**The original documents are located in Box 64, folder "Budget - General (2)" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.**

INFORMATION

THE WHITE HOUSE

WASHINGTON

October 21, 1975

MEMORANDUM FOR: JAMES CANNON

FROM: PATRICK DELANEY PD

SUBJECT: Suggestions for a Substantial Reduction in Federal Spending for FY 77.

SPECIFIC RECOMMENDATIONS

1. A 10% reduction in the proposed level of funding for the reenactment of General Revenue Sharing. It should be expected that both the term (5 3/4 years) and the amount ($39.85 billion) of the General Revenue Sharing proposal will have difficulties in Congress. This recommended reduction could save an excess of $600 million a year.

2. The President, Cabinet Members and key members of the executive branch forego a recent 5% pay increase as their personal contribution to this reduction in spending. This is one way to improve the taxpayer's understanding of the linkage between spending reductions and reduced taxes.

3. A 5% cut in the staffs of all agencies and departments.

GENERAL AREAS FOR SPENDING REDUCTIONS

1. Relief and Welfare--A 10% reduction in the level of funding. New York City, as an example, has gone to far in this direction, and there would be wide-spread national taxpayer support for such a measure.

2. Education--Transfer as many grants as possible into loans, thereby converting them to off-budget items, (check with OMB on this).

3. Revision of the Food Stamp Program--I understand the Administration's position on this has just been announced.

4. Foreign Aid--Within the constraints of our foreign policy, aid should be cut to an absolute minimum. There are those who will make comparisons in 1976 between money spent overseas and domestic expenditures, especially with State and local governments accruing unparallel deficits, ($7.5 billion deficit for State and local governments in FY 74).

**THE WHITE HOUSE**

WASHINGTON

October 21, 1975

MEMORANDUM FOR: JAMES CANNON

FROM: JAMES FALK J

SUBJECT: Reductions in Federal Spending for FY 77.

BACKGROUND

In a memorandum of today Pat Delaney recommended a 10% reduction in the proposed funding level for the reenactment of General Revenue Sharing. First, I had no idea that he was going to make such a recommendation, and secondly, I disagree with it most emphatically.

In my view there is no better way to kill the program and undercut the support the President has built among the leaders of the State and local government than to propose a cut in the federal program that they consider to be the best substantively as well as the best operated program on the books.

I feel, therefore, the recommendation would be disastrous both substantively and politically.

SPECIFIC RECOMMENDATIONS

I. Cut substantively the Regional operations of the federal departments and agencies.

Arguments Pro

1. The Federal Regional offices are regarded as an ineffective additional layer of government.

2. The Regional operations do not make major decisions on tough questions but constantly refer matters to Washington after a substantial delay has resulted. The additional cost in time and money is not worth the substantive addition resulting from the operations.

3. Their present organizational structure results in a lack of clear lines of authority. When disagreements occur at the regional level, the problem merely gets kicked upstairs anyway.

4. When the President was being confirmed as Vice President, the following exchange occurred with Senator Pell in hearing on his confirmation:

   Senator Pell: What is your view with regard to this insertion of a fourth layer of government, the Federal regional councils, between the citizens and their applications and the final decisions by the Government in Washington?

   Mr. Ford: I think I would do away with the regional organization.

Arguments Con

1. While substantial costs could be saved, this would be a reversal of the past Administration's policy of decentralization.

2. This change could be perceived as an effort to bring more power to Washington enen though it would be intended as an effort to create clearer communications.

II. To convert the present Regional Commission program, including the Four Corners Regional Commission, Old West, Coastal Plains, etc., into a revenue sharing kind of program by eliminating the role of the Federal Cochairman and giving the authority directly to the Governors rather than imposing this official veto threat over regional actions.

Arguments Pro

1. This would give the Governors greater authority and accountability with respect to use of the funds.

2. It would not increase costs.

3. It would be consistent with the idea of state's responsibilities.

Arguments Con

1. This would require amending legislation presently before the Congress sponsored by the Administration's call for a simple three-year extension of the program.

# HEARINGS

BEFORE THE

# COMMITTEE ON RULES AND ADMINISTRATION UNITED STATES SENATE

NINETY-THIRD CONGRESS

FIRST SESSION

ON

THE NOMINATION OF GERALD R. FORD OF MICHIGAN TO BE VICE PRESIDENT OF THE UNITED STATES

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NOVEMBER 1, 5, 7, AND 14, 1973

Senator PELL. On another question in the relationship between the executive branch and the public, I do not know if you have been instructed, but the old concept of the three tiers of Government is being removed. It used to be the local, county, State, and then Federal. In the last 10 years, not just this administration, but the previous one, too, a new level of government has crept into the original concept. You have your 10 regional Federal councils. You have your Federal regional office people, and more and more decisions are being made at the regional level removed from the State capitals where the people in the State govern. the Governors cannot bring pressures, the Federal regional councils are removed from you and me in the Congress, introducing contradictory forces going along more or less by executive fiat, with no support in the legislative authorization to any substantial extent. What is your view with regard to this insertion of a fourth layer of government, the Federal regional councils, between the citizens and their applications and the final decisions by the Government in Washington?

Mr. FORD. I think I would do away with the regional organization.

Senator PELL. Amen.

Mr. FORD. And let me tell you why. I think that we should deal with these problems—and they cover a wide spectrum—by working at the State level. Now, you and I have agreed thus far. You might not agree after this. I firmly believe in the grant approach, where you go from Federal Government with the dollars programs to the States, and then the States participate, through appropriate commissions or organizations, in the distribution of funds and the implementation of programs. I think regional offices are a top heavy layer of bureaucracy that I would hopefully get rid of.

Senator PELL. I think we would agree, as we would say, on getting rid of the Federal regional decisionmaking process. As far as the State level goes, the money can still be used by the State according to the Federal guidelines, and the argument is what type of guidelines should there be, and that is where we might differ.

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**THE WHITE HOUSE**

WASHINGTON

October 21, 1975

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FROM: PATRICK DELANEY PD

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THE WHITE HOUSE

WASHINGTON

October 21, 1975

MEMORANDUM FOR: JIM CANNON

FROM: KATHLEEN A. RYAN KAR.

SUBJECT: Reductions in Government Spending

You asked for our ideas. Here are mine:

1. ATTRITION.

2. GSA Procurement Policies. I am no expert on this, but a study would be beneficial on the whole procurement operation at GSA to make it less wasteful.

3. Overtime. Also another area where I have not much expertise. A study should be done on the costs of overtime pay compared to hiring an extra employee full time. It appears that many areas pay two or three people in overtime more than one additional full time employee would cost per annum.

THE WHITE HOUSE

WASHINGTON

October 21, 1975

MEMORANDUM FOR: JIM CANNON

FROM: PAUL LEACH Paul

SUBJECT: FY 1977 Ideas

It would seem to me that the new budget ceiling proposal plus the concern over "capital formation" present an ideal opportunity to re-evaluate - and eventually reduce or eliminate - the myriad of Federal credit programs which have grown up over the years. Needless to say each of these has its own constituency, both with the bureaucracies and within various interest groups. However, each program distorts capital flows and often has a significant impact on the budget.

Candidates for reduction and elimination within my areas include:

| | |
|---|---|
| Farmers Home Administration | Direct Loans<br>Loan Guarantees |
| Economic Development Administration | Direct Loans |
| Small Business Administration | Direct Loans<br>Loan Guarantees |
| Rural Electrification Administration | Direct Loans<br>Loan Guarantees |
| Rural Telephone Bank | Direct Loans |
| Maritime Administration | Loan Guarantees |

As the attached chapter from the "Special Analyses" supplement to the 1976 Budget documents, the total size of the Federal credit involvement has become very large. This may be the time to reverse the direction of this growth.

## SPECIAL ANALYSIS E

### FEDERAL CREDIT PROGRAMS

A significant part of the Federal Government's assistance to the public occurs through credit programs. Credit assistance is provided in a number of ways. Direct loans are made by Federal agencies whose activities are shown in budget totals, by Federal agencies outside the budget and by Government-sponsored, privately owned credit enterprises. Federal Government agencies also guarantee or insure private loans. Both explicit and implicit interest rate subsidies are provided. And, serving as intermediaries, government-sponsored credit enterprises improve access to credit markets for certain borrowers. Because of the complex institutional arrangements that have evolved, several forms of credit assistance are frequently combined in a single credit program, and sometimes a single transaction is aided by two or more programs.

This analysis is intended to serve as a basic factual resource rather than as an evaluation of programs and policies. Questions of great analytical difficulty remain unanswered about what are the effects of credit assistance and who benefits by what amounts. The discussion of interest subsidies later in this analysis is one approach to the evaluation of some aspects of Federal credit programs.

Constraints on space require consolidation of information relating to budget accounts and programs in this analysis. Greater detail is available elsewhere. The *Treasury Bulletin* provides data on outstanding direct and guaranteed loans in the most recently completed fiscal year or quarter for both accounts and programs within accounts.[1] Part IV of the Budget Appendix contains tables displaying disbursements, repayments and net outlays for each budget account containing direct loan transactions.

### TRENDS AND DIRECTIONS

The total amount of credit provided under Federal auspices has risen rapidly during the past decade, both from the expansion of existing programs and the initiation of new ones. Table E–1 summarizes data on Federal participation in domestic credit markets over the last decade.

In 1965, funds advanced in U.S. credit markets to nonfinancial sectors totaled $69.3 billion. Of this, $8.9 billion, or 13% was advanced under the auspices of one or more Federal credit programs. In 1970, total funds advanced had risen to $85.3 billion, and credit advanced under Federal auspices had risen to $17.4 billion, or 20% of the total. Since that time, the rate of Federal participation in credit advanced has declined to the levels of the late 1960's, about 15%. The reduction in Federal participation in recent years is more nearly a

[1] See table GA II–2, *Treasury Bulletin*.

## Table E-1. FEDERAL PARTICIPATION IN DOMESTIC CREDIT MARKETS (billions of dollars)

| | Actual | | | | | | | | | | Estimates | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 |
| Total funds advanced in U.S. credit markets to nonfinancial sectors [1] (excluding equities) | 69.3 | 73.3 | 58.7 | 92.5 | 95.8 | 85.3 | 111.8 | 143.6 | 185.1 | 177.2 | (5) | (5) |
| Advanced under Federal auspices | 8.9 | 10.1 | 5.8 | 14.9 | 15.0 | 17.4 | 16.5 | 22.0 | 26.1 | 26.6 | 31.3 | 28.7 |
| Federal participation rate (percent) | 13 | 14 | 10 | 16 | 16 | 20 | 15 | 15 | 14 | 15 | | |
| Total funds raised in U.S. credit markets by nonfinancial sectors [1] | 69.3 | 73.3 | 58.7 | 92.5 | 95.8 | 85.3 | 111.8 | 143.6 | 185.1 | 177.2 | (5) | (5) |
| Raised under Federal auspices [2] | 10.2 | 8.7 | 1.1 | 31.3 | 11.3 | 16.4 | 32.3 | 39.7 | 46.9 | 24.1 | 57.9 | 78.9 |
| Federal participation rate (percent) | 15 | 12 | 2 | 34 | 12 | 19 | 29 | 28 | 25 | 14 | | |
| Funds raised through marketable securities | | | | | | | | | | | | |
| Market total (including CD's) [6] | 25.6 | 29.0 | 27.7 | 52.2 | 36.5 | 52.2 | 72.7 | 79.4 | 86.9 | 95.7 | (5) | (5) |
| Raised under Federal auspices [4] | 6.1 | 6.5 | .6 | 27.2 | 6.3 | 18.1 | 25.1 | 30.8 | 41.0 | 25.1 | 62.4 | 80.0 |
| Federal participation rate (percent) | 24 | 22 | 2 | 52 | 17 | 35 | 35 | 39 | 47 | 26 | | |
| Market total (excluding CD's) [6] | 21.9 | 26.0 | 26.9 | 52.1 | 40.5 | 53.3 | 58.3 | 72.1 | 63.1 | 74.9 | (5) | (5) |
| Raised under Federal auspices [4] | 6.1 | 6.5 | .6 | 27.2 | 6.3 | 18.1 | 25.1 | 30.8 | 41.0 | 25.1 | 62.4 | 80.0 |
| Federal participation rate (percent) | 28 | 25 | 2 | 52 | 16 | 34 | 43 | 43 | 65 | 34 | | |

[1] Source: Federal Reserve Board Flow of Funds Statement (fiscal year data).
[2] Estimates from table E-10.
[3] Includes open market paper and bonds sold by financial intermediaries (compiled from FRB Flow of Funds data).
[4] Includes borrowing by sponsored enterprises and Federal Government plus all guaranteed loans in form of security market issues.
[5] Not estimated.
[6] CD's are negotiable commercial bank certificates of deposit of $100 thousand and over.

measure of the explosive growth in total credit advanced than a slowing of Federal activity. Since 1970 total credit advanced has grown at an average annual rate of more than 20% compared with an average annual rate of growth of about 4% in the years 1965–70.[2] By comparison, funds advanced under Federal auspices during the same periods grew at average annual rates of 11% and 14%, respectively.

