1189

98th Congress
1st Session

JOINT COMMITTEE PRINT

S. PRT.
98–55

1189

THE FEDERAL DEBT: ON-BUDGET, OFF-BUDGET, AND CONTINGENT LIABILITIES

A STAFF STUDY

PREPARED FOR THE USE OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

JUNE 8, 1983

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

20–864 O

WASHINGTON : 1983

JOINT ECONOMIC COMMITTEE

(Created pursuant to sec. 5(a) of Public Law 304, 79th Cong.)

SENATE

ROGER W. JEPSEN, Iowa, *Chairman*
WILLIAM V. ROTH, JR., Delaware
JAMES ABDNOR, South Dakota
STEVEN D. SYMMS, Idaho
MACK MATTINGLY, Georgia
ALFONSE M. D'AMATO, New York
LLOYD BENTSEN, Texas
WILLIAM PROXMIRE, Wisconsin
EDWARD M. KENNEDY, Massachusetts
PAUL S. SARBANES, Maryland

HOUSE OF REPRESENTATIVES

LEE H. HAMILTON, Indiana, *Vice Chairman*
GILLIS W. LONG, Louisiana
PARREN J. MITCHELL, Maryland
AUGUSTUS F. HAWKINS, California
DAVID R. OBEY, Wisconsin
JAMES H. SCHEUER, New York
CHALMERS P. WYLIE, Ohio
MARJORIE S. HOLT, Maryland
DAN LUNGREN, California
OLYMPIA J. SNOWE, Maine

BRUCE R. BARTLETT, *Executive Director*
JAMES K. GALBRAITH, *Deputy Director*

LETTER OF TRANSMITTAL

MAY 16, 1983.

To the Members of the Joint Economic Committee:

I am pleased to transmit to the members of the Joint Economic Committee a study by Bruce Bartlett, executive director of the Joint Economic Committee, entitled "The Federal Debt: On-Budget, Off-Budget, and Contingent Liabilities."

This study makes clear that the "real" national debt consists of far more than the statutory debt. There is also a large off-budget debt, consisting of loans and loan guarantees issued by government agencies, and even larger contingent liabilities, resulting largely from insurance commitments and the actuarial liability of annuity programs.

Using this larger measure of the Government's debt, Mr. Bartlett finds the true national debt to be close to $7 trillion. Moreover, he makes the point that some 30 percent of the $1.2 trillion statutory debt actually consists of bonds the Government owes to itself—bonds held by the Federal Reserve System and other government agencies.

I commend this study to you and my other colleagues in Congress.

Sincerely,

ROGER W. JEPSEN,
Chairman, Joint Economic Committee.

CONTENTS

THE FEDERAL DEBT: ON-BUDGET, OFF-BUDGET, AND CONTINGENT LIABILITIES

By Bruce Bartlett*

Introduction

Throughout most of the postwar period, there was relatively little concern about the public debt as a matter of policy. This was due primarily to two factors: (1) interest rates were low and the debt was continuously declining as a share of gross national product, and (2) Keynesian economics taught that the debt didn't really matter anyway. In recent years, however, there has been renewed concern about the national debt. Once or twice a year Congress must raise the ceiling on the national debt. If it does not do so in a timely fashion, the Federal Government loses the legal authority to spend money and a financial crisis ensues. As the statutory debt reached and then exceeded $1 trillion, Congress has had increasing difficulty passing a debt limit increase, causing considerable problems for the Government and focusing the public's attention on the problem of the national debt.

The public has shown strong support for a constitutional amendment to require a balanced Federal budget and many economists now feel that deficit spending is responsible for high interest rates and other economic problems. However, understanding of debt issues remains low. The purpose of this study is to elaborate on some issues regarding the true measurement of the national debt. Only when we understand what the real national debt is can we hope to understand fully its economic effect.

