

COMPONENTS OF THE NATIONAL DEBT

August 4, 1964.—Ordered to be printed

Mr. BYRD of Virginia, from the Committee on Finance, submitted the following

REPORT

[To accompany S. 2281]

The Committee on Finance, to whom was referred the bill (S. 2281) to clarify the components of, and to assist in the management of, the national debt and the tax structure, having considered the same, report favorably thereon with an amendment, and recommend that the bill as amended do pass.

SUMMARY OF BILL

This bill would require the Secretary of the Treasury to submit annually to the Congress a brief report setting forth the amounts of the contingent liabilities of the Federal Government, including those of agencies and instrumentalities of the Government.

GENERAL STATEMENT

In the past, it has been the practice of the Federal Government to determine its financial requirements on an annual basis. This bill does not depart from this practice. However, an annual system of budgeting does not present a complete picture of the financial condition of the United States because it fails to depict numerous categories of Federal obligations and commitments which are subject to contingencies.

Moreover, by present methods, U.S. liability under many of its insurance and guarantee programs is difficult to measure and analyze. This is because sufficient information regarding these programs either is not available at all, or if it is available, it is inadequately presented.

In many cases information with respect to contingent liabilities of specific governmental programs now is available only in reports of specific agencies or corporations. However, these data frequently lose much of their usefulness because they are not combined with similar data with respect to other programs. Thus, although part of this

information may now be available it is not published in one place or on a uniform basis, and does not facilitate understanding of the current financial condition of the United States.

Your committee believes that it is desirable to make available in a single, concise report, pertinent information with respect to the current status of the contingent liabilities of the Federal Government, including its long-range obligations and commitments. Indeed, the committee recognizes a responsibility to make available in such a report—as clear and complete as possible—the overall financial condition of our Government. Such a report, consolidating information now available only in part in many diverse reports with information which is not now available at all, will enable the Congress to have a better understanding of the current fiscal needs of the Federal Government.

For this reason, the committee has approved, and recommends enactment of a bill requiring the Secretary of the Treasury to submit to the Congress, by March 31, of each year, a report showing the amount (both on an aggregate and on an individual basis) of the contingent liabilities of the Federal Government, determined as of December 31 of each year, commencing with 1964.

The contingent liabilities referred to by the bill include (1) liability of the Government under its various trust funds, such as the old age and survivors insurance trust fund and the highway trust fund; (2) liabilities of Government-sponsored corporations (for example, the Commodity Credit Corporation); (3) indirect liabilities of the Federal Government not included as part of the public debt, such as Federal Housing Administration debentures; and (4) liabilities of Federal insurance and annuity programs.

Under the bill, data with respect to these insurance and annuity programs (which include the civil service retirement system, veterans' pension, and war risk insurance programs) is to include information regarding their actuarial status on both a balance-sheet basis and a projected source-and-application-of-funds basis.

Where appropriate, the report is also to indicate the collateral pledged, or the assets available, as security for the specified liabilities, and an analysis of their significance in terms of past experience and probable risks. Thus, for example, in the case of federally insured home mortgages the assets available on foreclosures may, in favorable circumstances, offset the potential Federal liability.

In order to provide flexibility and to prevent data included in the report from being misconstrued or misleading, the bill provides that the Secretary of the Treasury may set forth such explanatory material as he determines to be necessary or desirable. Under this provision, if he believes particular data are likely to lead to improper conclusions he may qualify that data sufficiently to negate such conclusions.

Although the Bureau of the Budget does not favor the bill, in its report to the committee (dated December 12, 1963), it indicated its agreement with the objectives of the bill, as follows:

We agree with the objective of S. 2281 that the Congress and its committees should have available whatever information they need with respect to the financial status of the Government. In accordance with this objective, the Treasury Department has been preparing, semiannually, for a number of years, a statement on long-range commitments

and contingencies of the U.S. Government.¹ The Bureau of the Budget has on occasion worked informally with Treasury staff on this matter, and consideration has been given to possible extensions and refinements of the data. I believe that more can be done in this respect and, together with the Treasury Department, we shall work with the responsible Government agencies to this end.

