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There should be full disclosure of the budget impact on all existing and proposed Federal credit and credit support programs. The special treatment accorded loan guarantees, and the exclusion of the Federal Financing Bank (and other off-budget agencies) from the budget totals, creates a situation in which it is possible to commit Federal funds without having gone through the normal discipline of the budget process, a discipline which is applicable to most proposals that spend the taxpayers' money. The Federal Financing Bank should be barred from engaging in transactions which result in the conversion of guaranteed to direct loans when its activities are not fully reflected in the budget. The magnitude of other off-budget activities in the Federal Government that escape normal budgetary discipline is sufficiently large to undermine the credibility and analytical usefulness of the unified budget concept. (Author/QE)

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Statement of Elmer B. Staats
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Before the Subcommittee on Economic Stabilization
of the
House of Representatives' Committee on Banking, Finance, and Urban Affairs

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Mr. Chairman and Members of the Committee. We welcome the opportunity to be here this morning and to present our views on loan guarantees of the Federal Government. In the past year, the General Accounting Office has testified before the Congress on several occasions and issued reports to members of the Congress concerning proposed loan guarantee programs. We have commented on several pieces of proposed energy legislation, such as the Nuclear Fuel Assurance Act, which have contained loan guarantee provisions.

In our statements before the Congress and in our reports, we have raised a concern about the budget treatment and lack of budget discipline applicable to programs which use the loan guarantee mechanism. We believe that there should be full disclosure of the budget impact on all existing and proposed Federal credit and credit support programs. Only if there is full disclosure through the budget process can the full impact of such programs and the trade-off with other Federal programs be evaluated.

In this regard, we support the basic philosophy and recommendations of the 1967 President's Commission on Budget Concepts which urged "a unified budget--with complementary components--which will put an end to competing measures." There has been a significant departure in recent years from this concept through the growth of off-budget agencies. The Federal Financing Bank is a major off-budget agency that handles a large portion of loan guarantees for the Government.

There is little dispute that direct loans should logically be reflected in the budget totals. But, the special treatment accorded loan guarantees, and the exclusion of the Federal Financing Bank (and other off-budget agencies) from the budget totals, creates a situation in which it is possible, to commit Federal funds without having gone through the normal discipline of the budget process--a discipline which is applicable to most proposals that spend the taxpayers' money. As we have said elsewhere, we believe that the Federal Financing Bank, in particular, should be barred from engaging in transactions which result in the conversion of guaranteed to direct loans so long as its activities are not fully reflected in the budget.

But there are a number of other off-budget agencies in the Federal Government that escape normal budgetary discipline. The existence of major Federal activities of this sort outside the budget is a matter for serious concern. Programs funded in this way do not have to compete for resources within the same framework as is applied to other, perhaps equally worthwhile, projects. In addition, the magnitude of such "off-budget" activities is sufficiently large to undermine the credibility and analytical usefulness of the unified budget concept. Thus, we have consistently opposed the existence of "off-budget" agencies except in very specific and limited circumstances.

Mr. Harry S. Havens, who is Director of our Program Analysis Division, is here today with me and he will review on-going GAO work concerning loan guarantees. Several reports on this subject will be made available to the Congress in the near future. Mr. Havens will discuss various aspects of the cost and subsidy elements of loan guarantees and the effectiveness of loan guarantees in accomplishing program objectives.

Thank you, Mr. Chairman, for the opportunity of presenting this brief statement before you this morning.