The Statutory Debt

When we speak of the Federal debt or statutory debt, we think of the accumulated money the Federal Govenment has borrowed to make up for the difference between its revenues and expenditures over the years. This amount now exceeds $1 trillion and equals 37 percent of gross national product, as shown in Table 1. However, it should be noted that as large as this number may be, the debt as a share of GNP is far lower today than it was 20 years ago. Indeed, if one were to go back to the immediate postwar period, one would see that the gross Federal debt actually exceeded GNP—and by a large margin. In 1946, for example, the Federal debt stood at $271 billion, while GNP amounted to just $210 billion.

* Bruce Bartlett is executive director of the Joint Economic Committee.

TABLE 1.—STATUTORY FEDERAL DEBT AS A SHARE OF GROSS NATIONAL PRODUCT

[Dollars in billions]

Fiscal year	Debt	Share of GNP (percent)
1960	$290.9	58.4
1961	292.9	57.5
1962	303.3	55.3
1963	310.8	53.8
1964	316.8	51.2
1965	323.2	49.0
1966	329.5	45.5
1967	341.3	43.9
1968	369.8	44.5
1969	367.1	40.3
1970	382.6	39.5
1971	409.5	39.7
1972	437.3	38.7
1973	468.4	37.4
1974	486.2	35.3
1975	544.1	36.8
1976	631.9	38.5
1977	709.1	38.1
1978	780.4	37.3
1979	833.8	35.4
1980	914.3	35.5
1981	1,003.9	35.0
1982	1,147.0	37.8

Source: "Budget of the United States Government, Fiscal Year 1984: Special Analyses" (Washington: Executive Office of the President, Office of Management and Budget, 1983), p. E-7.

An interesting, but little known, fact about the national debt is that the Federal Government actually owes a large portion of the debt to itself. This is because the Federal Reserve System and other Federal agencies—principally the Social Security Trust Fund—own a significant amount of the Federal debt. At one point, in fact, over 45 percent of the gross Federal debt was in effect owed to the Federal Government itself. Economically, this is the equivalent of taking money from one pocket and putting it in another. In short, we could wipe out over 30 percent of the Federal debt overnight simply by canceling bonds already owned by government agencies. This would have no economic effect and might make people feel that the debt is less of a burden than they thought it was. Table 2 shows the amount of the Federal debt owned by the Federal Reserve and other Federal agencies and the percent of the statutory debt this represents.

OFF-BUDGET DEBT

The statutory debt, even without adjustment for Federal agency ownership, however, only represents a small fraction of the Federal Government's total liabilities. In recent years, off-budget Federal credit programs have begun to receive much attention. These credit programs—loans and loan guarantees issued by Federal agencies—impact on private credit markets in much the same way

TABLE 2.—SHARE OF STATUTORY FEDERAL DEBT HELD BY FEDERAL GOVERNMENT AGENCIES

[Dollars in billions]

Fiscal year	Federal Reserve System	Other Federal agencies	Percent of gross debt
1960	$26.5	$53.7	27.6
1961	27.3	54.3	27.9
1962	29.7	54.9	27.9
1963	32.0	56.3	28.4
1964	34.8	59.2	29.7
1965	39.1	61.5	31.1
1966	42.2	64.8	32.5
1967	46.7	73.8	35.3
1968	52.2	79.1	35.5
1969	54.1	87.7	38.6
1970	57.7	97.7	40.6
1971	65.6	105.1	41.7
1972	71.4	113.6	42.3
1973	75.2	125.4	42.8
1974	80.6	140.2	45.4
1975	85.0	147.2	42.7
1976	94.7	151.6	39.0
1977	105.0	157.3	37.0
1978	115.5	169.5	36.5
1979	115.6	189.2	36.5
1980	120.8	199.2	35.0
1981	124.5	209.5	33.3
1982	134.5	217.6	30.7

Source: "Budget of the United States Government, Fiscal Year 1984: Special Analyses" (Washington: Executive Office of the President, Office of Management and Budget, 1983), p. E-7.

direct Federal borrowing does. Thus, to the extent that Federal deficits impact on interest rates or have other economic effects, loans and loan guarantees have much the same effect.[1] For this reason, total funds raised in U.S. credit markets under Federal auspices is a more complete measure of the economic impact of the Federal debt in any given year. These figures are detailed in Table 3.

