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CHAPTER VII

Some Fiscal Developments That Affect the Growth of Public Debts

Chapter VI was in large part concerned with a major depression emergency, and in Chapter VIII we will take up the world war emergencies. Some of the fiscal procedures that developed during these two very different kinds of emergencies were quite similar. Emergency procedures constitute a part of the subject of the present chapter.

But there are fiscal developments to be considered here too that are not of an emergency character or that reflect nonemergency as well as emergency influences. In particular, the net indebtedness of the federal government and also the net indebtedness of state and local governments have increased less than they otherwise might have because of the growth of financial assets. Let us take up this development first.

1. *The Growth of Financial Assets*

In the case of the federal government there are two main types of financial asset other than cash: federal credit, which we have already considered, and federal obligations held by federal agencies.

Most of the federal obligations so held are held by the social insurance funds. And federal obligations are the main asset of these funds; in fact with two exceptions they are the only asset other than the cash balance on deposit with the Treasury. The two exceptions are the two veterans' life insurance funds; their assets include loans to veterans, but as of December 31, 1953, government obligations made up over 94 per cent of their assets.

Table 38 summarizes the growth of federal social insurance funds. Between 1939 and 1945, while the first three funds listed were quite new, total assets were increasing at the rate of nearly \$3 billion per year. Between 1951 and 1954 the average annual increase was \$2.3 billion. Federal nonfinancial surpluses in recent years (see Table 5) can fairly be said to be mainly the result of the growth of the social insurance funds.

If one adds to the balance in the general fund total federal credit and the federal obligation held by federal social insurance funds, the result will represent most, but not quite all, of the difference between gross and net federal debt. In Chapter VIII we will consider the components of this difference further.

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TABLE 38

Assets in Federal Social Insurance Funds at Selected Dates, 1929-54
(as of December 31, millions of dollars)

	1929	1939	1945	1951	1954
A. Old Age and Survivors Insurance Fund	0	1,724	7,121	15,540	20,576
B. Railroad Retirement Account	0	148	644	2,695	3,441
C. Unemployment Trust Fund	0	1,525	7,537	8,526	8,744
D. Veterans' life insurance funds ^a	424	1,015	5,180	6,694	6,533 ^d
E. Government employees retirement funds ^b	116 ^c	553 ^d	2,195 ^d	4,820 ^d	5,997 ^d
F. Total	540	4,965	22,677	38,275	45,291

^a National Service Life Insurance Fund and Government Life Insurance Fund. Excludes non-ledger assets of latter.

^b Civil Service Retirement and Disability Fund and Foreign Service Retirement and Disability Fund.

^c June 30.

^d Estimated.

SOURCE: See Appendix A.

TABLE 39

Cash and Securities in Various State and Local Government
Funds at Selected Dates, 1915-50
(fiscal year-ends, billions of dollars)

	1915	1929	1937	1942	1950
A. General funds (cash only)	0.4	1.9	2.7	3.3	7.7
B. Sinking funds	0.8	2.9	2.2	2.0	3.0
C. Retirement funds	0.2	0.4	1.1	1.9	4.6
D. Investment and miscellaneous trust funds	0.4	1.8	1.4	1.8	7.5
E. Total cash and securities	1.8	7.0	7.4	9.0	22.8

NOTE: These figures do not include the balance in the Unemployment Compensation Fund. Nor do they include real estate. This latter item is negligible except for investment and miscellaneous trust funds. Of the \$1.8 billion on line D, 1942, school trust funds accounted for nearly \$0.75 billion, workmen's compensation funds for \$0.26 billion.

SOURCE: See Appendix A.

Most social insurance funds are federal. But state and local government retirement funds amounted to more than \$4.5 billion in 1950 and state-administered workmen's compensation funds to more than \$600 million. Also, although there is little that could be called state or local credit, there have come to be substantial investment and endowment funds (including the endowment funds of libraries and educational and

other institutions). The growth of the cash and security holdings of various types of state and local funds, 1915-50, is summarized in Table 39.¹

As in the case of the federal government, because the volume of transactions of such special funds—trust, investment, and endowment funds—and of business-type government enterprises has become large, it is necessary to distinguish between budget or general government surpluses and deficits and total nonfinancial transaction surpluses and deficits.

