STATEMENT OF
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BEFORE
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ON

S. 19 and S. 581, To amend the Export-Import Bank Act of 1945, as amended, to allow for greater expansion of export trade of the United States, to exclude Bank receipts and disbursements from the budget of the United States, and for other purposes

March 9, 1971

Mr. Chairman and Members of the Committee:

We appear at the Committee's request to present our views and answer your questions on the provisions of S. 19 and S. 581, which would 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. In September 1970, we appeared before the Subcommittee on International Finance, Committee on Banking and Currency, at its request on a similar bill, S. 4268, which failed of enactment.

As you know, 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 programs submitted by the executive branch. In our view excluding the Export-Import Bank's receipts and disbursements from the budget totals could establish an undesirable precedent which might logically be applied to other loan programs, since it is impossible to differentiate between this program and other loan programs except on the basis of a value judgement as to relative importance or priority. We do not favor such an exclusion.

Our position is consistent with the conclusion of the President's Commission on Budget Concepts of October 1967, that all loan programs operated by entities in which the capital stock is owned by the Government 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. This budget policy as it affects the Export-Import Bank had been in existence for many years, long before the report on the President's Commission on Budget Concepts.

The President's Commission on Budget Concepts was a bipartisan group. It was chaired by Mr. David Kennedy, who was later appointed Secretary of the Treasury, by President Nixon. The Commission included the Chairman and the ranking minority members of the House and Senate Appropriations Committee. I was privileged to serve on the Commission. Mr. Robert Mayo, later Director of the Bureau of the Budget, was staff director.

The Commission's report was unanimous and its recommendations were adopted by President Johnson and later accepted by President Nixon.

The Budget Commission considered an alternative of excluding 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 there 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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"<u>The case for including loans in the budget</u>

"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."

We believe there may be other courses of action that would provide some of the flexibility the Export-Import Bank is seeking.

(1) In lieu of S. 19 and S. 581, we believe that one alternative course of action would be to do what was done when the Federal National Mortgage Association was removed from the Budget--to have all or part of the Export-Import Bank operations go into the private sector. If this were done, however, because of the Export-Import Bank's need to maintain an internationally competitive export financing lending rate, currently 6 percent, it would be necessary to provide for some sort of Government support such as borrowing authority or line of credit from the Treasury, and possibly a Government backed guarantee of any obligations issued by the new organization. Aside from these types of support to improve the credit rating and lower the borrowing costs of the private corporation, it would of course have to be self-sufficient in that its cost of funds would have to be covered by its own capital and loan income.

This test of economic self-sufficiency and independence is at the heart of the Budget Commission's criteria for exclusion from the coverage of the executive budget totals. Conversion to a private operation would provide flexibility for the Bank. We understand that the Federal Reserve Board concurs in this position. The Board has taken the position that if the Export-Import Bank's operations are sufficiently different from those of other Federal agencies to justify exclusion of them from the budget process, it may be that the best answer lies in converting the bank to a private institution as has been done with FNMA. The Board further states that such a solution would provide them with the flexibili the Bank seeks, without doing violence to the principles of the unified budget.

(2) Another vehicle for providing the Export-Import Bank with the flexibility it seeks in order to promote the export of U. S. products and services, is the current guarantee and credit agreement under consideration between the Export-Import Bank and the Private Export Funding Corporation (PEFCO). The basic purpose of PEFCO is to mobilize private capital, both long and short term, to help finance exports of U. S. manufactured products. To accomplish this purpose, PEFCO plans to purchase medium and long-term paper generated by U. S. exports and guarantee by the Export-Import Bank. PEFCO plans to finance its activities by offering short and long term secured notes. The notes are to be secured by deposit of Export-Import Bank guaranteed importer notes with a trustee

It appears to me that the PEFCO agreement would help meet the object of the Export-Import Bank to mobilize private capital, both long term and short term, to help finance exports of U. S. products. It would be difficult without any experience factor, however, to assess at this time whether the arrangements provided for by the agreement would achieve its intended purpose, and/or result in a substantial increase in cost to carry out the agreement. Moreover, we have some doubt about the legal authority of the Export-Import Bank to enter into the specific arrangements provided in the agreement that go beyond their corporate tenure. These arrangements include obligating the Government for the payment of interest on the debt obligations of PEFCO which are to be issued with the Export-Import Bank approval and guaranty, far beyond the presently authorized corporate tenure of the Export-Import Bank.

(3) A third alternative would be to exclude all loan programs from the budget. The arguments for and against this are stated above. For example, such loans would be those made by the Farmers Home Administration, Veterans Administration, Rural Electrification Administration, Small Business Administration, and the College Housing Loans made by the Department of Housing and Urban Development, all of which, from somebody's point of view have a high priority and are extremely important. These loan programs, as you probably know, represent a total of outstanding loans today of about $51 billion. I do not know how anyone could differentiate between the Export-Import Bank case and the other cases represented by the loans that are included in the budget today.

The arguments that the Bank supports U. S. exports, that it helps meet the U. S. balance of payments problems, and that it makes a profit--valid as these points may be--do not make it unique from a budgetary point of view. As we have just pointed out, other loan programs have their own important purposes. Supporters of these programs could argue with equal force that they are unique. The issue is, therefore, whether all of these programs, and many others, are to be reviewed in an orderly way so that the Congress can make informed decisions as to the priorities of need.

It is argued that Export-Import Bank loan disbursements take place over a period of years, as do disbursements under other Federal loan programs. However, the Office of Management and Budget (OMB) should have and presumably does have estimates of the rate of disbursement available to it when it estimates net budget outlays. Even if OMB estimates were wrong, it could, after considering disbursements and receipts under outstanding loan agreements, make an upward adjustment. It could also increase loan operations during the course of the year if the Bank could justify an overall increase in loan operations. This is permissible under the Government Corporation Control Act for all corporation budgets, unless the Congress limits the program specifically in appropriation acts.

As pointed out in hearings on similar legislative proposals last year, 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. Legislation for this purpose is not required. However, the Executive Branch, as a policy matter has again chosen to include the net lending for the Export-Import Bank in the budget along with other loan programs, in line with the recommendations of his Budget Commission, which recommendations the President had theretofore adopted.

(4) A fourth and obvious alternative would be the submission by the Executive Branch of an amendment to the overall expenditure control limitation for fiscal year 1971 to increase the lending operations of the Bank. This limit expires on June 30 of this year.

(5) Finally, if, in the judgment of the Congress, the Export-Import Bank program is deemed to have a high priority, we believe that a far simpler and more desirable approach would be to simply adjust the

expenditure ceiling upward, rather than removing the program from the budget. This would permit the Bank to operate within a congressionally established budget program without creating an undesirable precedent that would arise from removal of the Bank's operation from the Budget.

In summary, Mr. Chairman, we do not argue that the Bank's lending operations are not extremely important, nor that they should not be given high priority. But the budget is essentially a device for bringing together competing needs so that overall priorities may be established and resources allocated. It is hard to escape the conclusion that the Bank's problem is not with the way the budget is developed, but with the fact that the Executive Branch does not assign as high a priority to the Bank's lending operations as the Bank desires. Similarly, the Congress, if it believes that additional resources should be made available to the Export-Import Bank, after weighing the merits of other programs, can do so within the budgetary process.

This concludes my statement, Mr. Chairman.