Another way to evaluate the Federal Government's impact on credit markets is to compare funds raised under Federal auspices, i.e., Federal and federally-assisted borrowing, to total funds raised in U.S. credit markets by nonfinancial sectors. Funds raised under Federal auspices, including those raised under Federal credit programs and those borrowed to finance deficits in the U.S. budget, accounted for approximately 14% of total funds raised in 1974, but are expected to rise rapidly to finance the deficits now budgeted for 1975 and 1976.

The credit component of the budget has become a less useful indicator of Federal credit activities. In part this has occurred as a result of the substitution of loan guarantee programs for direct loan programs. This greater dependence on loan guarantee programs, in which private credit markets are relied upon to provide the necessary capital while the Government assumes some or all of the risks normally borne by lenders, reduces direct Federal outlays for a given level of assisted loans. Federal credit assistance has also been moved off of the budget through the creation of Federal agencies that are, by statute, outside the budget, and of enterprises which are privately owned, but Government-sponsored.

A significant development of 1974 was the establishment of the Federal Financing Bank (FFB). This new debt management facility, authorized by Public Law 93–244 enacted December 29, 1973, has authority to purchase any obligation issued, sold, or guaranteed by a Federal agency. The bank's objective is to provide more efficient financing for these obligations, thereby reducing or eliminating unnecessary costs to the Government.

The FFB is authorized to borrow up to $15 billion directly from the market and to borrow from the Treasury without stipulated limit. Through January 3, 1975, FFB had borrowed $3.0 billion from the Treasury, and $1.5 billion through short-term notes placed directly with the public.[3]

The FFB purchase of guaranteed loan issues, if continued, will reverse the earlier trend of increased reliance upon private credit facilities. It could also increase demands for credit under Federal guarantee programs because FFB can lend at interest rates generally lower than those available to guaranteed borrowers in private credit markets.

Table E–2 details FFB purchases of obligations. During 1975, FFB purchases are expected to total over $13 billion of which approximately $3.6 billion will be used for the temporary financing of mortgage loans acquired under the GNMA tandem plan.

[2] Total credit advanced is reflected in the outlays of Government-sponsored enterprises as discussed in Part 2 of the Budget.

[3] Because it was created as an off-budget agency, the 1976 budget of the FFB is published along with budgets of other off-budget agencies in Part IV of the Budget Appendix.

Table E-2. FFB NET PURCHASES OF OBLIGATIONS

(in millions of dollars)

| | 1974 actual | 1975 estimate | 1976 estimate |
|---|---|---|---|
| Agency loan asset sales [1] | 2 | 8,112 | 2,482 |
| Guaranteed loans | 100 | 2,467 | 3,292 |
| Total loan purchases | 102 | 10,579 | 5,774 |
| Agency debt: [2] | | | |
| On budget agencies | -------- | 780 | 750 |
| Off-budget agencies | 500 | 2,207 | 3,415 |
| Total net purchases of obligations [3] | 602 | 13,566 | 9,939 |

[1] Direct loans sold from agency portfolios are normally guaranteed at time of sale and reappear in guaranteed loan tables.
[2] These loans are intergovernmental debt transactions and are not loan outlays for the purposes of the credit analysis.
[3] Net of repayments received by FFB.

Another significant credit development during 1974 and 1975 has been a large increase in credit assistance to housing. Restrictive monetary policies substantially reduced the supply of credit available to traditional mortgage lenders, triggering a drastic decline in residential housing construction. The Federal Government attempted to mitigate this impact through four special programs designed to provide an assured source of financing for individual mortgage loans and to reduce the cost of home buying. The Government National Mortgage Association (GNMA) was authorized to purchase for later resale to private investors $9.9 billion of federally backed mortgages carrying below-market interest rates under the FHA–VA tandem plan. The Federal Home Loan Mortgage Corporation made commitments to purchase $3 billion of residential mortgages with below-market interest rates, and was authorized to finance the purchase of these mortgages with Treasury borrowing, if necessary. The Federal Home Loan Bank System is making available $4 billion at subsidized interest rates to savings and loan associations in order to facilitate additional mortgage lending. And GNMA has been authorized to purchase $6 billion in conventional (nonfederally insured) mortgages carrying below-market interest rates, using authority provided by the Emergency Home Purchase Assistance Act of 1974.

The gross effect of these special programs will be to support nearly $23 billion in loans financing the construction or purchase of housing over and above established housing credit programs. The net addition to housing credit will undoubtedly be less than $23 billion.

## Direct Loans

Direct loans are made by Federal agencies whether or not they are included in the budget totals. They are financed by receipts or borrowings of the Treasury or the agency itself. The major Federal programs that provide direct loans are identified in tables E–3 and E–4.

Loan outlays of Federal agencies (which are defined net of repayments) are reflected in budget outlays, and are accounted for in the budget surplus or deficit. However, in recent years a number of

## Table E–3. DIRECT LOAN COMMITMENTS AND GROSS DISBURSEMENTS
(in millions of dollars)

| Agency or program | Commitments | | | Gross disbursements | | |
|---|---|---|---|---|---|---|
| | 1974 actual | 1975 estimate | 1976 estimate | 1974 actual | 1975 estimate | 1976 estimate |
| Funds appropriated to the President: | | | | | | |
| International security assistance | 878 | 353 | 509 | 430 | 507 | 896 |
| International development assistance | 522 | 680 | 595 | 646 | 770 | 800 |
| Special financing facility | ------- | ------- | 1,000 | ------- | ------- | 1,000 |
| Agriculture: | | | | | | |
| Farmers Home Administration | 3,329 | 3,942 | 3,681 | 3,893 | 4,602 | 4,251 |
| Commodity Credit Corporation | 1,554 | 1,415 | 1,769 | 1,550 | 1,415 | 1,769 |
| Public Law 480 long-term export credits | 566 | 931 | 863 | 578 | 931 | 863 |
| Commerce: Economic Development Administration | 18 | 18 | 55 | 32 | 43 | 36 |
| Health, Education, and Welfare: | | | | | | |
| Health programs | 127 | 117 | 59 | 100 | 128 | 117 |
| Education programs | 412 | 517 | 248 | 378 | 392 | 478 |
| Housing and Urban Development: | | | | | | |
| Low-rent public housing | 32 | 161 | 52 | 623 | 675 | 650 |
| Federal Housing Administration | 521 | 569 | 576 | 361 | 345 | 380 |
| Government National Mortgage Association: | | | | | | |
| FHA/VA tandem plan | 3,027 | 6,450 | 247 | 1,448 | 4,430 | 4,300 |
| Conventional tandem plan | ------- | 6,000 | ------- | ------- | 600 | 2,000 |
| Other | * | ------- | ------- | 85 | 28 | ------- |
| Urban renewal fund | 843 | 901 | 600 | 843 | 901 | 600 |
| Other loans | 56 | 67 | ------- | 78 | 153 | 43 |
| Interior | 18 | 42 | 56 | 16 | 35 | 51 |
| Transportation | 23 | 26 | 41 | 47 | 29 | 41 |
| Treasury | ------- | ------- | ------- | ------- | ------- | ------- |
| Veterans Administration: | | | | | | |
| Housing loans | 360 | 409 | 416 | 322 | 367 | 385 |
| Insurance policy loans | 147 | 265 | 237 | 147 | 265 | 237 |
| District of Columbia | 154 | 246 | 288 | 154 | 246 | 288 |
| Federal Deposit Insurance Corp.[1] | ------- | 100 | ------- | ------- | 100 | ------- |
| Federal Home Loan Bank Board | 5 | 2,508 | 8 | −1 | 2,508 | 8 |
| Small Business Administration: | | | | | | |
| Business and investment loans | 235 | 199 | 216 | 292 | 354 | 400 |
| Disaster loans | 369 | 200 | 160 | 201 | 212 | 183 |
| Other agencies and programs | 56 | 65 | 39 | 31 | 51 | 15 |
| **Total budget agencies** | 13,351 | 26,178 | 11,470 | 12,254 | 20,087 | 19,791 |
| **Off-budget direct loans:** | | | | | | |
| Export-Import Bank | 4,905 | 5,570 | 5,375 | 2,538 | 3,032 | 3,342 |
| Rural Electrification Administration | 758 | 900 | 758 | 802 | 869 | 873 |
| Rural Telephone Bank | 163 | 160 | 180 | 99 | 160 | 175 |
| HUD: Housing for the elderly | ------- | 34 | 175 | ------- | 2 | 100 |
| Federal Deposit Insurance Corp.[1] | ------- | 1,723 | ------- | ------- | 1,723 | ------- |
| Federal Financing Bank [2] | 128 | 11,500 | 7,000 | 102 | 8,217 | 5,888 |
| U.S. Railway Association | ------- | 100 | 450 | ------- | 100 | 450 |
| Environmental Financing Authority | ------- | 60 | ------- | ------- | 60 | ------- |
| **Total off-budget agencies** | 5,954 | 20,047 | 13,938 | 3,541 | 14,163 | 10,828 |
| **Grand total** | 19,205 | 46,225 | 25,408 | 15,795 | 34,250 | 30,619 |

*Less than $0.5 million.

[1] This represents loan assets acquired from the receivership of Franklin National Bank, paid for by assumption of the bank's loan from the Federal Reserve System. It was excluded from the budget outlays by FDIC because it was a noncash receivership transaction.

[2] Excludes FFB loans to Federal agencies (whether to on- or off-budget agencies) where these are debt transactions. See table E–2 for FFB total activity.