If, in addition, your committee or any other committee of the Congress would like to have particular tabulations, such as those described in S. 2281, we believe it would be appropriate to ask the Treasury Department to supply them when needed. However, we believe the nature of such tabulations should be left flexible, to be determined from time to time, rather than being fixed in a statute.

It is the opinion of the Committee on Finance, as already indicated, that the bill, as reported, preserves the flexibility of tabulations urged in the departmental report.

Moreover, the committee fully recognizes the desirability of refining data now being compiled in order to make it more meaningful and useful, and the bill as reported permits this. By drawing together tabulations regarding contingent liabilities of various departments, agencies, and Government-sponsored corporations, no doubt the Treasury Department will find new ways by which statistical refinements can be made, and tabulating methods improved. This can only serve to increase the quality of the report required by the bill.

The report will fill a need which has been felt by the Congress for many years.

APPENDIX

The following data prepared by the Treasury Department indicates for the items included therein the type of information which would be presented on a Government-wide basis in the reports called for by the bill. This data was compiled as of December 31, 1962, and is the last such report the Treasury has issued except in response to a special request made at the June 23, 1964, hearing before the Committee on Finance on H.R. 11375, relating to a temporary increase in the public debt. The preliminary information submitted by the Treasury Department in response to this special request (which appears on pp. 44-46 of the printed hearings) employs statistical and tabulation methods different from those previously used by the Treasury Department and these new methods may replace the earlier procedures.

LONG-RANGE COMMITMENTS AND CONTINGENCIES OF THE U.S. GOVERNMENT, AS OF DECEMBER 31, 1962]

The attached statement covers the major financial commitments of the U.S. Government, except the public debt outstanding and those involving recurring costs for which funds are regularly appropriated by the Congress and are not yet obligated, such as aid to States for welfare programs and participation in employee retirement systems. The statement is segregated into four categories; namely (a)

¹ For statement prepared as of Dec. 31, 1962, see appendix to this report.

loans guaranteed and insured, etc., by Government agencies; (b) insurance in force; (c) obligations issued on credit of the United States; and (d) undisbursed commitments, etc.

The items appearing in this statement are quite different from the direct debt of the United States. They are programs of a long-range nature that may or may not commit the Government to expend funds at a future time. The extent to which the Government may be called upon to meet these commitments varies widely. The liability of the Government and the ultimate disbursements to be made are of a contingent nature and are dependent upon a variety of factors, including the nature of and value of the assets held as a reserve against the commitments, the trend of prices and employment, and other economic factors.

Caution should be exercised in any attempt to combine the amounts in the statement with the public debt outstanding for that would involve not only duplication but would be combining things which are quite dissimilar. As indicated by the enclosed statement, there are \$118.1 billion of public debt securities held by Government and other agencies as part of the assets that would be available to meet future losses. The following examples illustrate the need for extreme caution in using data on the contingencies and other commitments of the U.S. Government.

1. The Federal Deposit Insurance Corporation had insurance outstanding as of December 28, 1962, estimated to be \$179.1 billion. The experience of the Federal Deposit Insurance Corporation has been most favorable. During the period this Corporation has been in existence, premiums and other income have substantially exceeded losses which has permitted the retirement of Treasury and Federal Reserve capital amounting to \$289.3 million (all repaid to Treasury), and the accumulation of \$2.5 billion reserve as of December 31, 1962. The Corporation's holdings of public debt securities as of that date amounted to \$2.6 billion which already appears in the public debt total. Out of \$335.9 billion of assets in insured banks as of December 28, 1962, \$70.6 billion are in public debt securities (also reflected in the public debt). The assets, both of insured banks and the Federal Deposit Insurance Corporation, as well as the continued income of the Corporation from assessments and other sources, stand between insured deposits and the Government's obligation to redeem them.