2. *Emergency Fiscal Developments*

Somewhat tardily the federal government followed the example of many states and cities when the Budget and Accounting Act was approved on June 10, 1921. In a sense this act meant a strengthening of the executive, for it established in the executive a central agency for fiscal planning and administrative management, an agency which by Reorganization Plan I under the Reorganization Act of April 3, 1939, became the main organization unit in the Executive Office of the President. But if the executive was strengthened it was not at the expense of the legislative branch. The Bureau of the Budget performs functions which could not be effectively performed by congressional committees. So does the General Accounting Office, though by the terms of the 1921 act this agency is "independent of the executive departments and under the control and direction of the Comptroller General of the United States."²

Both before and after the 1921 act Congress controlled the way government money was spent through the exercise of its appropriating power. Each executive department and independent office prepared its estimates. In the appropriation act Congress specified the amount of money made available—it might be more or less than the estimated amount—and specified the agency to which it was made available, the period during which it was to be available (ordinarily a particular fiscal year), the purpose or purposes for which it could be used, and the objects on which it could be spent (personal services, purchase of equipment, printing and binding, etc.). Preaudits or postaudits determined that the money was spent in accordance with the provisions of the appropriation act.

But these appropriation procedures take a considerable amount of time. And since the 1921 act rather more time is required than was required previously—time for Bureau of the Budget hearings on the estimates before they are transmitted to Congress. Hence an agency that

¹ Since 1950 such holdings have increased markedly. At the close of the 1956 fiscal year the total had grown to \$38 billion, \$12.6 billion of this being in retirement and other social insurance funds. See Bureau of the Census, *Summary of Government Finances in 1956*, Table 19.

² The act transferred to the newly established GAO the auditing functions and certain accounting functions previously vested in the Treasury.

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TABLE 40
Federal Recovery and Relief Funds and Expenditures, 1934-38

	Allocations of Emergency Appropriations (1)	RFC Funds (2)	Specific Appropriations (3)	Total Source to 6/30/38 (4)	Budget Expenditures to June 30, 1938 Out of These Funds (5)	Out of Other Funds (6)
A. Federal Emergency Relief Administration ^a	2,172	911	0	3,083	3,078 ^b	0
B. Civil Works Administration	732	89	0	821	817	0
C. Civilian Conservation Corps	1,232	0	773	2,005	1,975 ^c	0
D. Works Progress Administration ^d	4,680	0	0	4,680	4,480	0
E. National Youth Administration ^e	155	0	0	155	153	0
F. Public Works Administration ^f	1,147	0 ^g	0	1,147	857	88 ^h
G. Agricultural Adjustment Administration	37	0	161	198	198	1,563
H. Farm Credit Administration ^j	167	186	58	411	359	64 ^k
I. Commodity Credit Corporation	3	367	94	464	217	0 ^h
J. Farm Security Administration ^m	586	0	0	586	536	0
K. Rural Electrification Administration	15	47	0	62	50	0 ^h
L. Bureau of Public Roads ⁿ	84	0	0	84	84	1991
M. Department of Agriculture n.e.c. ^j	945	0	0	945	1,146	01
N. Corps of Engineers, War Department ^j	513	0	255	1,200	501	01
O. Puerto Rico Reconstruction Administration	50	0	0	50	40	0
P. Tennessee Valley Authority	75	0	0	75	75	0 ^h
R. National Recovery Administration	24	0	0	24	24	0
S. Other agencies	1,489 ^m	107	83	1,679	1,553	0 ^h
T. Total	14,106	1,707	1,424	17,237	16,163	1,914

^a Expenditures include expenditures by Federal Surplus Commodities Corporation from funds provided by FERA.

^b Includes \$38 million spent in 1933.

^c Includes \$9 million spent in 1933.

^d Subsequently called Works Projects Administration.

^e NYA administrative expenses are included with WPA.

^f Includes United States Housing Authority.

^g Includes \$1 million unallocated.

^h Agency operated as a revolving fund. Expenditures are reported net of receipts. Apparently a not fully identified part of the excess of expenditures or receipts shown in column 5 for TVA, CCC, and REA was not, as of 1938,

classified as general and special account (or budget) expenditures.

