20. OFF-BUDGET FEDERAL ENTITIES AND NON-BUDGETARY ACTIVITIES

The unified budget of the Federal Government is divided by law between on-budget and off-budget entities. The off-budget Federal entities conduct programs that result in the same kind of spending and receipts as on-budget entities. Despite its off-budget classification, this spending channels economic resources toward particular uses in the same way as on-budget spending. Off-budget spending and receipts are discussed in the following section on off-budget Federal entities.

The budget does not include activities that are related to the Federal Government but that are non-budgetary by their inherent nature. In some cases this is because the activities are not conducted by the Government, such as the financial intermediation provided by the Government-sponsored enterprises; and in other cases this is because the activities are not costs to the Government itself, such as regulation. Nevertheless, some of these activities are important instruments of Federal policy. Some are discussed in the budget documents, and in certain cases the amounts involved are presented in conjunction with budget data. They are discussed in the section of this chapter on non-budgetary activities.

Off-Budget Federal Entities

The Federal Government has used the unified budget concept as the foundation for its budgetary analysis and presentation since the 1969 budget. This concept was developed by the President's Commission on Budget Concepts in 1967. It calls for the budget to include all the Federal Government's programs and all the fiscal transactions of these programs with the public.

TABLE 20–1. COMPARISON OF TOTAL, ON-BUDGET, AND OFF-BUDGET TRANSACTIONS [1]

(In billions of dollars)

Fiscal Year	Receipts			Outlays			Surplus or deficit (–)		
	Total	On-budget	Off-budget	Total	On-budget	Off-budget	Total	On-budget	Off-budget
1975	279.1	216.6	62.5	332.3	271.9	60.4	–53.2	–55.3	2.0
1976	298.1	231.7	66.4	371.8	302.2	69.6	–73.7	–70.5	–3.2
TQ	81.2	63.2	18.0	96.0	76.6	19.4	–14.7	–13.3	–1.4
1977	355.6	278.7	76.8	409.2	328.5	80.7	–53.7	–49.8	–3.9
1978	399.6	314.2	85.4	458.7	369.1	89.7	–59.2	–54.9	–4.3
1979	463.3	365.3	98.0	504.0	404.1	100.0	–40.7	–38.7	–2.0
1980	517.1	403.9	113.2	590.9	476.6	114.3	–73.8	–72.7	–1.1
1981	599.3	469.1	130.2	678.2	543.0	135.2	–79.0	–73.9	–5.0
1982	617.8	474.3	143.5	745.7	594.3	151.4	–128.0	–120.0	–7.9
1983	600.6	453.2	147.3	808.4	661.3	147.1	–207.8	–208.0	0.2
1984	666.5	500.4	166.1	851.9	686.0	165.8	–185.4	–185.6	0.3
1985	734.1	547.9	186.2	946.4	769.6	176.8	–212.3	–221.7	9.4
1986	769.2	569.0	200.2	990.4	806.9	183.5	–221.2	–237.9	16.7
1987	854.4	641.0	213.4	1,004.1	810.2	193.8	–149.7	–169.3	19.6
1988	909.3	667.8	241.5	1,064.5	861.8	202.7	–155.2	–194.0	38.8
1989	991.2	727.5	263.7	1,143.6	932.7	210.9	–152.5	–205.2	52.8
1990	1,032.0	750.3	281.7	1,253.2	1,028.1	225.1	–221.2	–277.8	56.6
1991	1,055.0	761.2	293.9	1,324.4	1,082.7	241.7	–269.3	–321.5	52.2
1992	1,091.3	788.9	302.4	1,381.7	1,129.3	252.3	–290.4	–340.5	50.1
1993	1,154.4	842.5	311.9	1,409.5	1,142.9	266.6	–255.1	–300.4	45.3
1994	1,258.6	923.6	335.0	1,461.9	1,182.5	279.4	–203.3	–258.9	55.7
1995	1,351.8	1,000.8	351.1	1,515.8	1,227.1	288.7	–164.0	–226.4	62.4
1996	1,453.1	1,085.6	367.5	1,560.5	1,259.6	300.9	–107.5	–174.1	66.6
1997	1,579.3	1,187.3	392.0	1,601.3	1,290.6	310.6	–22.0	–103.3	81.4
1998	1,721.8	1,306.0	415.8	1,652.6	1,336.0	316.6	69.2	–30.0	99.2
1999	1,827.5	1,383.0	444.5	1,701.9	1,381.1	320.8	125.6	1.9	123.7
2000	2,025.2	1,544.6	480.6	1,788.8	1,458.0	330.8	236.4	86.6	149.8
2001	1,991.2	1,483.7	507.5	1,863.9	1,517.1	346.8	127.3	–33.4	160.7
2002	1,853.2	1,337.9	515.3	2,011.0	1,655.3	355.7	–157.8	–317.5	159.7
2003 estimate	1,836.2	1,304.7	531.6	2,140.4	1,772.3	368.1	–304.2	–467.6	163.5
2004 estimate	1,922.0	1,365.9	556.2	2,229.4	1,847.9	381.5	–307.4	–482.1	174.7
2005 estimate	2,135.2	1,545.7	589.5	2,343.4	1,953.1	390.3	–208.2	–407.4	199.2
2006 estimate	2,263.2	1,648.4	614.8	2,463.7	2,060.1	403.6	–200.5	–411.7	211.2
2007 estimate	2,398.1	1,753.6	644.4	2,576.2	2,159.7	416.5	–178.1	–406.1	227.9
2008 estimate	2,520.9	1,847.7	673.2	2,710.5	2,280.4	430.1	–189.6	–432.7	243.1