[1] James T. Bennett and Thomas J. DiLorenzo, "Underground Government: The Off-Budget Public Sector" (Washington: Cato Institute, 1983); Dan Larkins, "$300 Billion in Loans: An Introduction to Federal Credit Programs" (Washington: American Enterprise Institute, 1972); Richard Vedder, "The Underground Federal Economy: Off-Budget Activities of the Federal Government," Joint Committee Print, 97th Congress, 2nd session (Washington: U.S. Government Printing Office, 1982); Clifford M. Hardin and Arthur T. Denzau, "The Unrestrained Growth of Federal Credit Programs" (St. Louis; Center for the Study of American Business, Washington University, 1981); William Barry Furlong, "America's Other Budget," New York Times Magazine (February 21, 1982), pp. 32–34, 60–74; Stephen H. Pollock, "Off-Budget Federal Outlays," Federal Reserve Bank of Kansas City Economic Review (March 1981), pp. 3–16; Bradley Graham, "Federal Loan Guarantees Arouse Economic Concern," Washington Post (August 20, 1979); Congressional Budget Office, "Loan Guarantees: Current Concerns and Alternatives for Control" (Background Paper, August 1978); idem, "Loan Guarantees: Current Concerns and Alternatives for Control" (Compilation of Staff Working Papers, January 1979); idem, "Conference on the Economics of Federal Credit Activity, Part I—Proceedings" (Special Study, December 1980); idem, "Conference on the Economics of Federal Credit Activity, Part II—Papers" (Special Study, September 1981); idem, "The Federal Financing Bank and the Budgetary Treatment of Federal Credit Activities" (January 1981).

TABLE 3.—TOTAL FUNDS RAISED IN U.S. CREDIT MARKETS UNDER FEDERAL AUSPICES

[Dollars in billions]

Year	1980	1981	1982
Total funds raised in U.S. credit markets	$366.4	$427.2	$408.7
Raised under Federal auspices	123.5	142.1	199.7
Federal borrowing from public	70.5	79.3	135.0
Borrowing for guaranteed loans	31.6	28.0	20.9
Government-sponsored enterprise borrowing	21.4	34.8	43.8
Federal participation rate	33.7	33.3	48.9

Source: "Budget of the United States Government, Fiscal 1984: Special Analyses" (Washington: Executive Office of the President, Office of Management and Budget, 1983), p. F-4.

Guaranteed loan commitments by the Federal Government come principally from various mortgage and other housing activities of the Department of Housing and Urban Development, the Federal Housing Administration, and the Government National Mortgage Association. It also includes loans guaranteed by the Export-Import Bank and by the Commodity Credit Corporation. Direct loan obligations come primarily from the Federal Financing Bank and the Commodity Credit Corporation.

In recent years, the Federal Government has made a greater effort to control this off-budget borrowing and the President now submits a credit budget along with the regular budget. The credit budget is shown in Table 4. The differences between these figures and the lower figures in Table 3 are accounted for by the following three factors:

1. The credit budget totals are based on gross levels of credit activity, without offsets for repayments.
2. The credit budget is based on direct loan obligations and guaranteed loan commitments. Therefore, it measures the Government's legal liability to guarantee a loan even though the loan may not actually be guaranteed in that fiscal year.
3. Guaranteed loan commitment totals are based on the full principal amount of the loan, even if the contingent liability (i.e., the amount covered by the guarantee) is partial.

As one can see, there has been been some restraint in this area recently and the Congressional Budget Office estimates that further restraint in coming years could reduce lending over the next five years by $150 billion from what would otherwise occur under current policies.[2] To the extent that total Federal and federally guaranteed borrowing is a factor in keeping interest rates high, such restraint should have the same positive impact on credit markets as a reduction in the on-budget Federal deficit.

