

The original documents are located in Box C54, folder “Presidential Handwriting, 1/13/1977” of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

Copyright Notice

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Gerald Ford donated to the United States of America his copyrights in all of his unpublished writings in National Archives collections. Works prepared by U.S. Government employees as part of their official duties are in the public domain. The copyrights to materials written by other individuals or organizations are presumed to remain with them. If you think any of the information displayed in the PDF is subject to a valid copyright claim, please contact the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

January 13, 1977

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

JAMES T. LYNN

FROM:

JAMES E. CONNOR *JEF*

SUBJECT:

Exchange Stabilization Budget Status

Confirming phone call to Don Hider of your staff last evening, the President reviewed your memorandum of January 11 on the above subject and approved the "ESF "on budget" in 1979."

Please follow-up with appropriate action.

cc: Dick Cheney



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JAN 11 1977

MEMORANDUM FOR: THE PRESIDENT
FROM: JAMES T. LYNN
SUBJECT: Exchange Stabilization Budget Status

During the review of the 1978 budget, you approved a proposal to include all "off-budget" activities in the budget totals in 1979 and beyond. The Exchange Stabilization Fund (ESF), which is in the nature of a revolving fund and which is administered by the Secretary of the Treasury for the purpose of stabilizing the exchange value of the dollar, would be placed in the 1979 budget totals by this decision. Because it is neither desirable from a policy standpoint nor practicable to forecast the level of future currency transactions (or the gain or loss on such operations) in advance, only the administrative expenses from the fund and its interest income would be included in the current year and budget year totals (i.e., only historical currency transactions would be shown).

The Department of the Treasury is appealing this decision. Unfortunately, the Treasury appeal arrived so late that it is not possible to reflect a revised decision in the 1978 Budget documents (because of printing deadlines). You could, however, after the release of the budget documents, issue a statement revising the decision to place the ESF on budget.

Treasury Appeal - Treasury strongly opposes this proposal and believes it could seriously detract from the government's ability to deal effectively with sensitive international financial and monetary problems--such as the recent crises in the U. K. and Mexico--without providing any corresponding increase in government efficiency or in meaningful information. Treasury summarizes their appeal as follows:

- . Subjecting ESF to budget scrutiny is inconsistent with the unique character of ESF operations and their sensitive, unpredictable and highly contingent nature. Congress has recognized the need for special discretion by placing ESF "under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decisions shall be final and not subject to review by any other officer of the United States."
- . Inclusion of estimates of interest income in budget estimates opens the door to disclosure of the highly sensitive ESF operations, since the income estimates cannot be made except in terms of operations.

- . Moreover, because of their highly contingent nature, it is also impossible to estimate the level of ESF operations in advance and to estimate resulting gains or losses on operations and related interest income.
- . Including administrative expenses in budget totals would unnecessarily subject the related "programs" -- i.e., ESF operations -- to scrutiny and disclosure.
- . ESF administrative expenses are highly unpredictable and have varied widely and so are not amenable to the budget process. They are in any case small, corresponding to less than 1% of the Treasury's appropriated expenditures.
- . The ESF is in the nature of a revolving fund, and is available for all ESF transactions -- including the payment of administrative expenses -- regardless of income. Therefore, if such expenses were included in budget totals, there would not be any appropriate offset in "receipts." ESF income is not an appropriate offset item.
- . Existing vehicles (i.e., GAO audit of administrative expenses, annual report to the President and the Congress, internal Treasury audits and reviews, and policy oversight by Congressional committees) are adequate and appropriate safeguards for ensuring the proper use of ESF resources.

OMB Position - OMB strongly opposes any exceptions to the decision to place all "off-budget" activities "on-budget" in 1979 and beyond. Such an exclusion would inevitably result in a proliferation of Federal programs which are not subject to budget review or control. We do not believe that Treasury has made a compelling argument for excluding the ESF from budget review. In reply to the Treasury appeal:

- . ESF administrative expenses are now subject to no prospective review outside the Department of the Treasury. All other Executive Branch activities (and to limited degrees, Judicial and Legislative Branch programs) would be subject to such budgetary reviews. Programs under review include very sensitive and critical activities relating to national security. We see no compelling reason to exempt ESF administrative expenses from the normal budget allocation process.
- . OMB and some Congressional critics do not share the Treasury belief that present reviews have been adequate and that lower staffing levels and administrative costs could not be achieved if this program were subject to review.

- . ESF administrative expenses have not fluctuated unpredictably in recent periods and are as predictable as operating expenses in the many other contingency programs that are currently included in the budget. (Attachment 1 shows steady rise in these expenses.)
- . The fact that ESF is a revolving fund does not argue for exclusion from the budget totals. All other revolving funds (and there are many) will be included in budget totals.
- . There are no significant conceptual accounting problems in including ESF administrative expenses and interest income "on-budget." Excluding all ESF activities (the Treasury option) clearly presents a greater distortion than including administrative expenses and estimating interest income (the OMB option).

Agency Recommendations

Treasury: ESF should not be placed on budget because this procedure for administrative expenses would subject to scrutiny the related program of monetary operations, and any estimates of future interest income would not only be meaningless but would directly volunteer a detrimental focus on the conduct of the Fund's operations.

OMB: ESF administrative activities and interest income should be subject to the same review as other Federal programs, and therefore should be included in budget totals along with historical outlay data. No estimation or review of currency stabilization transactions is proposed and therefore the Secretary of the Treasury will retain the discretion needed for these activities.

There is insufficient time to exclude ESF activities from budget totals in the budget documents. If you decide to reverse the earlier decision (and exclude ESF from budget totals), a statement, indicating that this decision had been reconsidered and changed, would have to be issued after the budget is released.

Decision: ESF "off-budget" in 1979 (Treasury) _____
 ESF "on-budget" in 1979 (OMB) RR7

THE WHITE HOUSE
WASHINGTON

1-11-77

TO: JIM CONNOR

For Your Information: _____

For Appropriate Handling: X


Robert D. Linder