ⁱ Emergency expenditure programs only.

^k Excludes emergency expenditures of \$136 million during 1932-33. FCA operated as a revolving fund.

^m Originally called Resettlement Administration. Includes allocations and expenditures a/c subsistence homesteads.

ⁿ There were \$2,260 millions of emergency expenditures in 1934-38 other than those listed in column 5.

Note: Column 1 covers the following appropriation acts: Fourth Deficiency Appropriation Act (June 16, 1933); Emergency Appropriation Act (June 19, 1933); Emergency Relief Appropriation Act (April 8, 1933); Emergency Relief Appropriation Act (June 22, 1936); First Deficiency Appropriation Act (February 9, 1937); Emergency Relief Appropriation Act (June 29, 1937); and Supplemental Appropriation (March 2, 1938).

Source: See Appendix A.

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operates with only a regular annual appropriation may prepare its estimates in August for the entire year beginning on the following July 1. In either a war emergency or an emergency like that of the 1930's this is likely to be considered too slow a process, and strong pressure toward short cuts is the inevitable result. The short cuts adopted have taken various forms, but in general they mean a strengthening of the executive that does take place at the expense of the legislative branch; they mean that *de facto* Congress delegates some of its control of government expenditures to the executive.

One form of short cut may be called the blank-check appropriation, although what is left blank is not the amount but the payee and the precise purpose. The Fourth Deficiency Appropriation Act (1933), is a good example. It made available until June 30, 1935, \$3.3 billion "to be expended in the discretion and under the direction of the President" mainly to implement the National Industrial Recovery Act (1933), but not to exceed \$50 million for the TVA. This act created something of a palace politics problem in the executive branch to determine who was to spend the money. Part of it went to agencies not in existence at the time the act was passed.

In theory the executive is restrained from establishing new agencies without specific statutory authorization. But during the 1930's a good many agencies were created by executive order under the broad provisions of emergency legislation and were financed at first by allocations out of blank-check appropriations. In subsequent years, if the agencies were continued, there were specific congressional authorizations and appropriations for them. Among the agencies created under executive discretion during the 1930's and financed for a time by executive allocations³ are: the Civil Works Administration, the National Youth Administration, the Civilian Conservation Corps,⁴ the Farm Security Administration,⁵ the Commodity Credit Corporation,⁶ the Works Progress Administration,⁷ the Rural Electrification Administration, the Electric Home and Farm Authority,⁸ the (first) Export-Import Bank, the RFC Mortgage Company,⁹ and the Federal National Mortgage Association.

In addition to the \$3.3 billion act in 1933 there were six large blank-check appropriations during the five following years that made available for the somewhat elastic purposes of recovery and relief (but not for the normal functions of government) a total of nearly \$11 billion. Table 40

³ Including the RFC stock subscriptions discussed below.

⁴ At first called Emergency Conservation Work.

⁵ Originally called the Resettlement Administration.

⁶ This corporation originally had a Delaware charter.

⁷ Later renamed Works Projects Administration.

⁸ This authority originally had a Delaware charter.

⁹ A national mortgage association under Title III of the National Housing Act.

shows how, under the discretion of the President, these funds were allocated.¹⁰ Specific emergency appropriations during 1934–38 to the agencies identified are included, also certain allocations of funds by the RFC. If one were to infer on the basis of this table that for five years the control retained by Congress over the emergency recovery and relief funds was confined for the most part to fixing the total amount, he would not be far wrong. But it should be noted that there was a tendency to bring the emergency agencies under regular fiscal procedures, realized earlier in the case of the AAA, FCA, and Civilian Conservation Corps than in that of the other emergency agencies in Table 40. It should be noted, too, that Congress did not in any effective sense fix the total of the RFC funds shown in column 2.