## Table E-4. NET DIRECT LOAN OUTLAYS AND LOANS OUTSTANDING

(in millions of dollars)

| Agency or program | Net loan outlays | | | Outstanding | | |
|---|---|---|---|---|---|---|
| | 1974 actual | 1975 estimate | 1976 estimate | 1974 actual | 1975 estimate | 1976 estimate |
| Funds appropriated to the President: | | | | | | |
| International security assistance | 258 | 329 | 674 | 1,469 | 1,798 | 2,472 |
| International development assistance | 562 | 610 | 591 | 10,994 | 11,604 | 12,195 |
| Special financing facility | ------- | ------- | 1,000 | ------- | ------- | 1,000 |
| Agriculture: | | | | | | |
| Farmers Home Administration | 1,219 | −1,923 | −242 | 3,217 | 1,294 | 1,052 |
| Commodity Credit Corporation | −1,013 | −108 | −67 | 1,708 | 1,600 | 1,533 |
| Public Law 480 long-term export credits | 289 | 838 | 778 | 3,438 | 4,276 | 5,055 |
| Commerce: Economic Development Administration | 14 | 21 | 15 | 476 | 497 | 510 |
| Health, Education, and Welfare: | | | | | | |
| Health programs | 69 | 72 | 39 | 422 | 495 | 534 |
| Education programs | 355 | 365 | 433 | 2,942 | 3,307 | 3,740 |
| Housing and Urban Development: | | | | | | |
| Low-rent public housing | 21 | ------- | ------- | 71 | 71 | 71 |
| Federal Housing Administration | 327 | 298 | 313 | 1,686 | 1,984 | 2,296 |
| Government National Mortgage Association: | | | | | | |
| FHA/VA tandem plan | −92 | 39 | −269 | 283 | 322 | 53 |
| Conventional tandem plan | ------- | ------- | ------- | ------- | ------- | ------- |
| Other | −187 | −153 | −144 | 3,199 | 3,045 | 2,901 |
| Urban renewal fund | −83 | 50 | 50 | 90 | 140 | 190 |
| Other loans | −25 | 51 | −63 | 4,510 | 4,042 | 3,978 |
| Interior | 12 | 31 | 43 | 247 | 279 | 321 |
| Transportation | 46 | 29 | 41 | 171 | 200 | 241 |
| Treasury | −137 | −179 | −169 | 3,908 | 3,729 | 3,560 |
| Veterans Administration: | | | | | | |
| Housing loans | −54 | −343 | −139 | 1,769 | 1,426 | 1,287 |
| Insurance policy loans | 42 | 163 | 137 | 1,090 | 1,253 | 1,389 |
| District of Columbia | 141 | 171 | 236 | 828 | 999 | 1,235 |
| Federal Deposit Insurance Corporation | ------- | 100 | ------- | ------- | 100 | 100 |
| Federal Home Loan Bank Board | −20 | −2 | * | 103 | 101 | 101 |
| Small Business Administration: | | | | | | |
| Business and investment loans | 126 | 86 | 127 | 1,531 | 1,618 | 1,745 |
| Disaster loans | 68 | 62 | 19 | 1,340 | 1,402 | 1,421 |
| Other agencies and programs | −9 | 17 | −19 | 552 | 568 | 550 |
| **Total budget agencies** | 1,929 | 614 | 3,372 | 46,132 | 46,227 | 49,599 |
| **Off-budget direct loans** | | | | | | |
| Export-Import Bank | 1,325 | 1,673 | 1,802 | 7,911 | 9,584 | 11,385 |
| Rural Electrification Administration | 629 | 663 | 638 | 7,196 | 7,859 | 8,497 |
| Rural Telephone Bank | 99 | 160 | 173 | 144 | 304 | 477 |
| HUD: Housing for the elderly [1] | ------- | −3 | 94 | ------- | 516 | 609 |
| Federal Deposit Insurance Corporation [2] | ------- | 1,723 | ------- | ------- | 1,723 | 1,723 |
| Federal Financing Bank [3] | 102 | 10,579 | 5,774 | 102 | 10,681 | 16,455 |
| U.S. Railway Association | ------- | 100 | 444 | ------- | 100 | 544 |
| Environmental Financing Authority | ------- | 60 | ------- | ------- | 60 | 60 |
| **Total off-budget agencies** | 2,155 | 14,955 | 8,925 | 15,353 | 30,827 | 39,750 |
| **Grand total** | 4,084 | 15,569 | 12,297 | 61,485 | 77,054 | 89,349 |

*Less than $0.5 million.
[1] Transferred off-budget effective August 31, 1974, with outstanding loan balance of $519 million.
[2] See footnote 1, table E-3.
[3] See footnote 2, table E-3.

direct-lending agencies have been placed off-budget under provisions of law, hence do not enter into the budget. In some instances, their activities are not counted against the public debt ceiling. Since their effects are identical to those of direct loan programs included in the budget, they are also included in this analysis.

Repayments of outstanding loans are not classified as receipts in the budget, but are offset against new loan disbursements for loan revolving accounts and against general outlays in the case of non-revolving accounts. For this reason, the outlays of loan programs understate the level of new lending activity. Gross loan disbursements, which are shown in table E–3, provide a more complete measure of program activity levels.[4]

Tables E–3 and E–4 provide data on direct loan activity by major agency and program.[5] Table E–3 reports loan commitments and disbursements for 1974–76. Commitments to make direct loans tend to forecast future financial flows and the economic activities they facilitate because commitments are often made in advance of the time when funds are actually disbursed. An apparent anomoly occurs in the relationship between commitments and disbursements for low-rent public housing and urban renewal notes. Disbursements are higher than commitments because they include short-term interim construction financing notes which are "rolled over" several times, while commitments are counted only once.

Direct loan disbursements by Federal budget agencies during 1975 and 1976 are expected to be almost double the level of 1974, principally as a result of the special assistance given to credit programs in support of housing, discussed earlier. The "special financing facility," listed under Funds appropriated to the President, shows estimated 1976 commitments and disbursements of $1 billion in support of the creation of an international fund to help industrialized nations meet financial demands of higher energy costs.

The bottom panels of tables E–3 and E–4 detail the direct lending activity of off-budget Federal agencies. The major change in total disbursements over the 3-year period is attributable almost exclusively to the expanding activities of the Federal Financing Bank, also noted earlier.

Table E–4 shows net changes in direct loan programs, and outstanding loan levels for 1974–76. Wide fluctuations in total net loan outlays of budget agencies are primarily due to the initial disbursements of the special financing facility, and to wide swings in net disbursements of the Farmers Home Administration program. The large bulge in net loan outlays of off-budget agencies reflects initial activity of

[4] Some direct loan disbursements, in fact, support guaranteed loan programs. This occurs because direct loan outlays are established when claims are paid under guaranteed programs and the Government receives either the original loan or the collateral.

[5] Because loan disbursements and repayments in foreign currencies are not included in the budget, the tables in this analysis include only data on loans that are both disbursed and repayable in dollars. Government agency direct loan transactions disbursed or repayable in foreign currencies (in millions of dollars) are:

| | 1974 | 1975 | 1976 |
|---|---|---|---|
| Outstanding, start of year | 5,244 | 2,795 | 2,654 |
| Disbursements (dollar equivalents) | 8 | 6 | ----- |
| Repayments—dollars | −2 | −3 | −3 |
| Repayments—local currencies | −2,240 | −144 | −140 |
| Net disbursements | −2,234 | −141 | −143 |
| Adjustments | −216 | ----- | ----- |
| Outstanding, end of year | 2,795 | 2,654 | 2,511 |

the Federal Financing Bank. The total of loans outstanding, both on- and off-budget, will continue to grow by about $10 billion a year in 1975 and 1976, in sharp contrast to the very stable total levels of the years 1971–73.

Loan repayments and net loan disbursements reflect sales of direct loan assets as well as actual loan repayments and prepayments. Table E–5 identifies the major loan sales within the repayment totals. Prior to 1974 most loan sales were to private investors or to FNMA. Many sales are now being directed to the FFB.

Table E–5. DIRECT LOAN ASSET SALES AND REPAYMENTS

(in millions of dollars)

| | 1974 actual | 1975 estimate | 1976 estimate |
|---|---|---|---|
| Loan sales: | | | |
| Farmers Home Administration: | | | |
| Certificates of beneficial ownership | 828 | 5,406 | 3,441 |
| Other loans | 1,343 | 386 | -------- |
| Housing and Urban Development, GNMA: | | | |
| FHA/VA tandem plan | 1,503 | 4,372 | 4,550 |
| Conventional tandem plan | -------- | 600 | 2,000 |
| VA housing loans | 209 | 568 | 378 |
| Health, Education, and Welfare: | | | |
| Medical facilities loans | 28 | 53 | 45 |
| Health maintenance loans | -------- | -------- | 30 |
| Small Business Administration | -------- | 100 | 100 |
| Subtotal, loan sales | 3,911 | 11,485 | 10,544 |
| Loan repayments and prepayments | 6,414 | 7,988 | 5,874 |
| Total repayment credits, budget agencies | 10,325 | 19,473 | 16,418 |
| Memos: | | | |
| Sales to FFB (included above) | 2 | 8,117 | 2,586 |
| Farmers Home repurchases | 1,201 | 900 | 650 |
| Off-budget loan sales: Export-Import Bank | 25 | 25 | 25 |

## Guaranteed Loans

Guaranteed loans are loans made or held by private and State and local government lenders for which the Federal Government assumes part or all of customary credit risks. The major agencies and programs making loan guarantees are shown in tables E–6 and E–7. These loans include private loans under a few programs on which the Government pays a significant share of the interest costs, even though principal repayments are not assured. Federal long-term direct leases, and guarantees of private leases, are also classed as guarantees of the underlying credit. In some cases the Government guarantees less than 100% of the principal amount of the loan, but tables E–6 and E–7 measure the full principal amount of the loan, not just the Government's contingent liability.

## Table E–6. LOAN GUARANTEE COMMITMENTS AND LOANS GUARANTEED

(in millions of dollars)