CONTINGENT LIABILITIES

Discussions of the Federal debt usually end with the statutory debt and the off-budget debt. But there is still an entirely separate set of liabilities which the Federal Government has which are also a very real part of the national debt. These are contingent liabilities and consist largely of promises to pay pension, retirement and

[2] Congressional Budget Office, "An Analysis of the President's Credit Budget for Fiscal Year 1984" (Staff Working Paper, March 1983).

TABLE 4.—THE CREDIT BUDGET

[In billions of dollars]

Year	1981	1982
Direct loan obligations:		
Federal Financing Bank	15.1	13.6
Commodity Credit Corp.	5.9	11.5
All other	32.5	22.5
Guaranteed loan commitments:		
Mortgage guarantees	35.3	24.6
Low-rent public housing	18.5	13.3
Export-Import Bank	7.4	5.8
Commodity Credit Corp	2.0	1.6
All other	13.3	8.4
Total credit budget	130.0	101.3

Source: "Budget of the United States Government, Fiscal Year 1984: Special Analyses" (Washington: Executive Office of the President, Office of Management and Budget, 1983), p. F-7.

disability benefits and insurance commitments. However, they also consist of accounts payable for undelivered orders and other long-term contracts, unadjusted claims against the Government, and commitments to various international institutions.

The figures for these contingent liabilities are not widely publicized, and understandably so. If the general public were fully aware of their liability as taxpayers to pay for extravagant promises made over the years by their elected leaders, they might be very upset. The figures are, however, calculated by the Federal Government each year and issued in January by the Treasury Department. The publication is entitled "Statement of Liabilities and Other Financial Commitments of the United States Government" and is compiled by the Bureau of Government Financial Operations of the Treasury Department in accordance with Public Law 89–809 (section 402).

The largest contingent liabilities are those of the annuity programs, principally Social Security. However, civil service and military pensions are also a large part of these liabilities. Table 5 presents the current status of these liabilities as of September 31, 1982. The numbers are not strictly comparable because different actuarial assumptions were used to compute them. The total unfunded liability comes to some $2.8 trillion.

The other major contingent liabilities of the Federal Government are the many insurance commitments that have been made. These include programs to compensate Americans whose assets in foreign countries are expropriated (Overseas Private Investment Corp.), war-risk insurance, various life-insurance programs, insurance on nuclear power plants, and insurance to cover losses in the event of bank failure (Federal Deposit Insurance Corp.), to name a few. Some of these contingencies will certainly have to be paid out. For example, life insurance will have to be paid when the insured party ultimately dies. However, other contingencies may never arise. Insurance on bank deposits would never have to be paid if no banks ever failed, for instance. Nevertheless, these insurance liabilities represent legal claims against the Government, and hence the taxpayer, which could come into force. Table 6 details the insur-

TABLE 5.—*Actuarial status of annuity programs as of Sept. 30, 1982*

[Deficiency (−) or surplus (+)]

Agency and program	*Billions*
Legislative branch: Comptrollers general retirement system	(1)
The Judiciary:	
Judicial retirement system	(1)
Judicial survivors annuities fund	−$0.1
Department of Commerce: National Oceanic and Atmospheric Administration: Retired pay, commissioned officers	−.1
Department of Defense: Retired pay	−427.5
Department of Health and Human Services:	
Health Care Financing Administration:	
Federal hospital insurance trust fund	−577.9
Federal supplementary medical insurance program	+1.1
Public Health Service: Retirement pay	−1.4
Social Security Administration:	
Federal old-age and survivors insurance trust fund	−2,297.6
Federal disability insurance trust fund	+656.3
Department of Labor:	
Federal Employees' Compensation Act	−10.0
Longshoreman's and Harbor Workers' Compensation Acts	(1)
Black lung disability trust fund	(1)
Pension Benefit Guaranty Corp	−.3
Department of State: Foreign service retirement and disability fund	−5.5
Department of Transportation: Coast Guard retirement pay	−8.9
Veterans' Administration:	
Compensation and pensions fund	−86.3
Veterans insurance and indemnities	(1)
Independent agencies: General Services Administration: Pensions for former Presidents and former President's widows	(1)
Office of Personnel Management: Civil service retirement and disability fund	−.4
Panama Canal Commission: Retirement benefits to certain former employees	0
Railroad Retirement Board	−10.0
Tennessee Valley Authority	−.6
U.S. Tax Court:	
Tax Court judges survivors annuity fund	(1)
Tax Court retirement system	(1)
Total	−2,769.2

