as loan repayments and to offset such sales against their outlay totals. By far the largest single FFB expenditure has been the purchase of CBO's issued by the Farmers' Home Administration, in some years contributing to over half of total FFB outlays.

<sup>10</sup> See *Report of the President's Commission on Budget Concepts*, pp. 54-55.

purchase of guaranteed loans. Typically, a loan guarantee occurs when a Federal agency sanctions a loan between a private lender and a private borrower. That agency attaches a guarantee to the borrower's note which insures the lender against any loss as a result of default by the borrower. The result is an interest subsidy to the borrower at potentially no explicit cost to the government. These loan guarantees result in a budget outlay only in the case of default by the borrower. Frequently, however, an agency will ask the FFB to substitute for the private lender. In this case, the FFB will purchase the borrower's note once the Federal agency's guarantee is attached to it.<sup>11</sup> The loan guarantee then becomes, in effect, a direct loan from the government which is not reflected in the unified budget.

Table 3 displays the relative importance of each of the three types of FFB transactions. The FFB has been successful in its mission to coordinate and consolidate Federal agency borrowing, as evidenced by the fact that agency borrowing from the public has practically ceased.<sup>12</sup> The FFB's original function of buying agency debt does not result in off-budget financing of any Federal outlays. However, the other two types of FFB activities are sometimes regarded as having reduced the accountability of Federal credit programs. When the FFB buys agency loans or loan assets, the loans are transferred from on-budget to off-budget, thus, often freeing agency funds for other uses. Federally guaranteed loans purchased by the FFB in effect become direct government loans. In both the latter cases, outlays which are

<sup>11</sup> The FFB is authorized to buy any obligation issued or sold that is fully guaranteed by a Federal agency, at one-eighth of 1 per cent above Treasury borrowing costs.

<sup>12</sup> During fiscal 1979, new borrowing from the public by Federal agencies was less than \$50 million compared to \$1.6 billion in repayments on previous borrowing from the public.

initiated by other agencies are attributed to the FFB. Since the FFB is off-budget, these outlays are not subject to the regular congressional review which the budget process requires.

The FFB's services are also available to off-budget agencies. However, an off-budget agency's use of the FFB does not have any budgetary impact, because its outlays would be off-budget regardless of FFB financing.

### SHOULD OFF-BUDGET ACTIVITIES BE RETURNED TO THE BUDGET?

The off-budget outlays shown in Table 2 are very closely related to budget outlays. Indeed, the two are nearly interchangeable. In testimony before the U.S. Senate Committee on

**Table 3**  
**FEDERAL FINANCING BANK**  
**NET PURCHASES**  
(Billions of Dollars)

Fiscal Years:	1975	1979	1980	1981 <sup>e</sup>
<b>FFB Net Purchases of:</b>				
Agency Debt	6.5	2.9	4.0	4.5
Loans and Loan Assets	5.1	9.4	7.6	13.0
Loan Guarantees	1.1	3.9	6.8	10.1
<b>Total Net Purchases</b>	<b>12.7</b>	<b>16.2</b>	<b>18.4</b>	<b>27.6</b>
<b>Total Excluding Agency Debt</b>	<b>6.2</b>	<b>13.3</b>	<b>14.4</b>	<b>23.1</b>

<sup>e</sup> estimated.

SOURCE: Special Analyses, Budget of the United States Government, fiscal year 1982, Office of Management and Budget.

the Budget in 1980, Deputy Director Robert Reischauer of the Congressional Budget Office noted that “the distinction between on-budget and off-budget credit activities is not one of substance . . . [It is] virtually meaningless—except with respect to the unified budget deficit.”<sup>13</sup> Off-budget outlays must ultimately be financed by taxing or borrowing from the public, just like on-budget outlays. Thus, total Federal fiscal activity would be more accurately represented by a measure that adds off-budget receipts and outlays to the unified budget totals. Reischauer stressed “the need to rationalize the budgetary treatment of off-budget credit activities,” by returning such activities to the budget, “thereby making the unified budget comprehensive of all Federal activities.”

Because on-budget and off-budget outlays are essentially the same, there is a *prima facie* case for including off-budget activities in the budget. But are there good reasons for overriding the *prima facie* case and continuing to treat some fiscal activities off-budget? As noted earlier, two reasons given for off-budget treatment of some agencies and activities are (1) their self-financing nature and (2) their need for flexibility in operation and finance. These reasons do not hold up particularly well for existing off-budget activities.