| Agency or program | Commitments | | | Loans guaranteed | | |
|---|---|---|---|---|---|---|
| | 1974 actual | 1975 estimate | 1976 estimate | 1974 actual | 1975 estimate | 1976 estimate |
| Funds appropriated to the President: | | | | | | |
| International security assistance | 518 | 519 | 513 | 116 | 272 | 275 |
| International development assistance | 8 | 50 | 45 | 84 | 99 | 128 |
| Agriculture: | | | | | | |
| Rural Electrification Administration | 974 | 1,386 | 1,446 | ------ | 329 | 926 |
| Farmers Home Administration | 2,392 | 8,156 | 3,881 | 2,176 | 6,806 | 3,501 |
| Commerce: Maritime Administration | 1,266 | 1,389 | 981 | 488 | 1,588 | 1,697 |
| Health, Education, and Welfare: | | | | | | |
| Health programs | 514 | 402 | 130 | 528 | 382 | 521 |
| Guarantees of SLMA obligations [1] | 250 | 40 | 335 | 250 | 40 | 335 |
| Other education programs | 1,160 | 1,400 | 1,760 | 1,520 | 1,690 | 1,786 |
| Housing and Urban Development: | | | | | | |
| Low-rent public housing [2] | 289 | 1,446 | 471 | 7,295 | 8,400 | 9,800 |
| Federal Housing Administration | 5,638 | 5,102 | 6,093 | 5,712 | 5,663 | 7,731 |
| Urban renewal loans [2] | 58 | 950 | ------- | 1,407 | 1,069 | 348 |
| New communities fund | 43 | 32 | 20 | 54 | 30 | 88 |
| College housing | ------- | ------- | ------- | 75 | 100 | ------- |
| GNMA mortgage backed securities [1] | 4,125 | 5,100 | 7,500 | 4,125 | 5,100 | 7,500 |
| Interior | ------- | 46 | 43 | ------- | 46 | 43 |
| Transportation | ------- | 50 | 500 | 172 | 331 | 585 |
| For: Washington Metropolitan Area Transit Authority | 375 | 177 | 160 | 375 | 177 | 160 |
| General Services Administration | 221 | 412 | 161 | 221 | 412 | 161 |
| Veterans Administration: Housing loans | 7,760 | 9,403 | 10,072 | 7,888 | 8,876 | 9,484 |
| Emergency Loan Guarantee Board | ------- | ------- | ------- | 70 | 30 | ------- |
| Environmental Protection Agency | ------- | 60 | ------- | ------- | 60 | ------- |
| Export-Import Bank | 7,879 | 12,025 | 13,375 | 3,473 | 3,721 | 4,081 |
| Small Business Administration | 1,803 | 1,363 | 1,710 | 1,802 | 1,363 | 1,710 |
| Other agencies and programs | 4 | 10 | 5 | 4 | 190 | 5 |
| Total (gross) | 35,276 | 49,521 | 49,200 | 37,836 | 46,775 | 50,865 |
| Less secondary guarantees [1] | 4,375 | 4,540 | 5,835 | 4,375 | 4,540 | 5,835 |
| Total, primary guarantees | 30,901 | 44,981 | 43,365 | 33,461 | 42,235 | 45,030 |
| Less guaranteed loans acquired for direct loan portfolios: | | | | | | |
| By budget agencies, GNMA | 1,532 | 4,458 | 4,300 | 1,532 | 4,458 | 4,300 |
| By off-budget Federal agencies: | | | | | | |
| Environmental Financing Authority | ------- | 60 | ------- | ------- | 60 | ------- |
| Federal Financing Bank | 102 | 10,710 | 5,774 | 102 | 10,710 | 5,774 |
| By federally sponsored enterprises: | | | | | | |
| Federal National Mortgage Association | 5,282 | 6,495 | 7,707 | 5,351 | 5,435 | 4,044 |
| Federal Home Loan Mortgage Corporation | 292 | 292 | 314 | 292 | 292 | 314 |
| Student Loan Marketing Association | 144 | 146 | 335 | 144 | 146 | 335 |
| Total primary guaranteed loans (adjusted) | 23,549 | 22,820 | 24,935 | 26,040 | 21,134 | 30,263 |

[1] HEW guarantees of SLMA obligations, and GNMA guarantees of private securities backed by FHA and VA-guaranteed mortgages result in double counting since underlying portfolio loans are also guaranteed. These are labeled in this table as secondary guarantees.

[2] Variance between commitments and guarantees for these programs occurs for the same reasons as in related direct loan programs.

**Table E-7. NET LOANS GUARANTEED AND LOANS OUTSTANDING**
(In millions of dollars)

| Agency or program | Net loans guaranteed | | | Outstanding | | |
|---|---|---|---|---|---|---|
| | 1974 actual | 1975 estimate | 1976 estimate | 1974 actual | 1975 estimate | 1976 estimate |
| Funds appropriated to the President: | | | | | | |
| International security assistance | 54 | 202 | 200 | 298 | 500 | 700 |
| International development assistance | 78 | 93 | 119 | 519 | 612 | 731 |
| Agriculture: | | | | | | |
| Rural Electrification Administration | ------- | 329 | 926 | ------- | 329 | 1,256 |
| Farmers Home Administration | 323 | 5,228 | 1,886 | 9,759 | 14,987 | 16,873 |
| Commerce: Maritime Administration | 406 | 1,488 | 1,581 | 1,666 | 3,154 | 4,753 |
| Health, Education, and Welfare: | | | | | | |
| Health programs | 528 | 382 | 521 | 575 | 957 | 1,478 |
| Guarantees of SLMA obligations [1] | 250 | 40 | 335 | 250 | 290 | 625 |
| Other education programs | 1,148 | 677 | 1,058 | 5,884 | 5,561 | 7,618 |
| Housing and Urban Development: | | | | | | |
| Low-rent public housing | 658 | 1,259 | 1,290 | 12,441 | 13,699 | 14,990 |
| Federal Housing Administration | −1,565 | −1,747 | −253 | 85,312 | 83,565 | 83,312 |
| Urban renewal loans | 188 | −132 | −653 | 3,839 | 3,707 | 3,054 |
| New communities fund | 54 | 30 | 88 | 252 | 282 | 371 |
| College housing | 75 | 100 | ------- | 778 | 878 | 878 |
| GNMA mortgage backed securities [1] | 3,366 | 3,966 | 6,782 | 12,879 | 16,845 | 23,627 |
| Interior | ------- | 43 | 34 | ------- | 43 | 78 |
| Transportation | 165 | 328 | 583 | 352 | 681 | 1,157 |
| For: Washington Metropolitan Area Transit Authority | 375 | 177 | 160 | 820 | 997 | 1,157 |
| General Services Administration | 220 | 410 | 159 | 809 | 1,219 | 1,378 |
| Veterans Administration: Housing loans | 5,727 | 4,179 | 4,555 | 52,895 | 57,074 | 61,629 |
| Emergency Loan Guarantee Board | 70 | 30 | −30 | 220 | 250 | 220 |
| Environmental Protection Agency | ------- | 60 | ------- | ------- | 60 | 60 |
| Export-Import Bank | 694 | 780 | 840 | 3,443 | 4,222 | 5,062 |
| Small Business Administration | 914 | 728 | 1,040 | 4,019 | 4,748 | 5,787 |
| Other agencies and programs | −5 | 180 | −5 | 130 | 311 | 306 |
| Total (gross) | 13,724 | 18,831 | 21,217 | 197,159 | 215,990 | 237,207 |
| Less secondary guarantees [1] | 3,616 | 3,406 | 5,132 | 13,129 | 16,535 | 21,667 |
| Total primary guarantees | 10,108 | 15,425 | 16,085 | 184,030 | 199,455 | 215,540 |
| Less guaranteed loans acquired for direct loan portfolios: | | | | | | |
| By budget agencies: GNMA | −279 | −114 | −413 | 3,482 | 3,367 | 2,954 |
| By off-budget Federal agencies: | | | | | | |
| Environmental Financing Authority | ------- | 60 | ------- | ------- | 60 | 60 |
| Federal Financing Bank | 102 | 10,579 | 5,774 | 102 | 10,681 | 16,455 |
| By federally sponsored enterprises: | | | | | | |
| Federal National Mortgage Association | 3,726 | 3,722 | 2,406 | 25,251 | 28,973 | 31,379 |
| Federal Home Loan Mortgage Corporation | 168 | 207 | 287 | 1,869 | 2,076 | 2,363 |
| Student Loan Marketing Association | 144 | 146 | 335 | 144 | 290 | 625 |
| Total primary guaranteed loans (adjusted) | 6,247 | 825 | 7,696 | 153,182 | 154,008 | 161,704 |

[1] HEW guarantees of SLMA obligations, and GNMA guarantees of private securities backed by FHA and VA-guaranteed mortgages result in double counting since underlying portfolio loans are also guaranteed. These are labeled in this table as secondary guarantees. GNMA also will guarantee securities backed by conventional mortgages in 1975 and 1976, and these are not deducted.

Table E-8. LOAN COMMITMENTS AND GROSS DISBURSEMENTS OF FEDERALLY SPONSORED CREDIT INTERMEDIARIES (in millions of dollars)

| | Commitments | | | Gross disbursements | | |
|---|---|---|---|---|---|---|
| | 1974 actual | 1975 estimate | 1976 estimate | 1974 actual | 1975 estimate | 1976 estimate |
| Student Loan Marketing Association | 144 | 146 | 335 | 144 | 146 | 335 |
| Federal National Mortgage Association [1] | 5,883 | 7,910 | 10,140 | 6,368 | 6,290 | 5,413 |
| Farm Credit System: | | | | | | |
| Banks for cooperatives | 6,821 | 7,396 | 7,823 | 6,821 | 7,396 | 7,823 |
| Federal intermediate credit banks | 9,166 | 10,443 | 12,001 | 9,166 | 10,443 | 12,001 |
| Federal land banks | 3,643 | 3,953 | 4,079 | 3,643 | 3,953 | 4,079 |
| Federal Home Loan Bank System: | | | | | | |
| Federal home loan banks | 11,016 | 11,348 | 7,518 | 11,016 | 11,348 | 7,518 |
| Federal Home Loan Mortgage Corporation: [1] | | | | | | |
| Corporation accounts | 3,781 | 5,000 | 3,900 | 1,272 | 4,694 | 3,690 |
| Participation certificate pool [2] | 38 | ------- | 600 | 38 | ------- | 600 |
| Total | 40,491 | 46,196 | 46,396 | 38,468 | 44,270 | 41,459 |
| Less secondary funds advanced from Federal sources: | | | | | | |
| SLMA from FFB | 100 | 190 | 335 | 100 | 190 | 335 |
| FHLMC from FHLBB | 3,000 | ------- | ------- | ------- | 2,500 | ------- |
| Total primary lending | 37,391 | 46,006 | 46,061 | 38,368 | 41,580 | 41,124 |

[1] Loans purchased at discount are recorded at acquisition cost.
[2] Participation certificate (pass-through type) sold against mortgage pools are counted as sales of loan assets and are therefore not reflected on the Corporation's balance sheet. (These are guaranteed by the Corporation's assets, but not by the Federal Government.)

Data on loan guarantees in tables E-6 and E-7 are comparable to tables E-3 and E-4 for direct loans.[6] As with direct loans, the data in table E-6 on commitments permits some forecasting of future gurantee activity. It also gives some insight into program-by-program variations in the rates at which commitments are converted into guarantees.

Guaranteed loans, like off-budget direct loans, are not reflected in the budget at the time credit is extended. Budget impacts from loan guarantee programs, excepting additional subsidies and administrative costs, occur only when defaults require the Federal Government to pay lenders' claims. Defaults for older guaranteed loan programs have been relatively low, since older programs involved principally guarantees with liens on property. Newer programs generate higher risks because little or no collateral is pledged, and, as a result, they are experiencing much higher default rates.

Table E-7 summarizes the net changes in guaranteed loans and the total dollar value of guaranteed loans outstanding at the end of 1974-76 by agency and program. Total net guaranteed loans are expected to grow at a rapid pace, up to almost $20 billion during 1976. However, the growth is much less spectacular after adjustments have been made for multiple guarantees of single loans, and for the conversion of guaranteed loans to direct loans of off-budget agencies. During the 1974-76 period, the FFB will play a major role in this conversion. Appropriate adjustments are made in tables E-6 and E-7.

[6] Adjustments to eliminate double counting have been made in the data shown in tables E-6 and E-7 to make possible the aggregation of guaranteed loans with other forms of Federal credit assistance. Adjustments are required where the same credit extension is guaranteed twice, and where guaranteed loans are converted to direct loans. Additional adjustments are made for double counting in tables E-8 and E-9 for Government-sponsored credit enterprises.

