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23. OFF–BUDGET FEDERAL ENTITIES AND NON–BUDGETARY ACTIVITIES

The Federal Government's activities have far-reaching impacts, affecting the economy and society of the Nation and the world. One of the primary activities of the Government is to allocate resources to meet the Nation's needs. The budget is a financial plan for proposing, deciding, and controlling the allocation of resources by the Federal Government. Those Federal financial activities that affect the Government's allocation of resources in a measurable way are characterized as "budgetary."

Those Federal activities that do not involve the Government's direct allocation of resources are characterized as "non-budgetary" and classified outside of the budget. For example, the budget does not include funds that are privately owned, such as the deposit funds owned by Native American Indians, even though those funds are held and managed by the Government in a fiduciary capacity. In addition, the budget does not include costs that are borne by the private sector rather than the Government even though those costs result from Federal activity, such as regulatory activity. Also, the budget includes the subsidy costs of Federal loan programs, but excludes other cash flows related to these programs because they do not reflect an allocation of resources, as explained below. 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.

The term "off-budget" may appear to be synonymous with "non-budgetary." However, the term "off-budget" has a meaning distinct from "non-budgetary" and refers to Federal Government activities that are required by law to be excluded from the budget totals. The "unified" budget of the Federal Government reflects this legal distinction between "on-budget" and "off-budget" entities by showing outlays and receipts for both types of entities separately. Although there is a legal distinction between on-budget and off-budget entities, there is no conceptual difference between the two. The off-budget Federal entities engage in the same basic activities of government as the on-budget entities and off-budget spending channels economic resources toward particular uses in the same way as does on-budget spending. The unified budget reflects the conceptual similarity between on-budget and off-budget entities by showing outlays and receipts for both types of entities combined. Off-budget spending and receipts are discussed further in the following section on off-budget Federal entities.

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 that would otherwise be included in the budget has been declared to be off-budget by law. Such 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 by law, 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. Federal entities that are off-budget by law are distinct from entities that are non-budgetary, as discussed below.

Off-budget Federal entities conduct programs of the same type as on-budget entities, and the programs they conduct result in the same kind of spending and receipts as on-budget entities. For this reason, most of the tables in the budget include both on-budget and off-budget amounts separately and in combination, or as a total amount.

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 that had been declared off-budget by law at different times before 1986 have been classified on-budget by law since at least 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.

Because Social Security is off-budget, the off-budget accounts comprise a significant part of total Federal spending and receipts. In 2008, off-budget receipts are an estimated 25 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 2008 is $239 billion—a $451 billion on-budget deficit partly offset by a $212 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 within approximately ten years and never reach balance again. The long-term challenge of Social Security is addressed briefly in a chapter of the main *Budget* volume, "The Nation's Fiscal Outlook," and in Chapter 13 of this volume, "Stewardship."

Non-Budgetary Activities

Some important Federal activities are characterized as non-budgetary because they do not involve the allocation of resources by the Federal Government or they allocate resources in a way that is indirect. The Budget does not reflect these indirect economic and financial effects.

Federal credit: budgetary and non-budgetary transactions.—Federal credit programs make direct loans or guarantee private loans. The Federal Credit Reform Act of 1990 refined how the costs of credit programs are recorded in the budget by defining as budgetary the subsidies provided by the credit programs and classifying the other credit cash flows as non-budgetary.

When the Government makes a loan, it generates a financial asset that will produce future cash inflows for the Government as the loan is repaid. When the Government guarantees a loan made by a non-Federal lender, it acquires a contingent liability that may require a cash outflow in a future year. Prior to the Credit Reform Act, the budget treated the full amount of a Federal loan as a cost and an outlay at the time the loan was made, and treated the future repayments of principal and interest as receipts. Similarly, the budget did not record the cash outflows for loan guarantees as a cost and an outlay until the loan defaulted, and the Government had to fulfill its guarantee commitment.