[1] Less than $100 million.

NOTE.—Total may not add due to rounding.

Source: "Statement of Liabilities and Other Financial Commitments of the United States Government as of September 30, 1982" (Washington: Department of the Treasury, Bureau of Government Financial Operations, 1983).

ance commitments of the U.S. Government. They currently amount to approximately $2.1 trillion.

Finally, the Government must make provision for the payment of goods and services ordered but not delivered (principally military equipment). This amounted to some $475 billion as of September 30, 1982. Provision must also be made for bills due but not yet paid. Accounts payable amounted to $124 billion at the end of fiscal 1982. There is also accrued interest on the public debt ($15 billion), checks outstanding ($9 billion) and deposit fund accounts ($7 billion). When one totals all of the Government's liabilities, including insurance and annuity programs, it amounts to the staggering sum of $6.8 trillion. Table 7 summarizes the Federal Government's total liabilities including the statutory debt and loan guarantee commitments.

TABLE 6.—*Insurance commitments as of Sept. 30, 1982*

Agency and program	Net amount of contingency (billions)
Funds appropriated to the President: Overseas Private Investment Corp	$5.10
Department of Agriculture: Federal Crop Insurance Corp	5.80
Department of Education: Student loan insurance fund	4.00
Department of Transportation: Federal Aviation Administration: Aviation insurance fund	203.10
Maritime Administration: War-risk insurance fund	24.10
Veterans' Administration:	
U.S. Government life insurance	.30
National service life insurance	21.70
Service-disabled life insurance	1.70
Veterans special life insurance	4.40
Veterans insurance and indemnities	.02
Veterans reopened insurance fund	1.10
Other independent agencies:	
Export-Import Bank	5.90
Federal Deposit Insurance Corp	1,011.20
Federal Emergency Management Agency:	
National insurance development fund	.80
National flood insurance fund	102.90
Federal Home Loan Bank Board: Federal Savings and Loan Insurance Corp	536.40
National Credit Union Administration: National credit union share insurance fund	58.50
Nuclear Regulatory Commission	92.00
Small Business Administration:	
Lease guarantees revolving fund	.10
Surety bond guarantees revolving fund	.30
Total	2,079.50

Source: "Statement of Liabilities and Other Financial Commitments of the United States Government as of September 30, 1982" (Washington: Department of the Treasury, Bureau of Government Financial Operations, 1983).

TABLE 7.—*Summary statement of liabilities and other financial commitments of the U.S. Government as of Sept. 30, 1982*

Section	Liability (billions)
The public debt	$925.6
Agency securities outstanding	3.8
Deposit fund accounts	7.5
Checks and other instruments outstanding	9.1
Accrued interest on the public debt	15.2
Deferred interest (premium) on public debt subscriptions	.3
Accounts payable and accruals of Government agencies	124.0
Undelivered orders	474.7
Government loan and credit guarantees	346.7
Insurance commitments	2,079.6
Actuarial status of annuity programs	2,769.5
Unadjusted claims	55.7
Commitments to international institutions	13.6
Other contingencies	12.2
Total	6,873.5

Source: "Statement of Liabilities and Other Financial Commitments of the United States Government as of September 30, 1982" (Washington: Department of the Treasury, Bureau of Government Financial Operations, 1983).