Table E-9. NET CREDIT ADVANCED AND NET CREDIT RAISED BY FEDERALLY SPONSORED CREDIT INTERMEDIARIES (in millions of dollars)

| | Net change | | | Outstanding | | |
|---|---|---|---|---|---|---|
| | 1974 actual | 1975 estimate | 1976 estimate | 1974 actual | 1975 estimate | 1976 estimate |
| LENDING (Funds advanced) | | | | | | |
| Student Loan Marketing Association | 144 | 146 | 335 | 144 | 290 | 625 |
| Federal National Mortgage Association [1] | 4,756 | 4,646 | 3,491 | 25,828 | 30,474 | 33,965 |
| Farm Credit System: | | | | | | |
| Banks for cooperatives | 8 | 312 | 275 | 2,733 | 3,045 | 3,320 |
| Federal intermediate credit banks | 1,529 | 1,351 | 1,495 | 8,481 | 9,832 | 11,327 |
| Federal land banks | 2,282 | 2,219 | 2,165 | 12,400 | 14,619 | 16,784 |
| Federal Home Loan Bank System: | | | | | | |
| Federal home loan banks | 6,524 | 2,106 | −2,482 | 17,703 | 19,809 | 17,327 |
| Federal Home Loan Mortgage Corporation: [1] | | | | | | |
| Corporation accounts | 1,134 | 4,402 | 3,277 | 3,091 | 7,494 | 10,771 |
| Participation certificate pool [2] | −18 | −55 | 475 | 780 | 725 | 1,200 |
| Total lending (unadjusted) | 16,359 | 15,127 | 9,031 | 71,160 | 86,288 | 95,319 |
| Less secondary funds advanced from Federal accounts: | | | | | | |
| SLMA from FFB | 100 | 190 | 335 | 100 | 290 | 625 |
| FHLMC from FHLBB | ------- | (3) | ------- | ------- | (3) | -------- |
| Total primary lending | 16,259 | 14,937 | 8,696 | 71,060 | 85,998 | 94,694 |
| Memo: Federal Reserve banks | [4] 1,777 | (5) | (5) | [4] 3,513 | (5) | (5) |
| BORROWING (Funds raised) | | | | | | |
| Student Loan Marketing Association | 250 | 40 | 335 | 250 | 290 | 625 |
| Federal National Mortgage Association | 4,866 | 4,705 | 3,200 | 25,232 | 29,937 | 33,137 |
| Farm Credit System: | | | | | | |
| Banks for cooperatives | 138 | 182 | 249 | 2,555 | 2,737 | 2,986 |
| Federal intermediate credit banks | 1,344 | 1,249 | 1,408 | 8,081 | 9,329 | 10,737 |
| Federal land banks | 2,043 | 2,120 | 1,985 | 11,164 | 13,284 | 15,270 |
| Federal Home Loan Bank System: | | | | | | |
| Federal home loan banks | 6,464 | 1,116 | −2,495 | 16,679 | 17,795 | 15,300 |
| Federal Home Loan Mortgage Corporation: | | | | | | |
| Corporation accounts | 1,058 | 4,498 | 3,273 | 3,292 | 7,789 | 11,062 |
| Participation certificates [2] | −18 | −55 | 475 | 780 | 725 | 1,200 |
| Total borrowing (unadjusted) | 16,145 | 13,855 | 8,430 | 68,032 | 81,887 | 90,317 |
| Less: Borrowing from other sponsored agencies: | | | | | | |
| FHLB loans to FHLMC | 1,209 | −316 | 343 | 1,509 | 1,193 | 1,536 |
| Other | 44 | −* | −6 | 129 | 129 | 122 |
| Less: Borrowing from Federal agencies: | | | | | | |
| FFB loans to SLMA | 100 | 190 | 335 | 100 | 290 | 625 |
| FHLB loans to FHL banks | ------- | (3) | ------- | ------- | (3) | -------- |
| Less: Loans to Federal agencies: | | | | | | |
| Investments in Federal securities | −35 | 413 | 23 | 644 | 1,055 | 1,078 |
| FHL bank loans to FHLBB | 5 | −10 | ------- | 10 | ------- | -------- |
| Total borrowing (adjusted) | 14,822 | 13,579 | 7,736 | 65,641 | 79,219 | 86,955 |

*Less than $500 thousand.

[1] See note (1), table E–8.

[2] See note (2), table E–8.

[3] A loan of $2.500 million made in August of 1974 is expected to be repaid prior to the end of the fiscal year.

[4] Federal Reserve bank's loans to member banks are excluded from totals since these are not estimated for fiscal years not yet completed.

[5] Not estimated.

## Government-Sponsored Credit Enterprises Outside the Budget

Several major Government-sponsored credit enterprises, created to facilitate the financing of selected programs, are privately owned and managed. All, however, are subject to some form of Federal supervision and consult the Treasury Department as required by law or by custom in planning the marketing of their obligations. The principal enterprises in this category are the Federal Home Loan Bank System, the three major components of the Farm Credit System, the Federal National Mortgage Association, and the Student Loan Marketing Association.

These enterprises differ from other private institutions in that they have been given special preferences, including rights to assess their constituents, various tax exemptions and preferences, and preferential eligibility rights for federally regulated institutions and others to invest in their securities. These, plus the enterprises' implied Federal backing, give their security obligations a preferred position in the debt securities market and enable them to borrow at interest rates well below the rates attained by the best grade corporate securities, and only moderately above the Government's own rates.

All Government-sponsored credit enterprises are essentially financial intermediaries, channeling funds from one sector of the capital market to another. They borrow mainly in the "agency sector" of the bond markets, and disburse these funds for specifically authorized purposes, either directly to lending establishments or by purchasing loans originated by them.[7] Some of the agencies also serve as reserve facilities or provide secondary marketing functions, providing liquidity for constituent lenders during tight money periods by making temporary advances or buying portfolio loans for resale.

Funds lent by Government-sponsored credit enterprises are obtained mostly from borrowings in the capital markets. Sale of capital stock and retained earnings also provide a small portion of resources used for lending. Moreover, the timing of borrowing to lending varies from year to year. Tables E–8, and E–9 show both the lending and borrowing sides of these credit institutions.

## Summary of Federal and Federally Assisted Credit Transactions

Table E–10 summarizes the components of Federal financial activity. Components within the aggregates change substantially from year to year, but this is often mainly a shift in the form of credit not affecting the totals. For example, much of the large rise in off-budget loans from $2.2 billion in 1974 to $14.9 billion in 1975 is due to large purchases of guaranteed loans by the new Federal Financing Bank. However, guaranteed loans decline to reflect this purchase. Similar effects occur on the borrowing side.

[7] The program of the Government National Mortgage Association (a budget agency in HUD) to guarantee mortgage-backed securities achieves a very similar "intermediation" result. GNMA guarantees securities issued against privately held pools of federally guaranteed or insured mortgages. The FRB flow-of-funds data, for example, include this GNMA program within the definition of Government-sponsored credit enterprises. GNMA data appear in memorandum entries of tables E–6 and E–7.

Table E-10. SUMMARY OF CREDIT ADVANCED AND CREDIT RAISED UNDER FEDERAL AUSPICES (in billions of dollars)

| | Net change | | | Outstanding | | |
|---|---|---|---|---|---|---|
| | 1974 actual | 1975 estimate | 1976 estimate | 1974 actual | 1975 estimate | 1976 estimate |
| LENDING (Credit advanced) | | | | | | |
| Direct loans (from table E-4): | | | | | | |
| On budget agencies | 1.9 | .6 | 3.4 | 46.1 | 46.2 | 49.6 |
| Off-budget agencies | 2.2 | 15.0 | 8.9 | 15.4 | 30.8 | 39.8 |
| Guaranteed loans (primary, adjusted, from table E-7) | 6.2 | .8 | 7.7 | 153.2 | 154.0 | 161.7 |
| Loans by federally sponsored credit intermediaries (from E-9) | 16.3 | 14.9 | 8.7 | 71.1 | 86.0 | 94.7 |
| **Total, credit advanced to the public under Federal auspices** [1] | 26.6 | 31.3 | 28.7 | 285.7 | 317.1 | 345.7 |
| **Outside the budget** | 24.7 | 30.7 | 25.3 | | | |
| BORROWING (Credit raised) | | | | | | |
| Federal borrowing from the public (from table C-1) | 3.0 | 43.5 | 63.5 | 346.1 | 389.6 | 453.1 |
| Guaranteed borrowing (same as guaranteed loans, above) | 6.2 | .8 | 7.7 | 153.2 | 154.0 | 161.7 |
| Borrowing by federally sponsored credit intermediaries (net, from table E-9) | 14.8 | 13.6 | 7.7 | 65.6 | 79.2 | 87.0 |
| **Total, credit raised from the public under Federal auspices** [1] | 24.1 | 57.9 | 78.9 | 564.9 | 622.8 | 701.7 |
| Net credit advanced | 2.5 | −26.6 | −50.2 | | | |

[1] Excludes Federal Reserve credit.

## Interest Subsidies

It was noted earlier that most Federal credit assistance is not reflected in the budget. The budget, therefore, does not measure the fiscal and allocational effects of credit programs. The data gathered for this analysis still fall far short of measuring the total effects of loans made under Federal auspices. This analysis cannot, for example, estimate the economic impacts of Federal credit assistance since there is no way at present to ascertain what the level of credit activity in each program area would have been in the absence of the Federal program.

Federal loan programs hold one characteristic in common: They provide credit on more favorable terms, particularly longer maturities, higher loan-to-value ratios, and lower interest rates, than are otherwise available for comparable private loans. The measure of these subsidies of Federal credit programs provides a useful index of likely program impact.

Table E-11. ESTIMATED INTEREST SUBSIDY VALUES FOR MAJOR DIRECT AND GUARANTEED LOAN COMMITMENTS

(in millions of dollars)