The blank-check device clearly involved a *de facto* delegation of a part of the appropriating power to the executive. Another device to the same effect may be called developing emergency activities outside the budget. We propose to use this language first to describe certain developments during World War I, even though there was at that time no formal, executive budget. In general, control of an agency's expenditures through the appropriating power requires that the agency shall be dependent on appropriations for the money it spends. To the extent that it has non-financial receipts of its own, or power to borrow on its own (or float an issue of stock), it is outside the control of the appropriating power and may fairly be said to be outside the budget. During World War I a number of corporations and agencies were established that had sources of funds other than appropriations. Their expenditures were not reported as federal expenditures, or were incompletely so reported. In the case of the War Finance Corporation and other corporations subscriptions to capital stock were reported as federal expenditures, retirements as federal receipts. In the case of the Railroad Administration the excess of expenditures over receipts was reported as a federal expenditure. However, these wartime agencies and the Russian Bureau of the War Trade Board maintained checking accounts with the Treasurer of the United States. The amounts of checks drawn on these accounts up to the end of October 1920 are shown in Table 41. Except for the Railroad Administration they probably give a reasonable indication of the volume of business transacted.

It did not seem appropriate to include the federal land banks and joint-stock land banks in Table 41, since these "government corporations" had many of the attributes of a private enterprise. Certainly they were outside the budget at the time, particularly the joint-stock land banks, which were technically government corporations mainly in the sense that

¹⁰ But there were some suballocations. Thus, although most WPA projects were operated by nonfederal agencies, there were also federal projects. Up to June 30, 1938, \$130 million was spent on federal projects.

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they could issue tax-exempt obligations. Beginning in 1933 these banks were gradually liquidated. The connection of the federal land banks with the government was closer, but still rather indirect. Among the connecting links may be mentioned the fact that the distress refinancing of the 1930's included substantial subsidies to these banks. However, after the depression

TABLE 41
World War I Government Corporations and Business-Type Agencies
(millions of dollars)

	Checks on Account with Treasurer of U.S. Prior to October 31, 1920 (1)	Authorized Capital and Debt (2)	Stock Held by U.S. June 30, 1920 (3)
A. Emergency Fleet Corporation	5,965	50	50
B. U.S. Housing Corporation	135	70 ^a	66.5 ^b
C. War Finance Corporation	2,998	700 ^c	119 ^b
D. U.S. Grain Corporation	902	500	150 ^b
E. Sugar Equalization Board	^d	5	5
F. Russian Bureau of War Trade Board	13	^e	^e
G. Railroad Administration	1,812	^f	^f
H. Total	11,825	1,325	390.5

^a Total issued.

^b Amount retired equals excess of column 2 over column 3.

^c Authorized capital \$500 million, authorized debt \$200 million.

^d The Sugar Equalization Board did not maintain a deposit account with the Treasurer.

^e Not a corporation. No securities issued.

^f Not a corporation. No stock issued. But in 1919 the Administration borrowed from the WFC to tide over a temporary emergency due to delay in congressional action on its appropriation.

NOTE: The data for this table are from Secretary of the Treasury, 1920 *Annual Report*, pp. 237 and 320, except for the borrowing power of the War Finance Corporation. On this see the Corporation's 1919 *Annual Report*.

emergency there appeared to be no reason for continuing their connection with the government; the federal proprietary interest in them ended June 26, 1947.

A number of the agencies created during the 1930's—both those that were creatures of Congress and those originating in the executive branch—were to some extent outside the budget. All the corporations and credit agencies shown in Table 42 had operating incomes of their own. And it will be observed that the initial capital of many of them was subscribed either by the RFC or through an allocation out of a blank-check appropriation. However, a zero entry in column 11 does not necessarily imply absence of specific action by Congress. In the case of the federal home

TABLE 42
Government Corporations and Credit Agencies—1940 Balance Sheets and Operating Incomes^a
(millions of dollars)