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	2,407.3	1,798.9	608.4	2,655.4	2,233.4	422.1	–248.2	–434.5	186.3
2007 estimate	2,540.1	1,906.0	634.1	2,784.3	2,333.0	451.3	–244.2	–427.0	182.8
2008 estimate	2,662.5	1,988.4	674.1	2,901.9	2,439.3	462.5	–239.4	–450.9	211.6
2009 estimate	2,798.3	2,086.9	711.4	2,985.5	2,499.7	485.8	–187.2	–412.7	225.6
2010 estimate	2,954.7	2,201.4	753.3	3,049.1	2,540.5	508.6	–94.4	–339.1	244.7
2011 estimate	3,103.6	2,307.8	795.8	3,157.3	2,625.8	531.5	–53.8	–318.0	264.3
2012 estimate	3,307.3	2,472.0	835.3	3,246.3	2,659.1	587.2	61.0	–187.1	248.1

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

Under the Credit Reform Act, beginning in 1992, the budgetary costs of direct loans and loan guarantees are measured as the net present value of estimated cash outflows from the Government less the present value of estimated cash inflows to the Government. The cash flows are discounted at the Government's cost of borrowing. The costs are recorded in the budget at the time the Government makes a loan or guarantees a loan made by a non-Federal lender. A group of loans that is expected to repay exactly what it costs the Government to finance would have zero net cost and, under the Credit Reform Act, no effect on Government outlays. The same is true for a group of non-Federal loans that is guaranteed by the Government and for which upfront fees offset the cost of defaults. However, if the Government provides a subsidy, by charging below-market interest rates or fees that are less than the cost of the defaults, or by paying interest subsidies to non-Federal lenders, the Government incurs a budgetary cost, which also is measured on a present value basis. This cost is similar to the net outlays of other Federal programs and, under the Credit Reform Act, is included in the budget as an outlay of a credit "program" account.

All of the cash transactions with the public that result from Government credit programs—the disbursement and repayment of loans, the payment of default claims on guarantees, and the collection of interest and fees—are recorded in credit "financing" accounts. These 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 or outlays to the Government. Therefore, the financing accounts are non-budgetary and excluded from the budget under the Credit Reform Act.[1] Transactions of the financing accounts do, however, affect the Government's borrowing requirements, as explained in Chapter 16 of this volume, "Federal Borrowing and Debt."

Since credit reform, the budget outlays of credit programs reflect only the subsidy costs of Government credit, thus measuring accurately the cost of credit decisions, and record this cost when the credit assistance is provided. This enables the budget to fulfill its purpose of being a financial plan for allocating resources among alternative uses by 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."

[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.

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 Government Securities Investment Fund, which is also known as the G Fund. It is one of several investment funds managed by the Federal Retirement Thrift Investment Board, as an agent, for Federal employees who participate in the Government's defined contribution retirement plan, the Thrift Savings Plan (TSP). Because the G Fund assets, which are held by the Department of the Treasury, are the property of Federal employees and are held by the Government only in a fiduciary capacity, the transactions of the Fund are not transactions of the Government itself and are non-budgetary. The administrative functions of the Thrift Investment Board are carried out by Government employees, and are, therefore, included in the budget on a reimbursable basis. For similar reasons, the budget excludes funds that are owned by Native American Indians, but held and managed by the Government in a fiduciary capacity.

The Social Security voluntary personal retirement accounts proposed by the Administration would be owned by individuals, not the Government. If the proposal is adopted, contributions into the accounts will be recorded as outlays, but the accounts themselves would be non-budgetary. 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."

Tax expenditures.— The Federal tax system includes numerous special tax exclusions, exemptions, deductions, and similar provisions that have been added to the tax code over time. These provisions affect resource allocation and income distribution in ways that are similar to spending programs. Because of this similarity, these provisions are referred to as "tax expenditures." Unlike typical spending programs, however, tax expenditures reduce receipts rather than increase outlays. Measuring tax expenditures requires specifying a hypothetical "baseline" tax system, which as noted below can be highly subjective. Because of the subjectivity in determining what is a tax expenditure and because of the difficulties in measuring them, tax expenditures are treated as non-budgetary.