| Agency and program | Borrower loan terms [1] | | Annual subsidy per $100 million [2] | Commitments | | | Subsidy—Present value at 10% discount | | |
|---|---|---|---|---|---|---|---|---|---|
| | Percent | Years | | 1974 | 1975 | 1976 | 1974 | 1975 | 1976 |
| **DIRECT LOANS** | | | | | | | | | |
| Funds appropriated to the President: | | | | | | | | | |
| Security assistance | 7.5 | 15.2 | 1.8 | 879 | 353 | 509 | 122 | 49 | 70 |
| Development assistance | 2.8 | 40.0 | 6.1 | 515 | 664 | 575 | 306 | 395 | 342 |
| Agriculture: | | | | | | | | | |
| Price support | 7.1 | 1.4 | 1.7 | 1,554 | 1,415 | 1,769 | 34 | 31 | 39 |
| CCC: Public Law 480 | 2.3 | 33.0 | 6.1 | 566 | 931 | 863 | 330 | 543 | 503 |
| Farmers Home Administration | 5.1 | 32.0 | 4.1 | 3,328 | 3,941 | 3,681 | 1,313 | 1,555 | 1,453 |
| Rural Electrification Administration | 5.0 | 35.0 | 4.3 | 921 | 1,060 | 938 | 380 | 437 | 387 |
| Health, Education, and Welfare: | | | | | | | | | |
| Capital for student loans | 2.7 | 13.8 | 4.7 | 353 | 369 | 29 | 123 | 129 | 10 |
| Medical facilities | 7.0 | 25.0 | 2.4 | 58 | 55 | ------ | 13 | 12 | ------ |
| Housing and Urban Development: | | | | | | | | | |
| Urban renewal | 6.0 | 3.5 | 2.7 | 843 | 901 | 600 | 65 | 70 | 46 |
| Low-rent public housing | ------ | 1.5 | 8.4 | 32 | 160 | 52 | 4 | 18 | 6 |
| Federal Housing Administration | 7.0 | 30.0 | 2.5 | 521 | 569 | 576 | 126 | 138 | 139 |
| Government National Mortgage Association | 8.9 | 28.1 | 1.0 | 3,027 | 12,450 | ------ | 276 | 114 | ------ |
| Housing for elderly | 7.5 | 2.0 | 1.4 | ------ | 40 | 175 | ------ | 1 | 4 |
| Veterans Administration: | | | | | | | | | |
| Insurance policy loans | 5.0 | 15.0 | 3.4 | 155 | 193 | 174 | 41 | 51 | 46 |
| Education loans | 6.5 | 6.0 | 2.1 | ------ | 80 | 72 | ------ | 7 | 7 |
| Housing | 9.0 | 29.3 | .9 | 360 | 409 | 436 | 30 | 34 | 36 |
| District of Columbia loans | 7.0 | 30.0 | 2.5 | 151 | 205 | 247 | 36 | 50 | 60 |
| Export-Import Bank | 7.8 | 8.0 | 1.4 | 4,905 | 5,570 | 5,375 | 368 | 418 | 403 |
| Federal Financing Bank purchases of unsubsidized loans | 8.0 | 23.9 | 1.6 | 100 | 745 | 1,587 | 15 | 110 | 234 |
| Federal Home Loan Bank Board | 7.9 | 30.0 | 1.8 | ------ | 2,500 | ------ | ------ | 434 | ------ |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Small Business Administration: | | | | | | | | | |
| Business and investment loans | 7.3 | 7.6 | 1.7 | 235 | 199 | 116 | 21 | 18 | 10 |
| Disaster loan fund | 8.0 | 3.0 | 1.1 | 369 | 200 | 160 | 11 | 6 | 5 |
| Other agencies and programs | 7.5 | 12.5 | 1.7 | 5 | 273 | 214 | 1 | 33 | 26 |
| Total—Major subsidized direct loans | | | | | | | 3,614 | 5,672 | 3,826 |
| **GUARANTEED LOANS** | | | | | | | | | |
| Health, Education, and Welfare: | | | | | | | | | |
| Higher education facilities | 3.0 | 15.0 | 4.6 | 293 | 324 | 1 | 105 | 116 | ------ |
| Health maintenance organizations | 7.0 | 25.0 | 2.4 | 98 | ------ | 100 | 22 | ------ | 22 |
| Medical facilities | 7.0 | 25.0 | 2.4 | 416 | 402 | ------ | 92 | 89 | ------ |
| Student loan insurance | 7.0 | 13.0 | 2.0 | 1,040 | 1,260 | 1,584 | 154 | 186 | 234 |
| Housing and Urban Development: | | | | | | | | | |
| Urban renewal | 4.8 | .7 | 6.1 | 58 | 950 | ------ | 2 | 39 | ------ |
| Low-rent public housing | 4.5 | 41.5 | 4.8 | 288 | 1,446 | 471 | 136 | 684 | 223 |
| Interest subsidies on insured mortgages | 3.6 | 21.8 | 4.7 | 1,763 | 615 | 620 | 732 | 255 | 258 |
| Interior: Indian loans | 8.0 | 10.0 | 1.3 | ------ | 46 | 43 | ------ | 4 | 3 |
| Department of Transportation WMATA guarantees | 7.0 | 40.0 | 2.7 | 375 | 177 | 160 | 101 | 48 | 43 |
| Veterans Administration loan and property sales | 8.0 | 29.0 | 1.7 | 209 | 568 | 356 | 34 | 92 | 58 |
| Total—major subsidized guaranteed loans | | | | | | | 1,378 | 1,512 | 841 |
| **AGENCY DEBT ISSUES FINANCED BY FEDERAL FINANCING BANK** | | | | | | | | | |
| Tennessee Valley Authority | 8.0 | 3.0 | 1.1 | ------ | 780 | 750 | ------ | 22 | 22 |
| Postal Service | 8.0 | 3.0 | 1.1 | 500 | 500 | 1,550 | 14 | 14 | 45 |
| United States Railway Association | 8.0 | 15.0 | 1.4 | ------ | 50 | 347 | ------ | 6 | 38 |
| Total debt issue subsidies [3] | | | | | | | 14 | 42 | 105 |
| Grand total | | | | | | | 5,006 | 7,227 | 4,772 |

[1] If terms vary, these are estimated averages.
[2] Based on 10% value of funds.
[3] Interest savings are passed through to private users.

Only the interest subsidy is treated in this section, even though other subsidy elements may be substantial. Some subsidies not considered here are fees or premiums inadequate to cover costs of administration and losses, waivers of such fees or premiums, or foregiveness of part or all of loan principal. However, for the two programs financed with tax-exempt securities, the analysis includes that part of the tax subsidy that accrues to the borrower.

The subsidy element in any federally assisted loan, direct or guaranteed, is the difference between the cost of borrowing under the Federal program and that cost in private credit markets. These interest subsidies come about for several reasons. In some direct loan programs the interest rate established by statutory formula may be at rates below market rates. In other direct loan programs the laws provide for interest rates to be set to recover the costs of borrowing by the Treasury, thereby providing private borrowers loans at rates otherwise available only to the U.S. Government. In guaranteed loan programs, the guarantee itself subsidizes interest rates, since risk is a factor in credit costs.[8] Additional subsidies, most frequently debt service payments, are often added to loan guarantees. These explicit subsidies sometimes cover both interest and principal amounts, but more often cover some designated share of the interest costs.

In evaluating the implicit subsidies in loan programs, it is necessary to estimate the interest rate that the borrower would have had to pay in private credit markets. It is difficult and sometimes impossible to determine what the unassisted interest rates would have been on a program-by-program basis. In this analysis 10% has been adopted as a reasonable estimate of the average private sector cost of borrowing for all activities and loan terms represented.

Because interest subsidies occur throughout the life of the loan, an evaluation of interest subsidies requires the measurement of a stream of payments. Since a simple total of future obligations would overstate the true value of the subsidy stream, the preferred measurement of the successive annual subsidy payments is in "present value" terms. This is accomplished by capitalizing (or discounting) future subsidies at an appropriate rate. A discount rate of 10% has been used in this analysis.

For any single year the budget reflects the current effects of interest concessions made to federally assisted borrowers on outstanding loans made in previous years. Table E-11, however, reports only on the present values of future subsidies provided by new loan commitments.

## PROPOSED LEGISLATION

The Administration has proposed and is preparing legislation in a number of areas related to credit programs.

A $150 million increase in loan guarantee authority under section 215 of the Regional Rail Reorganization Act of 1973 will be proposed to assist railroads currently in reorganization to maintain and improve facilities and equipment during the period that the United States Railway Association is planning the restructuring of rail services in the Northeast and Midwest regions of the Nation. In addition, the Department of Transportation will reintroduce legislation which would provide loan guarantees to these railroads for both fixed plant and rolling stock capital improvement programs.

[8] In the absence of a more accurate basis for evaluation, "market-rate" guaranteed loans, i.e., those in which no explicit subsidies are incurred, are excluded from this analysis.

In the Administration's new surface transportation regulatory modernization legislation, Federal loan guarantees of $2 billion will be proposed to enable railroads to undertake needed fixed plant and rolling stock improvements.

Other proposals include: Removal of the 5% interest rate ceilings on certain agricultural credit programs and legislation to permit rates charged borrowers to reflect prevailing market rates.

Legislation will be submitted to establish a special financing facility, a new multilateral loan fund, to assist industrialized nations to help meet financial requirements during the energy crisis. The U.S. contingent commitment to the fund is expected to be up to $7 billion.

## Newly Enacted Credit Legislation

This summary lists legislation enacted during the last session of Congress that authorizes new Federal credit programs or revises existing programs in major respects. It excludes simple extensions of expiring laws and increases in funds for continuing programs.

*Emergency Livestock Credit Act of 1974*—Public Law 93-357

Authorizes FMHA to guarantee loans to cattlemen in an amount not to exceed $2 billion at any time. The guarantee is limited to 80% of principal.

*Housing and Community Development Act of 1974*—Public Law 93-383

Authorizes a new coinsurance program for mortgage loans that will permit the sharing of risks between the Government and the lenders originating those loans. Required downpayments were lowered under all mortgage insurance programs, and most of these programs were extended to June 30, 1977.

*Public Works and Economic Development Act of 1965*—Public Law 93-423

In addition to previously authorized fixed asset loans and guarantees of loans for working capital, eligible borrowers can now receive direct working capital loans; guarantees of up to 90% of the outstanding balance of fixed capital loans made by private lending institutions; and guarantees of rental payments of leases for buildings and equipment at a rate of up to 90% of remaining rental payments.

*Emergency Home Purchase Assistance Act of 1974*—Public Law 93-454

Authorizes a temporary program under which the Government National Mortgage Association will purchase conventional (nonfederally insured) mortgages with below market interest rates.

*Depository Institutions Amendments Act*—Public Law 93-495

Gives the Federal Home Loan Bank Board the authority to borrow an additional $2 billion. This authority expires in August 1975.

*Vietnam Era Veterans Readjustment Assistance Act of 1974*—Public Law 93-508

Sets up a Veterans Administration education loan fund as a revolving fund to be available for making loans to eligible veterans and dependents training under Chapters 34 and 35, Title 38, United States Code.

*National Health Planning and Resources Development Act of 1974*—Public Law 93-508

Extends the direct loan, loan guarantee and interest subsidies provisions first enacted in the Hill-Burton Act Amendments of 1970. The new act removes the previous statutory limit of $1.5 billion on the amount of outstanding loan principal that may be guaranteed or made directly by the Department of Health, Education, and Welfare. Unlike the prior law, the new act does not make taxable the interest on any loans made to public bodies and sold and guaranteed by HEW.

*Export-Import Bank Amendments of 1974*—Public Law 93-646

Returns the transactions of the Export-Import Bank to on-budget status effective October 1, 1976. The Export-Import Bank was removed from the budget in August 17, 1971.

THE WHITE HOUSE

WASHINGTON

October 21, 1975

MEMORANDUM FOR JIM CANNON

FROM: LYNN MAY Lynn May

SUBJECT: Spending Cuts

I have reviewed the agencies and programs that I have had experience with since I have been working on the Domestic Council Staff. Of these, the three that in my opinion could be eliminated or pruned are as follows:

-- U.S. Postal Service - The Postal Service will likely request $1.7 billion in subsidies from the Federal government for FY 77 (excluding the transitional quarter). Of that figure, approximately $700 million will cover the phasing of rate increases for second and third class mail ($320 million will cover extended phasing as enacted by Congress in 1974). These funds exist by authorization; they are not mandatory.

  The Administration could choose not to request either the extended phasing funds (OMB is already considering this) or the entire $700 million plus, if it is willing to take the heat from aggrieved publishers and non-profit mailers, plus the resultant Congressional pressure. The complete cutting of phasing subsidies would cause mailing costs in second and third class mails to rise from 1¢ to 3¢ a pound, which could have a significant impact on the operations of some publishers and non-profit organizations.

-- Economic Development Administration - EDA, located in the Commerce Department has a budget authorization of $290 million for FY 76. These funds have been appropriated to "reduce the incidence of substantial and persistent unemployment in economically distressed areas in the nation and to aid State and local officials to deal with economic adjustment and development programs." If the Administration is willing to stand-up to the pressure for continuance, there is no reason why some of these funds can't be cut.

-- Government Navigation Systems - In both the military and civilian sides of the Federal government, there has been a proliferation of radio navigational systems, many of which are duplicatory. The Office of Telecommunications Policy is currently initiating an agency review of an outside study which advocates a consolidation of government systems. This could conservatively lead to a $4 billion cost reduction over a twenty year period. I am working with OTP to push this review and achieve agency coordination on the matter.