2. The face value of life insurance policies issued to veterans and in force as of December 31, 1962, amounted to \$39.8 billion. This does not represent the Government's potential liabilities under these programs since some of these policies will probably be permitted to lapse and future premiums, interest, and the invested reserves amounting to \$6.9 billion of public debt securities should cover the normal mortality risk.

3. Under the Federal Reserve Act of 1913, as amended, Federal Reserve notes are obligations of the United States which, as of December 31, 1962, amounted to \$29.4 billion. The full faith and credit of the United States is behind the

Federal Reserve currency. These notes are a first lien against the \$53.9 billion of assets of the issuing Federal Reserve banks which includes \$30.8 billion of Government securities already included in the public debt. These notes are specifically secured by collateral deposited with the Federal Reserve agents which, as of December 31, 1962, amounted to \$25.2 billion in Government securities and \$7.6 billion in gold certificates.

Long-range commitments and contingencies of the U.S. Government, as of Dec. 31, 1962

[In millions of dollars]

Commitment or contingency and agency	Gross amount of commitment or contingency	Public debt securities held by Government and other agencies
Loans guaranteed, insured, etc., by Government agencies:		
Agriculture Department:		
Commodity Credit Corporation.....	(1)	-----
Farmers' Home Administration: Agricultural credit insurance fund.....	395	-----
Commerce Department:		
Office of the Secretary: Aircraft loan guarantees.....	28	-----
Maritime Administration: Federal ship mortgage insurance revolving fund.....	² 435	9
Export-Import Bank of Washington.....	³ 652	-----
Housing and Home Finance Agency:		
Federal Housing Administration:		
Property improvement loans.....	⁴ 398	104
Mortgage loans.....	39,506	589
Office of the Administrator: Urban renewal fund.....	603	-----
Public Housing Administration: ⁵		
Local housing authority bonds and notes (commitments covered by annual contributions).....	3,260	-----
Local housing authority temporary notes.....	957	-----
Interior Department: Bureau of Commercial Fisheries:		
Federal ship mortgage insurance fund, fishing vessels.....	1	-----
Interstate Commerce Commission.....	149	-----
Small Business Administration: Revolving fund.....	23	-----
Treasury Department:		
Reconstruction Finance Corporation liquidation fund.....	(⁶ 1)	-----
Federal Civil Defense Act of 1950, as amended.....	⁶ 1	-----
Veterans' Administration.....	⁷ 10,122	-----
Defense Production Act of 1950, as amended.....	110	-----
Total loans guaranteed, insured, etc., by Government agencies.....	62,036	702
Insurance and guarantees in force:		
Agency for International Development: Industrial guarantees.....		
	910	-----
Agriculture Department: Federal Crop Insurance Corporation.....		
	⁸ 358	-----
Commerce Department: Maritime Administration: War risk insurance revolving fund.....		
	39	3
Export-Import Bank of Washington:		
War risk and expropriation insurance.....	2	-----
Insurance on exports issued through Foreign Credit Insurance Association.....	474	-----
Federal Deposit Insurance Corporation.....	¹⁰ 170,088	2,603
Held by insured commercial and mutual savings banks.....		70,006
Federal Home Loan Bank Board: Federal Savings and Loan Insurance Corporation.....		
Held by insured institutions.....	¹⁰ 77,340	641
		5,302
U.S. Information Agency: Informational media guarantees.....		
	4	-----
Veterans' Administration:		
National service life insurance.....	38,590	5,859
U.S. Government life insurance.....	1,252	1,002
Total insurance and guarantees in force.....	208,078	86,016

See footnotes at end of table, p. 7.