To be considered self-financing, an agency must be funded by revenues other than tax revenues—most often, user fees. In practice, those off-budget agencies that are self-financing usually have some net operating income or loss. In the case of the U.S. Postal

Service, the losses are financed by borrowing from the FFB, which in turn borrows from the Treasury; any net revenue is used to repay the FFB. Thus, any change in net outlays of the U.S. Postal Service affects the borrowing requirements of the Treasury and the public debt, just as a change in the outlays of any on-budget agency. The same reasoning applies to the U.S. Railway Association, which uses the FFB in the same way. There are, however, many self-financing agencies whose receipts and outlays are included in the unified budget, such as the Federal Deposit Insurance Corporation and the recently included Pension Benefit Guaranty Corporation. Thus, it may be argued that a consistent budget measure would include the receipts and outlays of the Postal Service and the USRA, as well.

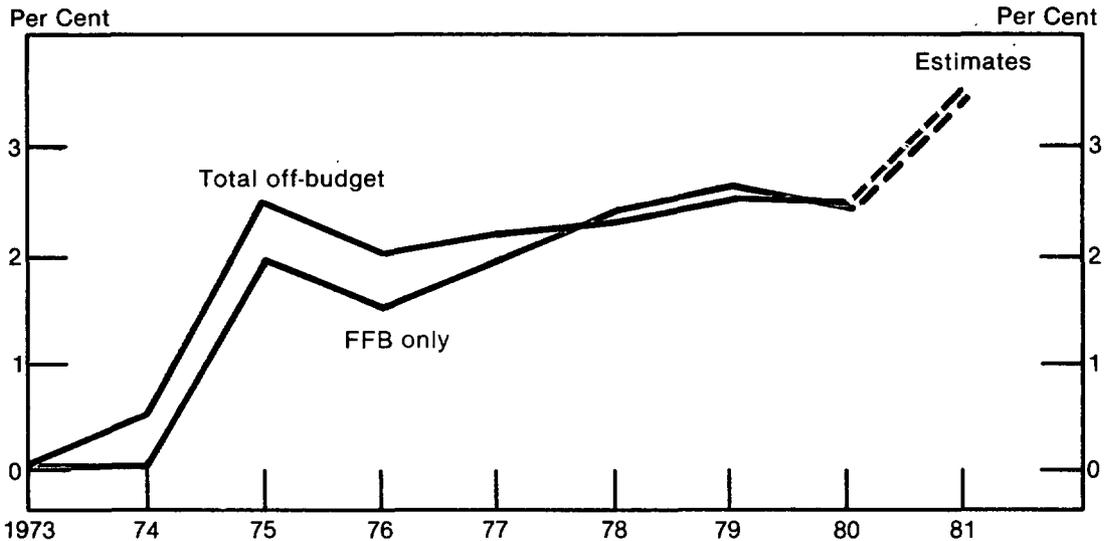
The off-budget status of other agencies, such as the RTB and to some extent the USRA, is explained by their need for flexibility in operation and finance. But there are several organizations included in the budget whose operations are also dependent on financial flexibility, such as various disaster relief funds. Again, consistency suggests that these federally funded operations, which certainly constitute fiscal activities, should be counted in the budget totals.

A question remains whether a special case can be made for continuing off-budget treatment of the Federal Financing Bank. Originally, the FFB’s operations were not put in the budget because that would result in double-counting. However, the outlays attributed to the FFB in Table 2 are adjusted for any and all such double-counting, because those totals are net of agency debt purchases and net of transactions attributed to the other off-budget agencies. The FFB outlays in Table 2 consist mostly of purchases of loan assets and loan guarantees. As discussed earlier, these transactions effectively convert on-budget loans and loan guarantees to off-budget direct

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<sup>13</sup> Hearings before the Special Subcommittee on Control of Federal Credit of the Committee On The Budget, United States Senate, Ninety-Sixth Congress, Second Session, June 19, 23, and July 1, 1980, U.S. Government Printing Office, Washington, D.C., 1980, p. 75. A similar conclusion was also reached in 1974 by the Senate Rules Committee during its consideration of the Congressional Budget Act of 1974, Senate Report 93-688, 93:2 (1974), p. 13.

**Chart 1**  
**RATIO OF OFF-BUDGET OUTLAYS TO TOTAL UNIFIED BUDGET OUTLAYS**



SOURCE: Budget of the United States Government, Office of Management and Budget. Estimates are from the fiscal 1982 budget released January 15, 1981.

loans by the FFB, making them interchangeable.