[1] Off-budget transactions consist of the social security trust funds for all years and the Postal Service fund as of 1989.

Every year since 1971, however, at least one Federal entity has been off-budget. Off-budget Federal entities are federally owned and controlled, but their transactions are excluded from the on-budget totals by law. When a Federal entity is off-budget, its receipts, outlays, and surplus or deficit are not included in the on-budget receipts, outlays, and surplus or deficit; and its budget authority is not included in the totals of budget authority for the on-budget Federal entities. The Budget Enforcement Act of 1990 excluded off-budget entities from general enforcement provisions (except for the administrative expenses of Social Security), although it had special enforcement provisions for Social Security.

The off-budget Federal entities conduct programs of the same type as the on-budget entities. Most of the tables in the budget documents include the on-budget and off-budget amounts both separately and in combination, or show them only as a total amount, in order to arrive at the unified budget totals that show Federal outlays and receipts comprehensively.

The off-budget Federal entities currently consist of the two Social Security trust funds, old-age and survivors insurance and disability insurance, and the Postal Service fund. Social Security was classified off-budget as of 1986 and the Postal Service fund in 1989. A number of other entities were off-budget at different times before 1986 but were classified on-budget by law in 1985 or earlier.

The preceding table divides the total Federal Government receipts, outlays, and surplus or deficit between the on-budget and off-budget amounts. Within this table Social Security is classified as off-budget for all years, in order to provide consistent comparison over time. The much smaller Postal Service transactions are classified as off-budget starting in 1989. Entities that were off-budget at one time but are now on-budget are classified as on-budget for all years.

The off-budget entities are a significant part of total Federal spending and receipts. In 2004, the off-budget receipts are an estimated 28 percent of total receipts, and the off-budget outlays are a moderately smaller percentage of the total. The unified budget deficit in that year is $307 billion—a $482 billion on-budget deficit partly offset by a $175 billion off-budget surplus. The off-budget surplus is virtually the same as the Social Security surplus. Social Security had a deficit in the latter 1970s and early 1980s, but since the middle 1980s it has had a large and growing surplus. This surplus is expected to continue to grow throughout the period of this table and for some years thereafter. However, it is estimated to subsequently decline, turn into a deficit, and never reach balance again under present law. The long-term challenge to Social Security is discussed in a chapter in the main *Budget* volume, "The Real Fiscal Danger," and is analyzed with much greater detail in chapter 3, "Stewardship," of this volume.

