

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 the Government's financial plan for proposing, deciding, and controlling the allocation of resources. Those financial activities that constitute the direct allocation of resources are included in the budget's measures of receipts and expenditures, and characterized as "budgetary."

Federal Government activities that do not involve the direct allocation of resources in a measurable way are characterized as "non-budgetary" and classified outside of the budget. For example, the budget does not include funds that are privately owned, but held and managed by the Government in a fiduciary capacity, such as the deposit funds owned by Native American Indians. In addition, the budget does not include costs that are borne by the private sector even when those costs result from Federal regulatory activity. Also, although the budget includes the subsidy costs of Federal loan programs, it does not include the other cash flows of these programs that do not involve an allocation of resources by the Government. Non-budgetary activities can be important instruments of Federal policy and are discussed briefly in this chapter and in more detail in other parts of the budget.

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, as discussed below, refers to Federal Government activities that are required by law to be excluded from the budget totals.

Off-Budget Federal Entities

The budget of the Federal Government reflects the 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 the programs of off-budget entities result in the same kind of spending and receipts as on-budget entities. The

"unified budget" reflects the conceptual similarity between on-budget and off-budget entities by showing combined totals of outlays and receipts for both types of 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 financial 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.

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 was classified off-budget in 1989.¹ 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.

¹The President's 2009 Budget requests appropriations for two new off-budget accounts—the Postal Regulatory Commission and the Office of Inspector General of the United States Postal Service. These appropriations will fund the administrative expenses of these two entities. As in the past, these expenses will be funded by the off-budget Postal Service Fund, but will now be classified as discretionary rather than mandatory, as required by the Postal Accountability and Enhancement Act, P.L. 109-435.

Because Social Security is the largest single program in the unified budget and is classified by law as off-budget, the off-budget accounts comprise a significant part of total Federal spending and receipts. In 2009, off-budget receipts are an estimated 26 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 2009 is \$407 billion—a \$611 billion on-budget deficit partly offset by a \$204 billion off-budget surplus. The off-budget sur-

plus consists 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 discussed in Chapter 13 of this volume, “Stewardship.”

Table 23-1. COMPARISON OF TOTAL, ON-BUDGET, AND OFF-BUDGET TRANSACTIONS

(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	2,568.2	1,933.2	635.1	2,730.2	2,276.6	453.6	-162.0	-343.5	181.5
2008 estimate	2,521.2	1,859.0	662.2	2,931.2	2,461.2	470.1	-410.0	-602.2	192.2
2009 estimate	2,699.9	2,004.4	695.6	3,107.4	2,615.5	491.9	-407.4	-611.1	203.7
2010 estimate	2,931.3	2,191.2	740.2	3,091.3	2,575.0	516.4	-160.0	-383.8	223.8
2011 estimate	3,076.4	2,295.1	781.4	3,171.2	2,630.5	540.8	-94.8	-335.4	240.6
2012 estimate	3,269.9	2,451.3	818.6	3,221.8	2,653.8	568.0	48.1	-202.5	250.6
2013 estimate	3,428.2	2,569.1	859.1	3,398.9	2,769.7	629.2	29.3	-200.6	229.9

Non-Budgetary Activities

Some important Government activities are characterized as non-budgetary because they do not involve the direct allocation of resources by the Government. Some of the Government's major non-budgetary activities are discussed below.

Federal credit programs: budgetary and non-budgetary transactions.—Federal credit programs

make direct loans or guarantee private loans. The Federal Credit Reform Act of 1990 changed 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 creates 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 creates 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 the future repayments of principal and interest as receipts. In addition, prior to the Credit Reform Act, the budget did not record loan guarantees as a cost or an outlay unless or until a loan actually defaulted, and the Government had to fulfill its guarantee commitment.

Since 1992, under the Credit Reform Act, the budgetary costs of direct loans and loan guarantees have been 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. For example, 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. Similarly, a group of loan guarantees with upfront fees that exactly offset the expected cost of defaults would have zero net cost and no effect on Government outlays. 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 is measured on a present value basis. This subsidy 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 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. Under the Credit Reform Act, the financing accounts are non-budgetary and excluded from the budget.² 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 the adoption of credit reform, the budget outlays of credit programs reflect only the subsidy costs of Government credit and show this cost when the credit assistance is provided, thereby reflecting the true cost of credit decisions. 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.³ 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 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 Social Security proposal is adopted, contributions into the personal accounts will be recorded as outlays, but the accounts themselves will be classified as 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."