THE WHITE HOUSE

WASHINGTON

October 22, 1975

MEMORANDUM FOR: JIM CANNON

FROM: DAVID LISSY

SUBJECT: Budget Ideas

One idea, not original with me, is to eliminate the federal subsidy of interest charges for the Guaranteed Student Loan Program for the period of time the student is still in school -- for students who meet a needs test.

If you change the rules only for new students entering the program, your first year savings are only about $50 million. The out year savings would be greater.

The program people at OE dislike this suggestion. They feel it would have a devastating impact on the program, but this would seem to be a considerable over-statement. There are technical problems relating to how the banks bill for the interest charges, but I am told these can be solved. At the present time the banks bill the government directly.

Another idea would be to consider further grants consolidation in programs administered by the Office of Education. This would not reduce spending, but might give greater impact for the same amount of expenditure. I have a meeting scheduled in my office for Friday afternoon to review the options with a number of the senior people from HEW.

THE WHITE HOUSE

WASHINGTON

REQUEST

October 22, 1975

MEMORANDUM FOR: JIM CANNON

FROM: STEVE McCONAHEY SGM

SUBJECT: "Ideas" to Control Federal Expenditures and Improve Program Effectiveness

It is difficult to identify specific transportation programs as candidates for reduction or elimination without making arbitrary judgments about what is and what is not an important Federal responsibility. For example, elimination of Federal financial support for nation-wide rail passenger service would, in my judgment, eliminate a cost ineffective mode of transportation and save the taxpayers money. However, making such recommendations at this time would be arbitrary and capricious. Nonetheless, I do feel there are three general areas which merit study and analyses for possible improvements:

1. Research and Development:

   Transportation is and has been a "hardware" business. In recent years the Federal Government has entered the R&D business in order to stimulate the development of new technology. However, with transportation now gaining momentum on its own and with growing evidence that "non-hardware" solutions (e.g. improved management techniques, increased productivity) can yield equal if not greater improvements, it may be time to rethink the Federal role in R&D and transfer much of the responsibility for additional innovation to the private sector. Consolidating individual agency programs, refocusing development efforts, transferring programs to the private sector, etc., could yield a more appropriate, streamlined, productive and less costly Federal R&D program.

2. Financing Mechanisms:

To date, Federal transportation programs have been funded by trust fund, special contract authority and general appropriation sources. These techniques have either perpetuated the growth of a specific mode beyond the national or local need (e.g. the guarantee of revenues through the Highway Trust Fund has caused overbuilding) or have made difficult the long range planning of capital intensive, multi-year projects (e.g. an urban subway system) because of the uncertainties within the annual appropriation process. The restructuring of these financing mechanisms and the incorporation of new concepts (e.g. value-added return from transportation investments, consolidation of all surface transportation funding) could yield a more rational and flexible method of financing which could in turn permit a community to finance its transportation priorities at a lesser level of funding than is currently flowing through individual, restrictive funding sources.

3. Program Consolidation and Consistency:

Currently, at least five agencies (DOT, HUD, HEW, FEA and EPA) oversee programs affecting the transportation of goods and people within the metropolitan areas of this country. Yet, these individual agency efforts incorporate different types of regulations governing the award of grants, rely upon different local arrangements for planning and execution, provide different shares of Federal assistance and, in some cases, actually duplicate what another agency is doing. I contend that consolidation and simplification of procedures, consistency in Federal "share" and local options, and consolidation of organizational responsibility, etc. would result in a more cost-effective and locally determined transportation investment in our metropolitan areas. This exercise would also help identify where legitimate gaps exist in our current Federal programs. Therefore, I propose establishing an interagency review group (chaired by the Domestic Council and including OMB, DOT, HUD, HEW, FEA and EPA) to analyze existing transportation programs and identify specific initiatives and changes in regulations, legislation, organization and funding. The President could point to this group as an example of how the Administration is attempting to improve and streamline Federal programs in order to make them more responsive to local and national needs and more cost effective.

THE WHITE HOUSE

WASHINGTON

October 22, 1975

MEMORANDUM FOR: JIM CANNON

FROM: ART QUERN

SUBJECT: Cost Reductions

As you know, we are currently reviewing an array of proposals to reduce spending. These include:

1. Controlling health costs.

2. Grant consolidation.

3. Welfare and income transfer consolidation.

4. Higher education funding program consolidation.

Jim, These will be detailed in the next week

THE WHITE HOUSE

WASHINGTON

REQUEST

October 22, 1975

MEMORANDUM FOR JIM CANNON

FROM TOD HULLIN

REQUEST: You have requested ideas on how to maintain the President's $395 billion ceiling and improve the effectiveness and efficiency of Federal programs.

HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS: These programs constitute a reasonably small portion of the budget and significant program cuts may be very difficult to achieve and perhaps unwise. However, I believe there are some initiatives that can be put in place which would reduce outlays. The following ideas are offered for your consideration:

1. Design a property disposition program which allows the Federal government to transfer (sell or give) HUD-owned properties to locally-elected officials for determination as to how this property should be used. HUD owns thousands of properties throughout the country and spends millions of dollars trying to maintain these properties. Early transfer could significantly reduce Federal exposure.

2. Design a program in which all Federally-owned public housing projects are "fixed up" and given to the state or localities in which they are located to manage, operate and pay for. Public housing projects are a never-ending drain on the Federal budget. Operating subsidies have sky-rocketed in the last five years. The Federal government should spend some money now to improve the physical structures and then return the properties to the local governments and force them to manage the properties adequately or pay the consequences, i.e., increase local taxes to pay the costs. Revenue sharing money could be used at the discretion of locally elected officials to assist these housing projects if Federal assistance is needed.

3. Design a program which increases the Federal ability to advise and guide (not dictate) state and local governments on budget practices, management practices, taxation policies and program design. I have the impression that we could get a lot more bang for our dollar at the local level.

4. HUD should implement a general policy in which Federal housing benefits to low-income Americans are only given to individuals who are willing to help themselves. Benefits would be tied to stiff work requirements and realistic assessments of need. This policy would target Federal housing benefits on the upwardly mobile individual. Benefits going to the chronically unemployed and long-term welfare recipient unwilling to help himself would be significantly reduced. Implementation of this policy would require establishing a rather large "pre-counselling" program within HUD. The cost of this service could possibly more than pay for itself by eliminating the high risk individuals from subsidy programs.

In areas of Federal activity where I am unencumbered by knowledge, the following ideas are offered for your consideration:

1. Significantly postpone the environmental deadlines for clean air and clean water. There is some evidence that indicates that the deadlines established by the Congress are causing American businessmen to reprioritize their capital expenditures and spend their capital for environmental improvements instead of industrial expansion which would produce jobs and tax revenue. This is not much of a money saver, but by increasing industrial capacity, revenues could be increased and outlays for unemployment, etc. could be decreased.

2. All welfare and public assistance benefits for low-income Americans should be tied to work incentives and realistic need assessments. Benefits should be given to the individuals who are willing to help themselves. Individuals unwilling to help themselves (but able to do so) would receive significantly reduced or perhaps no Federal assistance. This would require a significant counselling effort; however, I think it would pay for itself.

3. Significantly increase the Federal excise tax on tobacco and alcohol.

4. Significantly reduce foreign aid levels. At a time when the Federal government is being very "hard nosed" with large metropolitan areas and is asking disadvantaged Americans to do more to help themselves, it's difficult to explain why we give away large quantities of American dollars to foreign countries. Either these expenditures should be significantly reduced or we should do a better job of justifying the spending.

5. Consider eliminating ACTION and transferring its remaining useful functions to other agencies. ACTION provides a number of worthwhile and beneficial services and volunteer activities. Does this activity need to be carried on and funded at the Federal level?

6. The NASA budget should be reduced or we should do a better job of justifying it to the American people.

7. All Federal agencies should be required to reduce their Federal travel budget by at least 50%. All trips should be personally authorized by the Secretary or Under Secretary (or head of agency).

THE WHITE HOUSE

WASHINGTON

October 23, 1975

MEMORANDUM FOR: JIM CANNON

FROM: Glenn Schleede Glenn

SUBJECT: Helping to Maintain the $395 Million Spending Level in 1977

In response to your request, here are several suggestions for helping to meet the desired 1977 Federal spending level:

1. ERDA-Energy R&D Spending.

   Stretch out obligations of 1976 funds for Energy R&D. Avoid the temptation to increase 1977 budget authority substantially above 1976.

   - Rationale. We have increased Energy R&D fundings too rapidly for wise use of the funds. This charge applies especially to fusion, fossil, solar and geothermal. ERDA is running behind in 1976 obligations anyway (e.g., only about $15 million of the $500 million in 1976 funds for solar energy R&D have been obligated in the first quarter). Estimated 1977 savings - $300 to $500 million.

   - Problem. Tough political choice. Holding back on Energy R&D funding runs counter to the popularly perceived "energy crisis" situation. Hard work would be necessary to justify the proposed, more deliberate, rate of spending. Also, a slower rate of spending runs counter to the image we have been trying to give internationally that we are going to spend whatever it takes to become energy independent.

2. FEA.

   Hold up on the commitment of 1976 funds for a Federally-sponsored energy conservation media blitz. The energy conservation message in the media is already building up rapidly without a lot of federal money. Estimated savings - $10-20 million.

3. Combine ERDA and FEA.

This wouldn't save much money in 1977 (probably less than $25 million) but it would head off duplication and undesirable forms of competition between the two agencies that are now emerging. The two organizations belong together anyway.

4. NASA.

The choices are tough because (1) NASA budgets have been held down and, (2) normal growth of the space shuttle is commanding more and more of the NASA budget. A major cut will mean either a substantial slip in the schedule for the space shuttle and perhaps cancellation of a major program like Pioneer-Venus. If NASA must be cut, I would suggest:

- Taking another two month slip in the schedule for the shuttle.

- A more severe cut in the NASA "institutional" base -- which was built up to support a major space program (including Apollo) and which remains bigger than is likely to be needed for the future. Dollar savings will be smaller in 1977 ($10-20 million) and NASA will have to lay off more federal and contract employees than planned.

5. General Approach.

As an addition to the selective cuts now being identified, I would suggest consideration of a Presidential directive for some across the board reduction in all federal programs, including even the smallest agencies. The selective cut approach often means that OMB, and top agency management goes after new programs which they happen to know best and for which they feel more confident in predicting impacts. This process often leaves older, entrenched programs untouched. A directive to agency heads for across the board cuts (but with some flexibility left to the agency heads) could give him the support he needs to force cuts in older programs.

Request

# THE WHITE HOUSE

WASHINGTON

October 24, 1975

MEMORANDUM FOR: JIM CANNON

FROM: DAVID LISSY

SUBJECT: Follow up to Budget Ideas Memo

I have had some further conversations on eliminating the interest subsidy of the Guaranteed Student Loan Program -- for that portion of time an otherwise qualified recipient is in school. I am told that the average extra loan burden on the student for ultimate repayment would be about $800 - $850. This assures a student who borrows $1,500 for each of four years. The program people would be most unenthusiastic about any change in the interest subsidy.

827

THE WHITE HOUSE

WASHINGTON

October 27, 1975

MEMORANDUM FOR: JIM CANNON

FROM: GEORGE W. HUMPHREYS

SUBJECT: Potential FY 1977 Budget Reductions

Pursuant to your request, I would suggest that, from our viewpoint, "axe-work" is more easily recommended than "scalpel-work". Thus, I have identified 21 specific projects in two areas that have a potential reduction in FY 77 in excess of $400 million.