Non-Budgetary Activities

Federal credit: budgetary and non-budgetary transactions.—The Federal Credit Reform Act of 1990 refined budget concepts by distinguishing between the costs of credit programs, which are budgetary in nature, and the other transactions of credit programs, which are not. For 1992 and subsequent years, the costs of direct loans and loan guarantees are calculated as the present value of estimated cash outflows from the Government less the present value of estimated cash inflows to the Government. These costs are equivalent to the outlays of other Federal programs and are included in the budget as outlays of credit program accounts when the Federal Government makes a direct loan or guarantees a private loan.

The complete cash transactions with the public—the disbursement and repayment of loans, the payment of default claims on guarantees, the collection of interest and fees, and so forth—are recorded in separate financing accounts. The financing accounts also receive payments from the credit program accounts for the costs of direct loans and loan guarantees. The net transactions of the financing accounts—i.e., the cash transactions with the public less the amounts received from the program accounts—are not costs to the Government. Therefore, the net transactions of the financing accounts are non-budgetary in concept, and the Act excludes them from the budget.[1] Because they are non-budgetary in concept, they are not classified as off-budget Federal entities. Their effect on the Government's borrowing requirement is explained in chapter 13 of this volume, "Federal Borrowing and Debt."

The budget outlays of credit programs thus measure the cost of Government credit decisions, and they record this cost when the credit assistance is provided. This enables the budget to more effectively fulfill its purpose of being a financial plan for allocating resources among alternative uses: comparing the cost of a program with its benefits, comparing the cost of credit programs with the cost of other spending programs, and comparing the cost of one type of credit assistance with the cost of another type.[2]

Credit programs are discussed in chapter 9 of this volume, "Credit and Insurance."

Premiums and discounts on debt buybacks.—The Treasury Department bought back outstanding bonds as part of its debt management from March 2000 to April 2002. The premiums paid on debt buybacks were recorded outside the budget totals as a "financing other

[1] See sec. 505(b).

[2] For more explanation of the budget concepts for direct loans and loan guarantees, see the sections on Federal credit and credit financing accounts in chapter 24 of this volume, "Budget System and Concepts and Glossary." The structure of credit reform is further explained in chapter VIII.A of the Budget of the United States Government, Fiscal Year 1992, Part Two, pp. 223–26. The implementation of credit reform through 1995 is reviewed in chapter 8, "Underwriting Federal Credit and Insurance," Analytical Perspectives, Budget of the United States Government, Fiscal Year 1997, pp. 142–44. Refinements and simplifications enacted by the Balanced Budget Act of 1997 or provided by later OMB guidance are explained in chapter 9, "Underwriting Federal Credit and Insurance," Analytical Perspectives, Budget of the United States Government, Fiscal Year 1999, p. 170.

than the change in debt held by the public." This budgetary treatment is explained in a section of chapter 24, "Budget System and Concepts and Glossary," in the *Analytical Perspectives* volume of the 2001 budget, pages 457–58. The buyback premiums in 2002 are shown in chapter 13 of this volume, "Federal Borrowing and Debt."

Deposit funds.—Deposit funds are non-budgetary accounts that record amounts held by the Government temporarily until ownership is determined (such as earnest money paid by bidders for mineral leases) or held by the Government as an agent for others (such as state income taxes withheld from Federal employees' salaries and not yet paid to the states). The largest deposit fund is the Thrift Savings Fund, which holds stocks and bonds for Federal employees who participate in the Thrift Savings Plan, a defined contribution retirement plan. Because these assets are the property of the employees and are held by the Government in a fiduciary capacity, the transactions of the fund are not transactions of the Government itself and therefore are non-budgetary in concept. The administrative costs and the transactions of budgetary accounts with the fund are included in the budget. For similar reasons, the budget excludes funds that are owned by Indian tribes and held and managed by the Government in a fiduciary capacity on the tribes' behalf. Deposit funds are further discussed in a section of chapter 24 of this volume, "Budget System and Concepts and Glossary."