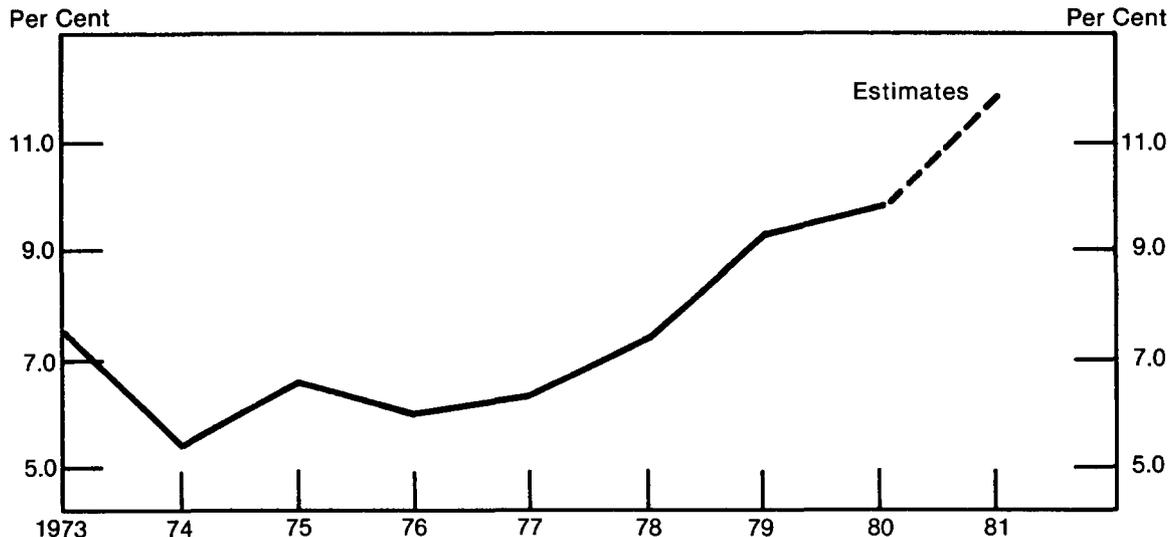
The FFB clearly contributes to total Federal fiscal activity. In terms of economic impact as well as effect on the government's financial position, there is no difference between outlays (including loans) that are off-budget and those that are on-budget. Net lending of either kind is a fiscal outlay, and the 1967 Budget Commission recommended including net lending in the budget. With numerous existing on-budget loan programs substantively no different from FFB loans, inclusion of the latter in the budget totals would add consistency to measures of total Federal fiscal activity.

#### **MONITORING AND CONTROL OF OFF-BUDGET OUTLAYS**

Outlays of off-budget agencies, including the

FFB, are not subject to review through the regular appropriations process. Many analysts conclude that this lack of congressional scrutiny has resulted in a misallocation of Federal credit resources in favor of those functions that can be financed off-budget. Whether or not there has been such a misallocation, off-budget outlays have grown relatively faster, especially since 1976, than other Federal programs that undergo the congressional budget process (Chart 1). Furthermore, the 1981 budget projections show off-budget direct loans outstanding will increase by \$23.2 billion while on-budget loans outstanding will only increase by \$3.9 billion (Table 1). In testimony given in November 1979, Governor Nancy Teeters of the Board of Governors of the Federal Reserve System suggested that the credit programs' exemption from the budget process has been a major

**Chart 2**  
**RATIO OF FEDERAL LOANS (NET) TO TOTAL UNIFIED BUDGET OUTLAYS**  
(includes direct and guaranteed Federal loans)



SOURCE: Budget of the United States Government, Office of Management and Budget. Estimates are from the fiscal 1982 budget released January 15, 1981.

impetus to their growth (Chart 2).<sup>14</sup>

Off-budget outlays, while not reviewed in the regular budget process, do not escape all consideration. Off-budget agencies are mostly controlled the same way as government sponsored agencies—by public and congressional scrutiny.<sup>15</sup> In addition, although off-budget outlays are not limited by the budget process, all borrowing from the public that is required to finance off-budget outlays is subject to the statutory debt limit. However, the debt limit by itself is not an effective means

<sup>14</sup> Hearings before the Task Force on the Budget, House of Representatives, Ninety-Sixth Congress, First Session, November 13 and 14, 1979. U.S. Government Printing Office, Washington, D.C., 1980, TF-1-96-21, p. 14.

of control of off-budget outlays. Neither is it an economically efficient one, since programs are given no individual consideration. Sources of information providing familiarity and understanding of off-budget activities—a prerequisite for control—are available to

<sup>15</sup> According to the Congressional Budget Office, off-budget status does not confer on a program absolute protection from budgetary controls in theory, but in practice it does seem to confer such protection. See *Loan Guarantees: Current Concerns and Alternatives for Control*, The Congressional Budget Office, U.S. Congress, Washington, D.C., January 1979, p. 133.

