

Statement of

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Committee on Ways and Means
United States House of Representatives

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Mr. Chairman, I am pleased to appear before this Committee to testify in support of the Truth in Budgeting Act of 1984--H.R. 4629, the bill introduced by Congressman Gradison to correct the budget treatment of activities financed by the Federal Financing Bank (FFB). The Congressional Budget Office (CBO) has been concerned about the current budget treatment of the FFB for some time. 1/ My predecessor, Alice Rivlin, testified before this Committee last May and described the FFB's budget treatment and the related problems in some detail. Since that statement is part of your record, I will limit my comments this morning to a summary of the major budget issues presented by the FFB and the solution provided by the Truth in Budgeting Act.

BUDGET ISSUES RAISED BY THE BUDGET TREATMENT OF THE FFB

Under current practices, FFB operations contribute to a situation in which the unified budget deficit understates federal borrowing requirements and otherwise identical loans appear to have different budgetary costs. During fiscal year 1984, CBO estimates that the FFB will add \$12.3 billion to total federal borrowing requirements. If current policies are continued, the FFB will add more than \$76 billion to our borrowing requirements over the next five years. By 1989, the FFB would account for over \$180 billion of the public debt subject to limit. None of these funds will appear in the

1/ Congressional Budget Office, The Federal Financing Bank and the Budgetary Treatment of Federal Credit Activities (January 1982).

federal deficit, but all will become part of the debt. The deficit is now stimulating an intense fiscal policy debate, but the most commonly used measure--the unified budget deficit--understates the government's borrowing needs. Moreover, agencies' additional off-budget borrowing requirements add confusion to the debate over the debt ceiling bill. Most of that confusion would be eliminated by moving the FFB transactions on-budget.

The Federal Financing Bank purchases of Farmers Home Administration and Rural Electrification Administration (REA) loan assets shift loans from the agencies' books to the FFB. The FFB's financing of guarantees--primarily for the REA and foreign military sales credit programs--converts loans authorized by the Congress as guaranteed loans into direct loans of the government--albeit off-budget loans. Both the loan asset purchases of the FFB and its financing of guarantees enable agencies to lend without having to request budget authority. The agencies therefore avoid the scrutiny of both the budget and the appropriations processes. If financing by the FFB makes it easier for agencies to attain a higher loan level, it affects the allocation of the federal resources.

THE TRUTH IN BUDGETING ACT OF 1984

The Truth in Budgeting Act of 1984 corrects the problems presented by the budgetary treatment of the FFB by amending the Federal Financing Bank Act of 1973. It requires the transactions of the FFB to be reflected in the unified budget. The federal budget would, therefore, more accurately

reflect the fiscal operations of the federal government. The act requires the transactions of the FFB to be recorded in the originating agencies' budgets, thereby ensuring that all agency transactions are taken into consideration as budget resources are allocated.

In order to ensure that agencies currently receiving the advantages of FFB financing could not bypass the FFB and return to the securities markets to avoid budgetary controls, the Truth in Budgeting Act requires that all activities financed through the Bank during fiscal year 1983 remain in the bank thereafter. Thus, when the new accounting provisions take effect, these activities would be fully and correctly recorded in the budget. Activities financed in the investment securities markets during fiscal year 1983 could continue to be financed outside the FFB. New programs that would otherwise be financed in the investment securities markets are required first to offer their obligations to the FFB. The agency can finance its obligations in the investment securities markets if it can demonstrate to the Secretary of the Treasury that program purposes would be better served by such financing. These provisions ensure that federal programs will be financed in the most efficient manner and displayed clearly in the unified budget.

ACHIEVING A COMPREHENSIVE BUDGET

Two weeks ago I presented to the Senate Banking Committee a report entitled New Approaches to the Budgetary Treatment of Federal Credit Assistance. That report explores options for improving the quality of budget data for credit and for facilitating cost comparisons among credit programs and between credit and direct spending. Two major problems in current treatment are identified: the lack of comprehensiveness of the budget and the inadequacy of net lending as a measure of the economic impact of credit programs. The paper suggests four, not mutually exclusive, accounting and operating changes that would correct, in whole or in part, current exclusions and other misstatements of federal credit cost. The first reform measure described in the paper is the FFB plan--the proposal embodied in the Truth in Budgeting Act of 1984--which corrects the understatement of lending and borrowing resulting from the off-budget status of the FFB. The paper then suggests three alternative approaches to correcting the misstatement of federal credit cost. It concludes that the FFB activities should be on-budget--regardless of what action is taken on the other reforms. The three alternatives we have suggested for improving credit cost measures will require the careful scrutiny of the Congress, before a consensus can be established for a favored approach.

The principal participants in the budget process, however, widely support including FFB activities in the budget. The budget resolution for

1984 expressed the sense of the Congress that this issue be addressed. The Bielensohn Task Force report proposes language that would implement this change. The Truth in Budgeting Act of 1984 is a carefully crafted approach to making the budget more comprehensive. I support its enactment.