UNITED STATES GENERAL ACCOUNTING OFFICE
Washington, D. C. 20548

STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL FINANCE
COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE
ON
[S. 4268] WHICH WOULD REMOVE LENDING OPERATIONS OF THE
EXPORT-IMPORT BANK FROM THE EXPENDITURE LIMITATION ACT
SEPTEMBER 17, 1970

S.00714

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to appear before your subcommittee to give you our views and answer your questions on S. 4268. The purposes of this bill are to exclude the receipts and disbursements of the Export-Import Bank from the totals of the budget of the United States Government and exempt them from any annual expenditure and net lending limitations imposed on the budget.

The General Accounting Office has over many years favored the principle of full disclosure to the Congress and review by the Congress of the budgetary program submitted by the executive branch.

As you may know, as Comptroller General, I was a member of the Commission on Budget Concepts. The members of this Commission were appointed by President Johnson and, incidentally, included the Chairmen and the Ranking Minority members of both the House and Senate Appropriations Committees.

The Commission was chaired by David Kennedy, who is presently Secretary of the Treasury; and the staff director was Robert Mayo who recently served as director of the Bureau of the Budget.

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The function of that Commission was to recommend to the President guidelines as to the form of the budget with particular reference to programs which should be included or excluded from the budget totals.

Over the years considerable confusion had arisen as a result of the different calculations of the budget surplus or deficit. For example, some calculations included the trust funds, such as Social Security Trust Funds, while others excluded these funds and limited the totals to administrative operations. Some included loans and others excluded loans, and so on.

The President's Commission reported in October 1967. It was a unanimous report. President Johnson recommended its implementation for the most part in the budget which he submitted in January 1968.

President Nixon, upon assuming office, also endorsed the Commission's recommendations, and submitted his budgets in accordance with the pattern adopted by President Johnson.

I think the President's Budget Commission report is relevant to our discussion of S. 4268 in that it recommended that all loan programs operated by entities in which the capital stock is owned by the Government or which have recourse to Federal funds should be included in the budget on a net lending basis. That is to say, the budget totals include the difference between loan outlays or disbursements on one side, and loan reimbursements or repayments on the other side.

Thus, the net lending totals could be either a plus or a minus figure depending upon the operations of the account in that particular fiscal year.

To the best of my knowledge, Mr. Chairman, the enactment of S. 4268 would constitute the first departure from the budget policy adopted by

President Johnson and continued to date by President Nixon.

The Budget Commission could have excluded all loans from the budget, and arguments were made to the Commission supporting this course of action. The arguments pro and con were set forth in an excellent staff paper presented to the Commission by Mr. Mayo, and I would like to submit this for insert in the record for your use:

"The case for excluding loans from the budget

"Several reasons have been given at one time or another for treating loans at the very least as something other than ordinary budget expenditures or for excluding them altogether from the calculation of budget surplus or deficit. The reason for excluding loans in the NIA budget--that these are not income items in ordinary accounting practice--has already been stated.

"The same conclusion seems to be suggested if we consider the net economic effect if the Federal Government simultaneously makes a loan and finances the loan by borrowing. We will set aside for the moment the case where bonds are sold to the central bank, which is the financial equivalent of printing new money. If the Government borrows by selling bonds, its lending and borrowing of equal amounts very largely wash out in net economic effect, depending somewhat of course on the type of security sold and the type of loan made.

"Much of the Federal Government's borrowing and relending is a form of activity quite different in economic character from the levying of taxes and the purchase of goods and services for public programs. In many cases, the Government is simply acting as a conduit for funds borrowed from areas or capital markets with loanable funds to spare, passing them on to private, State and local government, or foreign parties who are not able to borrow directly themselves. In this sense, the Government is engaging in financial intermediation, like a bank, a savings and loan association, or other financial intermediary. By borrowing and relending, these institutions bring the interests of savers (lenders) and borrowers into balance. When Government lending activity is viewed this way, then it seems logical to treat loans differently from ordinary taxes and expenditures--indeed even exclude them completely--in calculating the budget surplus or deficit."

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"The case for including loans in the budget

"Advocates of including loans in the calculation of budget surplus or deficit point out that when the Government makes loans, it is not just acting as a bank or financial intermediary. If financial intermediation were all that were required, the private sector could well take care of balancing the interests of borrowers and lenders in a country with such highly developed capital markets as ours. Clearly something else is involved, specifically a recognition that without Federal intervention, important public objectives would not be accomplished through the ordinary working of the capital markets.

