23. 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. Despite this legal distinction, the off-budget Federal entities engage in the same basic activities of government as the on-budget entities. They conduct similar programs and the programs they conduct result in the same kind of spending and receipts as do the on-budget entities. Off-budget spending channels economic resources toward particular uses in the same way as does on-budget spending. Off-budget spending and receipts are discussed further in the following section on off-budget Federal entities.

The budget is a financial plan for proposing, deciding, and controlling the allocation of resources by the Federal Government. It does not include, however, the financial consequences of all Federal activities. Some of these activities are non-budgetary by their inherent nature either because the activities are not conducted by agencies of the Government, such as the financial intermediation provided by Government-sponsored enterprises; or because the funds involved are privately owned, such as the deposit funds owned by Indian tribes and managed on their behalf by the Government in a fiduciary capacity. In other cases, such as regulation, the Federal activities give rise to costs that are borne by the private sector rather than the Government. Although non-budgetary, some of these activities are important instruments of Federal policy and are discussed in other parts of the budget along with relevant financial data. They are also discussed further in the section of this chapter on non-budgetary activities.

TABLE 23–1. 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
1980	517.1	403.9	113.2	590.9	477.0	113.9	–73.8	–73.1	–0.7
1981	599.3	469.1	130.2	678.2	543.0	135.3	–79.0	–73.9	–5.1
1982	617.8	474.3	143.5	745.7	594.9	150.9	–128.0	–120.6	–7.4
1983	600.6	453.2	147.3	808.4	660.9	147.4	–207.8	–207.7	–0.1
1984	666.5	500.4	166.1	851.9	685.7	166.2	–185.4	–185.3	–0.1
1985	734.1	547.9	186.2	946.4	769.4	176.9	–212.3	–221.5	9.2
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	809.3	194.8	–149.7	–168.4	18.6
1988	909.3	667.8	241.5	1,064.5	860.1	204.4	–155.2	–192.3	37.1
1989	991.2	727.5	263.7	1,143.8	932.9	210.9	–152.6	–205.4	52.8
1990	1,032.1	750.4	281.7	1,253.1	1,028.1	225.1	–221.0	–277.6	56.6
1991	1,055.1	761.2	293.9	1,324.3	1,082.6	241.7	–269.2	–321.4	52.2
1992	1,091.3	788.9	302.4	1,381.6	1,129.3	252.3	–290.3	–340.4	50.1
1993	1,154.5	842.5	311.9	1,409.5	1,142.9	266.6	–255.1	–300.4	45.3
1994	1,258.7	923.7	335.0	1,461.9	1,182.5	279.4	–203.2	–258.8	55.7
1995	1,351.9	1,000.9	351.1	1,515.9	1,227.2	288.7	–164.0	–226.4	62.4
1996	1,453.2	1,085.7	367.5	1,560.6	1,259.7	300.9	–107.4	–174.0	66.6
1997	1,579.4	1,187.4	392.0	1,601.3	1,290.7	310.6	–21.9	–103.2	81.4
1998	1,722.0	1,306.2	415.8	1,652.7	1,336.1	316.6	69.3	–29.9	99.2
1999	1,827.6	1,383.2	444.5	1,702.0	1,381.3	320.8	125.6	1.9	123.7
2000	2,025.5	1,544.9	480.6	1,789.2	1,458.5	330.8	236.2	86.4	149.8
2001	1,991.4	1,483.9	507.5	1,863.2	1,516.4	346.8	128.2	–32.4	160.7
2002	1,853.4	1,338.1	515.3	2,011.2	1,655.5	355.7	–157.8	–317.4	159.7
2003	1,782.5	1,258.7	523.8	2,160.1	1,797.1	363.0	–377.6	–538.4	160.8
2004	1,880.3	1,345.5	534.7	2,293.0	1,913.5	379.5	–412.7	–568.0	155.2
2005	2,153.9	1,576.4	577.5	2,472.2	2,070.0	402.2	–318.3	–493.6	175.3
2006 estimate	2,285.5	1,675.5	610.0	2,708.7	2,277.7	431.0	–423.2	–602.1	179.0
2007 estimate	2,415.9	1,773.5	642.3	2,770.1	2,317.0	453.1	–354.2	–543.4	189.2
2008 estimate	2,590.3	1,911.1	679.1	2,813.6	2,347.1	466.5	–223.3	–436.0	212.7
2009 estimate	2,714.2	1,998.0	716.2	2,921.8	2,435.2	486.6	–207.6	–437.2	229.7
2010 estimate	2,878.2	2,119.7	758.5	3,060.9	2,527.2	533.7	–182.7	–407.5	224.8
2011 estimate	3,034.9	2,233.3	801.6	3,239.8	2,648.7	591.1	–204.9	–415.4	210.5

[1] Off-budget transactions consist of the Social Security trust funds and the Postal Service fund.

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.

Every year since 1971, however, at least one Federal entity has been declared to be 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 separated from the on-budget receipts, outlays, and surplus or deficit; and its budget authority is also separated from the total budget authority for the on-budget Federal entities. The Budget Enforcement Act of 1990 excluded off-budget entities from its general enforcement provisions (except for the administrative expenses of Social Security); it had separate enforcement provisions for Social Security.