The U.S. Postal Service has its total obligations outstanding and annual borrowing limited by statute. Since the Postal Service is not a lending organization, any further references to off-budget agencies in this section will not include this agency.

Congress and the public. For example, detailed financial statements of the off-budget agencies can be found in the Budget Appendix, and there is a small section devoted to off-budget expenditures in the main document. In addition, the annual volume of special analyses of the budget contains an analysis of credit programs, including a section on the Federal Financing Bank. Finally, the Committee on the Budget of the U.S. House of Representatives is charged by law to "study on a continuing basis those provisions of law which exempt agencies of the Federal government, or any of their activities or outlays, from inclusion in the budget."

A number of actions have been taken or suggested as a result of the many concerns about rapid growth of off-budget outlays and difficulties in monitoring them. Since 1976 there have been no fewer than four bills proposed to end some of the budgetary exemptions.<sup>16</sup> In fact, four agencies have been moved from off-budget to on-budget status in recent years with little effect on their operations: the Export-Import Bank (which was the first off-budget agency) in 1976, the Housing for the Elderly or Handicapped Fund in 1977, the Exchange Stabilization Fund in 1978, and the Pension Benefit Guaranty Corporation in 1980. Furthermore, the September 1976 report of the House Committee on the Budget recommended that all off-budget agencies, except the FFB and the Board of Governors of the Federal Reserve System, be put in the budget. The report concluded that further study was needed to determine the most appropriate budgetary status for the FFB.<sup>17</sup> These same recommendations were set forth

again in the first concurrent budget resolution for fiscal 1978, but were not all adopted.<sup>18</sup>

The simple method of controlling the off-budget agencies by including them in the budget has not been recommended for the FFB. Putting the FFB on-budget, it is argued, would defeat the primary purpose of the bank. A budgetary constraint on FFB would mean that it would have to be selective of which programs it would finance. The FFB would, in effect, become an allocating body for many Federal credit programs. The allocation task, however, should be performed by Congress, and only after thorough program evaluations. Those agencies whose loans or loan assets could not be purchased by the FFB in this case would then be induced to go into the credit markets themselves to borrow, which is precisely the type of activity the FFB was meant to curtail. Although putting the FFB on-budget would eliminate the problem of understated budget totals, there would still be confusion resulting from the fact that the outlays from a whole variety of agencies and budget subfunctions would be attributed to the FFB rather than the lending agencies themselves.

To meet these difficulties, the Congressional Budget Office has recently recommended changing the treatment of on-budget agencies' transactions with the FFB to include in the agencies' budgets the direct loans made by the FFB on their behalf. This would effectively put all of the FFB's credit activities in the unified budget without putting the FFB itself on-budget.<sup>19</sup> The Congressional Budget Office also recommends returning the remaining off-budget activities to the budget.

Off-budget loans could also be controlled at

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<sup>16</sup> *Loan Guarantees: Current Concerns and Alternatives for Control*, p. 135-7.

<sup>17</sup> *Off-Budget Activities of the Federal Government*, House Report 94-1740, 94:2 (1976), p. 2.

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<sup>18</sup> First Concurrent Resolution on the Budget for Fiscal Year 1978, House Report 95-189, 95-1, (1977), p. 135.

<sup>19</sup> Statement by Robert D. Reischauer, deputy director of Congressional Budget Office, 1980 budget hearings.

their source by putting a limit on the total amount of new loans and new loan guarantees agencies are authorized to issue. This approach is adopted in the new credit budget which appeared for the first time in the 1981 budget. It was created as a response to increasing concern, both in and out of government, that Federal credit programs were growing too rapidly and that so many direct loan programs were not subject to the budget process. Furthermore, loan guarantees, growing more and more significant, were not part of any formal budgetary process, nor were they included in any budget totals.

Currently, the credit budget is a part of the budget preparation instructions, and its proposed limitations on individual programs are recommendations only. The recommendations request that annual appropriations bills include limitations on most credit programs. Generally, the proposed limitations appear to be high enough not to have a significant effect on agency spending plans, and are not inclusive of all Federal Credit activities. Although the proposed ceilings apply to new gross loan extensions, as they should, the portion of those loans within those ceilings which can be made or financed off-budget is not restricted. Thus the credit budget, by itself, will not resolve the conflict of understatement of the budget totals by the unified budget. But as it evolves, it will subject off-budget loans and loan guarantees to higher degrees of control.