The first area includes 20 water resource projects by the Corps of Engineers or the Bureau of Reclamation--total FY 77 requests of $355.9 million. Options of veto, recission, or deferral would change both the short- and long-term savings potential. Specific negative factors are noted in the attached listing (Tab A), and environmental considerations are but one of the criteria used for this recommendation. All were first authorized a number of years ago and exemplify older policies toward navigation, irrigation and flood control. Some also conflict with current Administration policies for cost-sharing and floodplain management.

The second suggestion is a recommendation for deferral of funding for the Clinch River Breeder Reactor (Tab B). $109.5 million is requested for this project, but a reasonable analysis of its long-term impact would not significantly affect our reaching energy goals. The CRBR is a test facility to develop utility and industrial capability of breeder reactors, and to provide an intermediate and engineering scale-up toward a commercial size plant. However, since ERDA does not anticipate commercial application of the Liquid Metal Fast Breeder Reactor until 1990, and since its utility is questionable because of various safety factors and uranium supply projection variances, deferral this year does not work against the public interest.

A

WATER RESOURCE PROJECTS WITH MAJOR ADVERSE IMPACTS

| Project Name and State(s) | Project Purpose | B/C Ratio at 10% | Agency FY 1977 Request | Federal Cost to Complete after 1977 | Adverse Impacts, Other Comments |
|---|---|---|---|---|---|
| Corps of Engineers (cont.) | | | | | |
| Atchafalaya--Bayous Chene, Boeuf & Black La. | local navigation | 1.6 | 3.2 | 8.3 | Disruption of productive coastal marsh and wetland--adverse effects on commercial fisheries, wildlife, water quality. |
| Red River Waterway to Shreveport, La. | navigation | 0.49 | 16.8 | 892.5 | Disruption of over 150 miles of river and over 23,000 acres of fish and wildlife habitat; adverse impacts on endangered species and water quality. |
| Dickey-Lincoln School Lakes Me. | multipurpose | 1.1 | 2.9 | 455.0 | Elimination of over 80,000 acres of timber-producing forest and big-game wildlife habitat, reduction of trout fishing. |
| Meramec Park Lake Mo. | flood control, recreation | 0.9 | 5.0 | 84.2 | Loss of present diverse natural recreation values following inundation of 12,600 acres of bottom-lands and 47 miles of free-flowing streams. |
| La Farge Lake Wisc. | flood control, recreation | 1.06 | 3.0 | 29.5 | Creation of a highly eutrophic reservoir on a free-flowing river; loss of existing recreation. Project is opposed by Governor, both Senators. |
| | Totals, Corps of Engineers | | $159.5 | $4329.1 | |
| | Bureau of Reclamation | | 196.4 | 3568.8 | |
| | | | $355.9 | $7897.9 | (millions) |

WATER RESOURCE PROJECTS WITH MAJOR ADVERSE IMPACTS

| Project Name and State(s) | Project Purpose | B/C Ratio at 10% | Agency FY 1977 Request | Federal Cost to Complete after 1977 | Adverse Impacts, Other Comments |
|---|---|---|---|---|---|
| **Corps of Engineers** | | | | | |
| Tennessee-Tombigbee Waterway Ala. & Miss. | navigation | N.A. | 84.0 | 1,168.0 | Loss of 300 miles of free-flowing stream and of over 40,000 acres of forest, agricultural land and wildlife habitat and scenic recreation areas; siltation problems. |
| Cache River Basin Ark. | flood control drainage | 1.7 | 1.7 | 77.5 | Project will induce clearing of up to 170,000 acres of productive hardwood forest, will destroy excellent fish and waterfowl stream and wetland habitat, degrade water quality. |
| Central & South Florida Fla. | multipurpose | 2.6 | 5.3 | 316.0 | Loss of native vegetation and wildlife, increased transport of pollutants into Everglades National Park, flooding in and around Lake Okeechobee. |
| R.B. Russell (Trotters Shoals) Ga.-S.C | multipurpose | N.A. | 10.3 | 220.0 | Inundation of remaining 30 miles of free-flowing upper Savannah River, creating downstream water quality problems; recreation benefits criticized by GAO. |
| Locks & Dam #26, Alton Ill. | navigation | 1.01 | 0 | 483.0 | Would create pressures to deepen navigation channel, with resultant dredge spoil problems. D.O.T., Wisc. and Minn. oppose. |
| Big Pine Lake Ind. | flood control, recreation | 0.74 | 0.5 | 36.2 | Destruction of scenic natural areas, floodplain forest and farmland, archeologic and historic sites; eutrophication problems. |
| Atchafalaya River Basin La. | flood control | N.A. | 26.8 | 558.9 | Disruption of largest single inland wetland ecosystem in U.S.; adverse downstream effects due to flooding and sedimentation. |

WATER RESOURCE PROJECTS WITH MAJOR ADVERSE IMPACTS



| Project Name and State(s) | Project Purpose | B/C Ratio at 10% | Agency FY 1977 Request | Federal Cost to Complete after 1977 | Adverse Impacts, Other Comments |
|---|---|---|---|---|---|
| Bureau of Reclamation | | | | | |
| Central Arizona Project Ariz. | irrigation, water supply | 0.52 | 73.0 | 1,168.9 | Inundation of nearly 20,000 acres of riparian Indian land and wildlife habitat; increased salinity in Colorado River; excessive water costs. |
| Central Valley Project: Auburn-Folsom South Unit Cal. | multipurpose | N.A. | 43.0 | 764.8 | Elimination of 43 miles of river, 17 archeological sites; reduced flows will harm downstream fish, wildlife and aesthetic values |
| Nebraska Mid-State Div. Neb. | irrigation | N.A. | 0.4 | 195.3 | Alteration of 60 miles of river, damaging important rare waterfowl habitat and river fisheries. |
| O'Neill Unit Neb. | irrigation | N.A. | 0.2 | 157.4 | Inundation of 6,300 acres of farm and ranchland, 19 miles of scenic river and tributaries; further reduction of several rare bird species. |
| Garrison Diversion Unit N.D. | irrigation | 0.56 | 23.6 | 371.0 | At least 73,000 acres of farm and ranchland to be taken for project purposes; large energy requirements, increased saline return flows to Canada and S.D. |
| Oahe Unit S.D | irrigation | 0.52 | 17.2 | 370.0 | Conversion of over 90,000 acres of presently productive land, destruction of 10,000 acres of wetlands channelling 120 miles of James River, soil suitability problems. |
| Palmetto Bend Project Texas | irrigation | N.A. | 17.0 | 17.1 | Inundation of 40 miles of Navidad River and tributaries; degradation of Matagordo estuary; loss of habitat of several endangered species. |
| Central Utah Project: Bonneville Unit Utah | multipurpose | 0.45 | 22.0 | 524.3 | Flooding of 22,000 acres of range and cropland, drainage of 25,000 acres of marsh and wildlife habitat; downstream flow reduction, increased Colorado River salinity. |

B

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON ENVIRONMENTAL QUALITY
722 JACKSON PLACE, N. W.
WASHINGTON, D. C. 20006

October 23, 1975

MEMORANDUM FOR GEORGE HUMPHREYS
DOMESTIC COUNCIL

SUBJECT: Possible LMFBR Program Deferrals

BACKGROUND

Although the Liquid Metal Fast Breeder Reactor (LMFBR) generates electricity in a manner similar to the light water reactor, it differs in two significant ways: First, neutrons produced by fissioning uranium-235 convert U-238 to plutonium-239, a fissible material. In a breeder reactor more Pu-239 is created than is consumed. The excess Pu-239 is extracted from the spent fuel during reprocessing and is fabricated into fresh fuel for more reactors. Second, in the LMFBR liquid sodium is used as a coolant to carry away heat from the core. The heat from the sodium is used to generate steam for electricity. These two principal differences are the basis for concern over the acceptability of the LMFBR. Plutonium, a highly toxic substance, is also material which could be used to fashion crude nuclear devices and must be contained from entering the environment and safeguarded from theft and diversion. Secondly, the sodium coolant, in addition to becoming radioactive, is highly chemically reactive with water. If an accident were to occur in which the sodium came in contact with the core and with water, the consequences of that accident would be many times more serious than from a light water reactor accident. For these reasons, a very carefully developed program for plutonium and sodium handling must take place.

The LMFBR program is part of more than 20 years of basic technology development. The Fast Flux Test Facility (FFTF), Hanford, Washington, is approximately 44 percent completed, with construction scheduled for completion in August 1978. The purpose of the facility is to develop and test high breeding ratio fuels for the LMFBR so that it can realize its fullest potential. It is, in effect, a test bed for evaluating the performance of and demonstrating commercial plant fuel assemblies and core designs. The FFTF will be used to test fuel elements to failure in order to establish the ultimate capability and failure modes. An understanding of the failure modes is essential to establish LMFBR for safety, reliability and performance. Thus, the FFTF will play a key role in LMFBR developments.

The Clinch River Breeder Reactor (CRBR) has as its goal to demonstrate licensability of the LMFBR, to develop utility and industrial capability, and to provide an intermediate point and engineering scale-up toward a commercial-size plant. However, ERDA does not anticipate significant commercial application of the LMFBR until after 1990.

## THE CRBR BUDGET

The total annual ERDA budget authority for the Clinch River Breeder project has gone from $62.6 million in FY75 to $107 million in FY76, and it is proposed at $237.6 million in FY77. The revised total project cost is now $1.95 billion. Criticality of the Clinch River Breeder Reactor is scheduled for 1 October, 1983. Completion of the Nuclear Regulatory Commission's environmental review and final environmental impact statement and hearings for the CRBR project could result in a limited work authorization (LWA) being granted by about August 1976, with site preparation beginning soon thereafter. Approximately $9.5 million is budgeted for site preparation activities to prepare for major construction activities in FY77. Also in FY77, planned investment engineering is $27 million, and development engineering is approximately $73 million; thus a large projected expenditure for the CRBR is scheduled for FY77.

## POSSIBLE DEFERRALS

Deferral of the procurement and construction activities would result in a sizeable savings in FY77, ($109.5 million). Because the LMFBR program is a long-term energy project with commercial introduction scheduled in the 1990's and beyond, deferrals could probably be made to the program which would not significantly affect ERDA's ultimate capability to develop the LMFBR.

In addition, one of the major reasons for pursuing breeder reactor concepts so vigorously arises from current low domestic uranium supply projections. Over the next five years ERDA will be carrying out extensive exploration for new high-grade uranium supplies to verify these projections. Uranium supply data could be subject to substantial revision. Most of the present uranium supply exists as potential reserves rather than known reserves, which have been confirmed by exploration. It is quite possible that over the next five years known reserves will grow many times over. A simple doubling of these resources would assure an additional twenty-year supply of U-235 for the light water reactor industry.

SUMMARY

Because of the uncertainty in uranium reserves and the capability to delay breeder reactor development without jeopardizing its ultimate commercialization, serious consideration could be given to deferrals from the FY77 budget for the CRBR project.

Steven D. Jellinek
Staff Director

MEETING ON FY-1977 BUDGET
Wednesday, November 19, 1975
2:00 p.m.
The Oval Office

OMB APPEALS MEETING W/PRESIDENT

Friday, December 12, 1975
2:00 p.m.

Oval Office

Swap

Rural

Consolidation

OMB APPEALS MEETING
Wednesday, December 17, 1975
2:00 p.m.

Oval Office

OMB Appeals Meeting

2:00 Thursday
December 18, 1975

The Oval Office

OMB APPEALS MEETING
FRIDAY, December 19, 1975
The Oval Office
2:00 p.m.