Off-budget Federal entities conduct programs of the same type as on-budget entities. Most of the tables in the budget include both on-budget and off-budget amounts both separately and in combination, or show them only as a total amount, in order to show the unified budget totals that measure 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 declared off-budget at different times before 1986, but have been classified on-budget by law at least since 1985.

Table 23–1 divides total Federal Government receipts, outlays, and the surplus or deficit between on-budget and off-budget amounts. Within this table the Social Security and Postal Service transactions are classified as off-budget for all years, in order to provide a consistent comparison over time. 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 2007, off-budget receipts are an estimated 27 percent of total receipts, and off-budget outlays are a smaller, but still significant, percentage of total outlays at 16 percent. The estimated unified budget deficit in 2007 is $354 billion—a $543 billion on-budget deficit partly offset by a $189 billion off-budget surplus. The off-budget surplus consists almost entirely of the Social Security surplus. Social Security had small deficits or surpluses from its inception through the early 1980s, but since the middle 1980s it has had a large and growing surplus. However, under present law, the surplus is eventually estimated to decline, turn into a deficit, and never reach balance again. The long-term challenge of Social Security is addressed in a chapter of the main budget volume, "The Nation's Fiscal Outlook," and in Chapter 13 of this volume, "Stewardship."

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 similar to the net outlays of other Federal programs and are included in the budget as outlays of credit program accounts whenever the Federal Government makes a direct loan or guarantees a private loan.

All of the other cash transactions with the public that result from Government credit programs—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. Transactions in the financing accounts do, however, affect the Government's borrowing requirement, as explained in Chapter 16 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 7 of this volume, "Credit and Insurance."

Deposit funds.—Deposit funds are non-budgetary accounts that record amounts held by the Government

[1] See §505(b) of the Federal Credit Reform Act of 1990.

[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 26 of this volume, "The Budget System and Concepts." 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 8, "Underwriting Federal Credit and Insurance," *Analytical Perspectives, Budget of the United States Government, Fiscal Year 1999*, p. 170.

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 as an agent 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. The Social Security personal retirement accounts proposed by the Administration would be owned by individuals, not the Government. Contributions into the accounts will be recorded as outlays, but the accounts themselves will be non-budgetary in nature. If these accounts were held by the Government, it would be only in a fiduciary capacity, and the accounts would be classified as deposit funds. Deposit funds are further discussed in a section of Chapter 26 of this volume, "The Budget System and Concepts."

Taxation and tax expenditures.—Taxation provides the Government with income, which is included in the budget as "receipts." Taxes withdraw 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 structure of the Federal tax system, the tax rates and other structural characteristics of each Federal tax. The effects of taxation on resource allocation and income distribution can be similar to the effects of outlays, but these effects are treated as non-budgetary.

One of the ways that the tax system affects resource allocation and income distribution is through special exclusions, exemptions, deductions, and similar provisions that have been added to the tax code over time, and which can be identified by comparing the tax law with an idealized tax baseline. The revenue discrepancies caused by these special provisions are defined as "tax expenditures" and are discussed in Chapter 19 of this volume, "Tax Expenditures." That chapter includes tables with estimates for 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 19 reflect important ambiguities. Although partly patterned on a comprehensive income tax, they are subjective, as explained in the tax expenditure chapter in recent years, and are open to question in a number of respects. The appendix to Chapter 19 provides the Treasury Department's preliminary review of the current tax expenditure presentation, focusing on three issues: (1) using a comprehensive income tax as a baseline, (2) using a comprehensive consumption tax as a baseline, and (3) defining negative tax expenditures (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).

Government-sponsored enterprises.—The Federal Government has established several 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 originally for public-policy purposes, and because they still serve such purposes to some extent, estimates of their activities are reported in a separate chapter of the budget Appendix, and their activities are analyzed in Chapter 7 of this volume, "Credit and Insurance."

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

The Office of Management and Budget began to publish an annual report on the costs and benefits of Federal regulation in 1997. The latest report, *Validating Regulatory Analysis*, was released in December 2005 and also includes a report on unfunded mandates.[4] The report estimates the total costs and benefits of major Federal regulations reviewed by OMB from October 1994 through September 2005 and the impact of Federal regulation on State, local, and tribal governments. It also reviews the international literature on the effects of regulation on national economic growth and performance, reviews the accuracy of projected benefit and cost estimates by comparing the projected impacts of a subset of Federal regulation with benefit and cost information obtained after the regulations have been implemented, and summarizes the Administration's regulatory reform accomplishments. The draft of the 2006 report will be published in February 2006 for public comment.

[3] The most recent publication was issued by the General Services Administration's Regulatory Information Service Center in October 2005 and printed in the *Federal Register* of October 31, 2005 (vol. 70, no. 209), and is available on-line at www.reginfo.gov.

[4] Office of Information and Regulatory Affairs, Office of Management and Budget, *Validating Regulatory Analysis: 2005 Report to Congress on the Costs and Benefits of Federal Regulations and Unfunded Mandates on State, Local, and Tribal Entities* (2005).