Of course, merely totaling up the Government's maximum theoretical liability is a bit like adding apples to oranges. It doesn't necessarily give us any idea of what the taxpayer is likely to actually be out of pocket for. That involves making some accounting judgments about the difference between an annuity that will have to be paid eventually and an insurance commitment that may not have to be paid. The Treasury Department, together with the General Accounting Office, compiles a consolidated financial statement for the United States each year which makes these distinctions, and therefore gives a better picture of the total national debt. On this basis, the national debt amounts to $3.5 trillion. The most recent statement of liabilities compiled is for fiscal year 1981 and is found in Table 8.

TABLE 8.—*Consolidated statement of liabilities of the U.S. Government as of Sept. 30, 1981*

	Billions
Accounts payable	$97.8
Unearned revenue	22.8
Borrowing from the public	748.4
Accrued pension, retirement and disability plans:	
Military personnel	377.8
Civilian employees	464.4
Social security	1,430.0
Veterans compensation	192.7
Federal employees compensation	9.9
Subtotal	2,474.8
Loss reserves for guarantee and insurance programs	7.6
Other liabilities	59.5
Total	3,446.9

NOTE.—For this and other tables, the reader is strongly urged to examine the original source for notes and other clarifications.

Source: "Consolidated Financial Statements of the United States Government" (Washington: Department of the Treasury, Bureau of Government Financial Operations, 1983).

CONCLUSION

Of course, the Government also has assets in the form of land, buildings, inventories, cash on hand, etc. And, most importantly, it has both the power to tax and to print money. Moreover, because it is sovereign, it has the power to change the term of its obligations. Just as it recently did with the Social Security bill, Congress could simply wipe out large portions of the Government's liabilities by legislation. Thus, the possibility that the U.S. Government could, in some meaningful sense, actually go bankrupt is quite remote.

Nevertheless, it is disturbing that the Federal Government is accumulating liabilities of such massive proportion. We may be imposing on unborn generations enormous tax burdens, inflation, or, at the very least, political dilemmas of great size, as hard choices must be made between the cancellation of implied promises and contracts made years earlier and the threat of taxes or monetary policies which could destroy the economy. It is worth remembering Adam Smith's comment:

> When national debts have once been accumulated to a certain degree, there is scarce, I believe, a single instance of their having been fairly and completely paid. The liberation of the public revenue, if it has ever been brought

> about at all, has always been brought about by bankruptcy; sometimes by an avowed one, but always by a real one, though frequently by a pretended payment.[3]

The problem is, of course, that the Federal Government, unlike private businesses, is not obliged to accumulate reserves to back up its liabilities. Social Security taxes merely go to pay current Social Security recipients. There is no Social Security trust fund except in the most abstract sense. Even insurance premiums charged by the Government flow directly into general revenues and they are seldom based on correct actuarial accounting anyway. Again, there are no reserves except in the abstract accounting sense. If there were, and the books had been kept honestly, it would be a simple matter to absolve the Government of some of its liabilities by shifting them to the private sector. But since such reserves do not exist this cannot be done.

The first step toward reform of the Federal debt would be to acknowledge that there is more to it than just the statutory debt. The Government's statement of liabilities ought to be included in the President's budget document where the public can see it, rather than buried in an obscure mimeographed report. And efforts should be stepped up to improve the accounting measurement of the debt, as is now being done in the consolidated financial statements which have been issued annually since 1977. At the same time, the Government should stop exaggerating the statutory debt by including debt owed to the Federal Reserve and other agencies. Once we know what we owe, we can make better decisions about how to deal with these debts before a crisis ensues, as recently occurred when the Social Security system's debts became too much to handle. The problems are not insurmountable, but they require examination and judicious action and should not be ignored.

---

[3] Adam Smith, "The Wealth of Nations" (New York: Random House, Modern Library edition, 1937), p. 882.

O