COMPONENTS OF THE NATIONAL DEBT

Long-range commitments and contingencies of the U.S. Government, as of
Dec. 31, 1962—Continued

[In millions of dollars]

Commitment or contingency and agency	Gross amount of commitment or contingency	Public debt securities held by Government and other agencies
Loans guaranteed, insured—Continued		
Obligations issued on the faith of the United States:		
Postal savings certificates:		
U.S. Postal Savings System.....	11 531	550
Canal Zone Postal Savings System.....	11 4	4
Total postal savings certificates.....	535	560
Other obligations: Federal Reserve notes (face amount)....	29, 378	12 30, 820
Undisbursed commitments, etc.:		
To make future loans:		
Agency for International Development:		
Development loans.....	791	
Alliance for Progress, development loans.....	93	
Development loan fund liquidation account.....	827	
Loans to U.S. firms and domestic or foreign countries.....	9	
Other U.S. dollar and foreign currency loans.....	1, 071	
Agriculture Department:		
Commodity Credit Corporation.....	3	
Farmers' Home Administration:		
Agricultural credit insurance fund.....	12	
Direct loan account.....	12	
Emergency credit revolving fund.....	2	
Rural housing and other loans.....	15	
Rural Electrification Administration.....	802	
Export-Import Bank of Washington: Regular lending activities.....	1, 612	
Housing and Home Finance Agency:		
Office of the Administrator:		
College housing loans.....	395	
Public facility loans.....	108	
Urban renewal fund.....	654	
Housing for the elderly.....	31	
Public Housing Administration.....	131	
Interior Department:		
Bureau of Commercial Fisheries: Fisheries loan fund.....	(?)	
Defense Minerals Exploration Administration: Defense Production Act of 1950, as amended.....	(?)	
Small Business Administration (revolving fund).....	108	
Veterans' Administration (veterans' direct loan program).....	37	
Total undisbursed commitments to make future loans.....	7, 703	
To purchase mortgages:		
Housing and Home Finance Agency:		
Federal National Mortgage Association:		
Secondary market operations.....	28	
Special assistance functions.....	327	
Total commitments to purchase mortgages.....	355	
To guarantee and insure loans:		
Agriculture Department: Farmers' Home Administration: Agricultural credit insurance fund.....	13	
Commerce Department: Maritime Administration: Federal ship mortgage insurance revolving fund.....	39	
Housing and Home Finance Agency: Federal Housing Administration.....	6, 132	
Defense Production Act of 1950, as amended.....	22	
Total commitments to guarantee and insure loans.....	6, 206	
To purchase investment company debentures: Small Business Administration (revolving fund).....	37	

See footnotes at end of table, p. 7.

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COMPONENTS OF THE NATIONAL DEBT

Long-range commitments and contingencies of the U.S. Government, as of Dec. 31, 1962—Continued

(In millions of dollars)

Commitment or contingency and agency	Gross amount of commitment or contingency	Public debt securities held by Government and other agencies
Loans guaranteed, insured—Continued		
Unpaid subscriptions, etc.:		
International Bank for Reconstruction and Development	5,715	-----
Inter-American Development Bank	200	-----
International Development Association	123	-----
Total unpaid subscriptions, etc.	6,038	-----

NOTE.—The above figures are subject to the limitations and precautionary remarks, as explained in the forward to this statement.

¹ Guaranteed loans and certificates of interest, amounting to \$1,113,000,000 as of Dec. 31, 1962, are included in the Corporation's balance sheet with the direct loans.

² Includes accrued interest.

³ Includes political risk export guarantees amounting to \$333,000,000.

⁴ Represents Administration's portion of insurance liability. Estimated amount of insurance in force and loan reports in process as of Dec. 31, 1962, is \$1,592,000,000. Loan insurance shall not exceed 10 percent of such loans.

⁵ The full faith and credit of the United States is pledged to the payment of all amounts agreed to be paid as per sec. 302 of Public Law 87-70 approved June 30, 1961.

⁶ Represents deferred participations.

⁷ Less than \$500,000.

⁸ Represents the Veterans' Administration portion of insurance liability. The total amount of loans in the hands of private lenders is estimated at \$29,754,000,000.

⁹ Represents estimated insurance coverage for the 1962 crop year.

¹⁰ Estimated insurance liability.

¹¹ Excludes accrued interest.

¹² Includes public debt securities amounting to \$25,179,000,000 that have been deposited by the Federal Reserve bank system with the Federal Reserve agents as specific collateral.