Taxation and tax expenditures.—Taxation provides the Government with income, which is included in the budget as "receipts," and which withdraws purchasing power from the private sector to finance Government expenditures. In addition to this primary economic effect, taxation has important effects on the incentives that affect the allocation of resources among private uses and the distribution of income among individuals. These effects depend on the composition of the Federal tax system and the rates and other structural characteristics of each Federal tax. The latter effects of taxation on resource allocation and income distribution are in many ways analogous to the effects of outlays, but these effects are not recorded as budget outlays nor are they measured by budget receipts.

Some of the effects of taxes on resource allocation and income distribution, but not all, arise from special exclusions, exemptions, deductions, and similar provisions that are identified by comparing the tax law with a baseline. Revenue losses caused by these special provisions are defined as "tax expenditures" and are discussed in chapter 6 of this volume, "Tax Expenditures." The chapter includes tables with estimates for all known tax expenditures associated with the individual and corporation income taxes. The chapter also compares tax expenditures with spending programs and regulation as alternative methods for achieving policy objectives, and it provides an illustrative overview of performance measures that might be used to evaluate tax expenditures.

The baseline concepts used to identify and measure tax expenditures in chapter 6 have important ambiguities. Although partly patterned on a comprehensive income tax, they are subjective, as noted last year, and are thus open to question in a number of respects. The Treasury Department has therefore begun a review of the tax expenditure presentation. The appendix to chapter 6 provides an initial review, focusing on three issues: (1) using a comprehensive income tax as a baseline, (2) including negative tax expenditures in the presentation (i.e., provisions that cause people to pay more tax than they would under a baseline—such as the failure to adjust interest, capital gains, and depreciation for inflation in comparison to a comprehensive income tax), and (3) using a comprehensive consumption tax as a baseline.

Government-sponsored enterprises.—The Federal Government has established a number of Government-sponsored enterprises, such as Fannie Mae, Freddie Mac, and the Farm Credit Banks, to provide financial intermediation for specified public purposes. They are excluded from the budget because they are privately owned and controlled. However, primarily because they were established by the Federal Government for public-policy purposes, estimates of their activities are reported in a separate chapter of the budget *Appendix,* their activities are analyzed in chapter 9 of this volume, "Credit and Insurance," and their lending and borrowing are summarized in tables 9–11 and 9–12 of that chapter.

Regulation.—Some types of regulation have economic effects that are similar to budget outlays or tax expenditures by requiring the private sector to make expenditures for specified purposes, such as safety and pollution control. The regulatory planning process is described annually in *The Regulatory Plan and the Unified Agenda of Federal Regulatory and Deregulatory Actions.* [3]

The Office of Management and Budget began to publish a report on the costs and benefits of Federal regulation in 1997. The latest report, *Stimulating Smarter Regulation,* was released in December 2002 and includes a report on unfunded mandates. [4] The report estimates the total costs and benefits of Federal regulations reviewed by OMB from April 1995 through September 2001 and the impact of Federal regulation on state, local, and tribal governments and on wages, economic growth, and small business. It also discusses regulatory policy under the present Administration, regulatory governance abroad, and recommendations for reform. The report on regulation is required by statute to be updated annually.

[3] The most recent publication was issued by the Regulatory Information Service Center in December 2002 and printed in the Federal Register of December 9, 2002 (vol. 67, no. 236).

[4] Office of Information and Regulatory Affairs, Office of Management and Budget, Stimulating Smarter Regulation: 2002 Report to Congress on the Costs and Benefits of Regulations and Unfunded Mandates on State, Local, and Tribal Entities (2002).