Tax expenditures are discussed in Chapter 19 of this volume, "Tax Expenditures." Chapter 19 presents estimates for tax expenditures associated with the individual and corporate income taxes, and discusses how tax expenditures compare with spending programs and regulation as alternative methods for achieving policy objectives. The chapter explains that the baseline concepts used to identify and measure tax expenditures are somewhat arbitrary. As the chapter notes, the magnitude and distribution of tax expenditures would be significantly different if measured relative to a comprehensive income tax or a comprehensive consumption tax. The current tax expenditure baseline is loosely patterned on a comprehensive income tax, but departs from that standard in a number of areas. The appendix to Chapter 19 provides a critique of the current tax expenditure presentation and attempts to answer three questions: (1) what would be tax expenditures if a comprehensive income tax were used as the baseline without any departures from such a standard; (2) what would be the tax expenditures if a comprehensive consumption tax were used to define the baseline; and (3) what are the negative tax expenditures under the current system. Negative tax expenditures are 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.

Hypothetically, tax expenditures could be included in the budget by measuring receipts as the sum of actual receipts plus tax expenditures receipts, and measuring outlays as the sum of actual outlays plus tax expenditures. The budget could then show the allocation of resources to education, housing or other purposes through the combined effect of tax expenditures and spending programs. Receipts and outlays would be increased by the same amount, so this change in display would have no impact on the deficit. However, as noted above, the difficulty in identifying and measuring tax expenditures makes it impractical to include tax expenditures in the budget.

Government-sponsored enterprises.—The Federal Government chartered several Government-sponsored enterprises (GSEs), such as Fannie Mae, Freddie Mac, and the Farm Credit Banks, to provide financial intermediation for specified public purposes. The GSEs are excluded from the budget because they are privately owned and controlled. However, because they were established by the Federal Government 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.—Government regulation often requires the private sector to make expenditures for specified purposes, such as safety and pollution control. Although the budget reflects the cost to the Government of conducting regulatory activities, the costs imposed on the private sector as a result of the regulation are treated as non-budgetary. The Government's regulatory priorities and plans are described in the annual *Regulatory Plan* and the semi-annual *Unified Agenda of Federal Regulatory and Deregulatory Actions.* [3]

Although not included in the budget, the estimated costs and benefits of Federal regulation have been published annually by the Office of Management and Budget (OMB) since 1997. The latest report was released in January 2007. [4] The report estimates the total costs and benefits of major Federal regulations reviewed by OMB from October 1995 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, provides an update on various initiatives to improve regulatory cooperation internationally, provides an update on the status of regulatory reforms resulting from three public nomination initiatives in 2001, 2002, and 2004, and includes a report on Agency Compliance with the Unfunded Mandates Reform Act of 1995. The draft of the 2007 report will be published in February 2007 for public comment.

Indirect Macroeconomic Effects of Federal Activity.—Government activity has many effects on the Nation's economy that extend beyond the amounts recorded in the budget. Government expenditures, taxation, tax expenditures, regulation and trade policy can all affect the allocation of resources among private uses and income distribution among individuals. These effects, resulting indirectly from Federal activity, are generally not part of the budget, but the most important of them are discussed in this volume and in the main *Budget* volume.

[3] The most recent *Regulatory Plan* and introduction to the *Unified Agenda* were issued by the General Services Administration's Regulatory Information Service Center and were printed in the *Federal Register* of December 11, 2006 (vol. 71, no. 237). Both the *Regulatory Plan* and *Unified Agenda* are available on-line at www.reginfo.gov and at www.gpoaccess.gov.

[4] Office of Information and Regulatory Affairs, Office of Management and Budget, *Validating Regulatory Analysis: 2006 Report to Congress on the Costs and Benefits of Federal Regulations and Unfunded Mandates on State, Local, and Tribal Entities* (2006).