Government-sponsored enterprises.—The Federal Government has 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, despite their origin, they are now all privately owned and controlled. However, because they were established by the Federal Government to serve public-policy purposes and because

² See §505(b) of the Federal Credit Reform Act of 1990.

³ 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 VIIIA 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.

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."

Tax expenditures.—The Federal tax system includes numerous special tax exclusions, exemptions, deductions, and similar provisions. These provisions subsidize particular activities and can 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.

Although the effects of tax expenditures are incorporated into the Budget's estimates of receipts, tax expenditures are considered non-budgetary. This is because tax expenditures are not shown explicitly as outlays or as negative tax receipts and because tax expenditures pose significant measurement problems. Tax expenditures are identified and measured by first specifying a hypothetical "baseline" tax system, which as noted below can be highly subjective and technically complex. Tax expenditures are discussed in Chapter 19 of this volume, "Tax Expenditures." Chapter 19 presents estimates for tax expenditures associated with individual and corporate income taxes, and discusses how tax expenditures compare with spending programs and regulation as alternative methods for achieving policy objectives.

The current tax expenditure baseline is loosely patterned on a comprehensive income tax, but departs from that standard in a number of areas. As explained in more detail in Chapter 19, the current baseline concepts used to identify and measure tax expenditures are somewhat arbitrary and yet essential. As noted in the chapter, the magnitude and distribution of tax expenditures would be significantly different if measured relative to a pure comprehensive income tax or a comprehensive consumption tax rather than the current baseline. The appendix to Chapter 19 provides a critique of the current tax expenditure presentation and attempts to answer three questions: (1) what would tax expenditures be if a comprehensive income tax were used as the baseline without any departures from such a standard; (2) what would tax expenditures be 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 the baseline. Examples include interest, capital gains and depreciation provisions that are not adjusted for inflation.

Hypothetically, tax expenditures could be included as outlays in the budget. Doing so would require measuring receipts as the sum of actual receipts plus the total revenue lost to the tax expenditures and meas-

uring outlays as the sum of actual outlays plus the tax expenditures. The budget would then show the Government's allocation of resources to education, housing and other activities as the sum of spending programs plus tax expenditures; this allocation would be different from the allocation for just spending programs alone. Because receipts and outlays would be increased by the same amount, the resulting deficit would be unchanged. The difficulties in identifying and measuring tax expenditures make it impractical to include tax expenditures in the budget in this manner.

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 Government's cost of conducting regulatory activities, the costs imposed on the private sector as a result of the regulation are treated as non-budgetary and not included in the budget. 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.⁴

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 March 2007.⁵ The report estimates the total costs and benefits of major Federal regulations reviewed by OMB from October 1996 through September 2006, and the impact of Federal regulation on State, local, and tribal governments. It also includes a report on Agency Compliance with the Unfunded Mandates Reform Act of 1995.

Monetary Policy.—As noted above, the budget is a financial plan for allocating resources by raising revenues and spending those revenues. This fiscal policy tool is used by elected Government officials to promote economic growth. Monetary policy is another tool that governments use to promote a strong and stable economy, primarily by maintaining price stability and a sound banking system. In the United States, monetary policy is conducted by the Federal Reserve System, which, by law, is a self-financing entity that is independent of the other branches of Government. The effects of monetary policy and the actions of the Federal Reserve System are non-budgetary; the budget of the Board of Governors of the Federal Reserve System is included in the *Budget Appendix* for informational purposes only.

⁴The 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 10, 2007 (vol. 72, no. 236). Both the Regulatory Plan and Unified Agenda are available on-line at www.reginfo.gov and at www.gpoaccess.gov.

⁵Office of Information and Regulatory Affairs, Office of Management and Budget, 2007 Draft Report to Congress on the Costs and Benefits of Federal Regulations and Unfunded Mandates on State, Local, and Tribal Entities (2007). The Report is available at www.whitehouse.gov/omb/inforeg/2007_cb/2007_draft_cb_report.pdf.

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.