Despite its weaknesses, the new credit budget should be considered a positive step toward better congressional control over credit programs in general and off-budget expenditures in particular. Especially noteworthy is that loan guarantees, previously ignored in the unified budget, are given specific attention in the credit budget. Though presently in a primitive state, the credit budget has the potential to evolve into a comprehensive and

effective means of control over all Federal credit activities.

## SUMMARY AND CONCLUSIONS

The existence of off-budget Federal agencies adds confusion to the government's financial statements and prevents the unified budget from completely fulfilling its stated purposes. These agencies, which do not meet the private ownership criterion for off-budget status established by the 1967 President's Commission on Budget Concepts, are of various sizes and serve various functions.

It appears that off-budget outlays are of no different character from many on-budget outlays, particularly since (1) several agencies have recently had their status changed from off-budget to on-budget with little effect on their operations and (2) so many on-budget loan programs can be transferred off-budget at the sponsoring agency's discretion via financing through the Federal Financing Bank. It follows, therefore, that the unified budget totals understate the true proportions of Federal fiscal activities. Because of the similarity between off-budget outlays and budget outlays, there is a *prima facie* case for including off-budget activities in the budget. The reasons given for off-budget treatment of these outlays do not significantly weaken this *prima facie* case.

Programs financed outside the unified budget receive less congressional scrutiny than programs contained within the budget. This is a probable reason for the off-budget outlays' recent growth rate being higher than that for budget outlays. Lack of control has been of increasing concern, and has been answered in part not only by returning some agencies to the unified budget but for the first time presenting a credit budget as part of the 1981 unified budget document. Since over 90 per cent of off-budget spending is in the form of loan programs, the new credit budget, as it evolves,

is likely to have a pronounced effect on the control of off-budget expenditures.

However, it will not by itself alleviate the problem of understatement of the budget totals by the unified budget. This would probably be best done not by simply returning the FFB to

the budget, but by following the 1980 recommendation of the Congressional Budget Office that would attribute all FFB outlays to the initiating agencies' budget accounts and return the remaining off-budget activities to the unified budget.

## APPENDIX

### EFFECTS OF THE THREE TYPES OF FFB ACTIVITIES ON AGENCY ACCOUNTS

#### 1) Purchase of Agency Debt

When an agency borrows (issues securities), the proceeds are treated as a means of financing its debt. The proceeds are not counted as income, offsets, receipts, or collections, but as debt to be repaid.

	Funds Available	Budget Outlays to Date	Budget Authority	Debt Account	FFB Outlays (Off-Budget)
a) initial agency accounts	0	50	60	0	0
b) agency sells \$10 in securities to FFB	10	50	60	10	10
c) agency spends proceeds	0	60	60	10	10

Using this procedure, an agency can only increase its outlays if its initial budget authority exceeds its outlays to date. Note the "double-counting" as both agency and FFB outlays increase by \$10. The FFB was put off-budget to avoid this double-counting. All other references to FFB outlays in this article and in government documents are adjusted so as not to include this type of FFB activity.

#### 2) Purchase of Agency Loans or Loan Assets (CBO's)

When an agency sells loans it has made or loan assets to the FFB, the proceeds are treated like a loan repayment—as offsets to the agency's outlays. In the case of loan asset sales, the proceeds do not have to be appropriated to be spent. In the case of ordinary loan repayments, the proceeds must be appropriated to be spent—i.e., they are an offset to both outlays and budget authority (unless the program is designated as a revolving fund).

	Funds Available	Budget Outlays to Date	Budget Authority	Debt Account	FFB Outlays (Off-Budget)
a) initial agency accounts	0	50	50	0	0
b) agency sells \$10 in loan assets to FFB	10	40	50	0	10
c) agency spends proceeds	0	50	50	0	10

Note that an agency that has exhausted all of its appropriated funds can still initiate some Federal spending by selling its on-budget loans to the FFB, thus transferring them off-budget.

#### 3) Purchase of Loan Guarantees

When an agency issues a loan guarantee, the budget is not affected, but when the FFB buys the guaranteed loan (acts as lender) off-budget outlays increase. The true result is an off-budget direct loan.

	Funds Available	Budget Outlays to Date	Budget Authority	Debt Account	FFB Outlays (Off-Budget)
a) initial agency accounts	0	50	50	0	0
b) agency issues \$10 in loan guarantees	0	50	50	0	0
c) FFB buys guaranteed loans	0	50	50	0	10