"From this point of view, Federal loan programs represent a redirection of national resources to comply with social priorities. They establish claims on resources and demands for current output of the economy that are very hard to distinguish from the demands and claims that arise from Federal expenditures for grants, transfer payments, or subsidies--transactions which are clearly included in anyone's measure of Government 'expenditures.' 'Soft' loans by the Agency for International Development to developing countries repayable in local currency, and nonrecourse loans to farmers made by the Commodity Credit Corporation (CCC) for which there is no legal obligation to repay if the farmer prefers to forfeit his collateral, are only extreme examples of so-called 'loans' which are particularly hard to distinguish from ordinary Government expenditures. In any event, the burden on the Treasury to finance loans through taxes or borrowing is not less than--or different from--the burden associated with financing any other Government expenditure.

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"To some, the pressures to minimize budget expenditures and the budget deficit provide an argument for excluding loans so that the choice between direct and indirect loans can be made solely on their respective merits. But if loans were excluded from the budget, these same pressures might well lead to an even worse distortion of program choices. The misnaming of grants, transfer payments, and subsidies--to get them out of the budget totals--might be greatly stepped up. * * *"

The sum and substance of the staff paper was to argue that loans made by the Government would not be made if adequate credit resources were available on the same terms in the private sector. Accordingly, the budget itself should provide for any redirection of economic resources through governmental action. The effect of any such programs should be reported on a net basis, not on a gross basis, and should be included in the calculations of budget surplus or deficit.

There is a very brief statement in the Commission report itself which reads:

> "In line with the Commission's conviction that a unified budget system is essential, and that a comprehensive definition of the budget is very important, the inclusion of net lending as well as other expenditures in the budget has particular significance. With both in the budget, there should be no pressure by special interests or program partisans to redesign other expenditure programs to give them the appearance of direct loans in order to get them out of the budget."

Mr. Chairman, our view of the matter before you today is that S. 4268 involves a very important principle concerning the review of the budget as a whole. This proposed precedent-setting action is one which should be examined in light of all other loan programs in the budget, because in our opinion it would be difficult if not impossible to differentiate between this program and other loan programs except on the basis of a value judgment as to their importance and priority.

If the Export-Import Bank program is judged to have a high priority, we believe that the best approach to improving its flexibility would be to seek a direct action by the Congress in the normal way. In short, we favor a direct rather than an indirect approach to relieve the Bank from the current expenditure limitations. In fact, we believe that the critical result of S. 4268 would simply be to remove the Eximbank operations from the effect of expenditure limitations imposed by the Congress on the budget totals for this year.

There was some flexibility provided in that limitation relating to changes in receipts from the sale of financial assets by several lending programs including those of the Export-Import Bank. No special exemption was provided for the Bank.

In lieu of S. 4268, an alternative course of action would be to take all loans out of the budget, and a respectable rationale could be developed for this. Another alternative would be to do what was done with the Federal National Mortgage Association--to have the Export-Import Bank go into the private sector. All of the operations of FNMA, the intermediate credit banks, banks for cooperatives, and other such programs in which Government capital has been retired, are currently excluded from the budget. This is in line with the Budget Commission report adopted by President Johnson and President Nixon. But we cannot honestly advise the Committee that we can make a distinction, except on the basis of a judgment on priority, between this program and all of the other loan programs included in the budget. These, as you probably know, represent a total of outstanding loans today of about $48 billion. This includes
5,4 loans by Farmers Home Administration and Small Business Administration, 388,2
5,6 Veterans loans, and REA loans, all of which, from somebody's point of 16,27
view, have a high priority and are extremely important. I do not honestly know how you would differentiate, therefore, between this case and the other cases represented by the loans that are included in the budget today.

There may be a question as to whether legislation is required to permit the President to exclude the receipts and disbursements of the Bank from the totals of the President's budget; that is, not to consider the net lending of the Bank in the computation of the estimated amount of the deficit or surplus of the Government shown in the President's budget for each fiscal year. The Budget and Accounting Act, 1921, gives the President very wide latitude as to the "form and detail" of his budget. While the budget of the Bank is required by the Government Corporation Control Act to be included in the President's budget, the manner in which it is included is within the discretion of the President.

In our opinion, whether the net lending of the Bank is included in the portion of the President's budget used in determining the deficit or surplus is within his discretion and legislation for this purpose is not required.

The President, however, as a policy matter chose to include the net lending for the Export-Import Bank in his budget along with other loan programs, in line with the recommendations of his Budget Commission, which recommendations he had theretofore adopted.

Legislation would be required only to exempt or increase the Bank's expenditures from any overall expenditure limitation enacted by the Congress.

This concludes my statement, Mr. Chairman.