	Net Loans to Government Agencies (1)	Other Loans and Securities (2)	Tangible Assets (3)	Bank Deposits, Current Receipts, and Other Assets (4)	Total Assets = Total Claims (5)	Securities Held by Public (6)	Accounted Interest Payable and Other Liabilities (7)	Net Borrowed from Other Government Agencies (8)	Capital Subscribed by Government			Surplus Reserves (12)	Operating Income (13)	
									by RFC (9)	by Relief Allo- cation (10)	by Specific Appropriations (11)			
A. Federal Deposit Insurance Corporation	364	24	23 ^c	60	471	139	2	0	0	0	0	150	180 ^b	54
B. Export-Import Bank of Washington	0	52	0	28	80	0	0	0	74	1	0	0	0	12
C. Tennessee Valley Authority	0	0	319	6	325	0	4	52	0	75	194	0	0	11
D. United States Maritime Commission	1	48	21 ^c	128	198	0	34 ^c	0	0	0	164	0	0	5
E. Disaster Loan Corporation	0	22	0	1	23	0	0	0	24 ^d	0	0	0	-1	0
F. Federal Housing Administration	35	0	7	19	61	9	2	0	11	0	0	0	-31 ^e	19
G. Federal National Mortgage Association	0	163	1 ^c	4	168	85	4 ^c	63	11	0	0	0	5	0
H. RFC Mortgage Corporation	0	58	0	2	60	0	0	35	25	0	0	0	-7 ^e	3
I. Home Owners' Loan Corporation	2,169	0	426	9	2,604	2,524	31	25	100 ^f	0	0	0	-7 ^e	124
J. Federal Savings and Loan Insurance Corporation	123	0	0	2	125	0	1	0	100 ^f	0	0	0	0	3
K. Federal home loan banks	90	157	0	13	260	91	34	0	125 ^d	0	0	0	74	6
L. United States Housing Authority	40	83	128	1	252	113	0	0	0	0	0	0	19	5
M. Commodity Credit Corporation	0	133	380	21	534	406	3	25	9 ^d	3	0	0	-6	6
N. Farm Credit Administration	12	74	0	6	92	0	0 ^c	0	0	0	0	130	-102 ^e	7
O. Federal Farm Mortgage Corporation	747	669	12	44	1,472	1,258	14	0	64 ^d	0	0	0	0	12
P. Federal land banks	0	1,857	90	233	2,180	1,062	31	676	200 ^d	0	0	313	96 ^h	62
Q. Federal intermediate credit banks	69	231	0	20	320	197	2	0	46 ^d	0	0	90	21	3
R. Production credit corporations	46	75	0 ^c	1	122	0	0 ^c	0	45 ^d	0	0	0	70	3
S. Federal agricultural credit corporations	13	6	0 ^c	1	20	0	0 ^c	0	25 ⁱ	0	0	0	-3 ^k	0
T. Regional agricultural credit corporations	103	60	0 ^c	6	169	3	0 ^c	0	0	0	0	0	16	3
U. Banks for cooperatives	0	220	0	2	222	0	0	127	0	15	80	0	0	4
V. Rural Electrification Administration														
W. Total above	1,643	6,101	1,407	607	9,758	5,887	163	1,003	1,011	236	1,316	142	142	416

^aBalance sheet as of June 30; income during year ending June 30.

^bOperating reserve.

^cLess than \$500 thousand.

^dIn accordance with the act approved February 24, 1938, the Treasury subsequently canceled the indebtedness incurred by the RFC to finance this expenditure and the RFC (in the case of the corporations) transferred the stock to the Treasury.

^eResidual figure. Balance sheet shows no deficit.

^fRFC subscribed \$200 million to HOLC; HOLC \$100 million to FSLIC. Note 4 applies to the \$200 million.

^g\$170 million had been appropriated to CCC for restoration of capital impairment (net after deducting surplus distributions of \$44 million to the Treasury).

^h\$173 million had been appropriated to those banks for reduction of interest rates on mortgages.

ⁱIncludes \$17.4 million for expenses. Note 4 applies to the \$25 million.

^jResidual figure. Balance sheet shows a deficit of \$1.4 million.

^kBy Agricultural Marketing Act revolving fund.

SOURCE: See Appendix A.

loan banks, for example, an amendment to the RFC's organic act authorized the \$125 million subscription.¹¹ But most of the zero entries signify outside-the-budget capital funds. And the table shows two other major sources of funds that are outside the budget: net borrowing from other agencies and net sales of securities to the public. Of course, when an agency has been specifically authorized by Congress, its borrowing power will in general have a statutory upper limit, or, as in the case of the RFC during most of the 1930's, various upper limits for various specified purposes. But the limits may be wide. As of June 30, 1940, the HOLC, FFMC, and CCC together had authorized borrowing power of more than \$8 billion. This may be compared with the statutory limit of \$45 billion imposed on direct federal debt during the late 1930's.

The RFC was left out of Table 42; a fuller treatment of this corporation seemed advisable. Table 43 is a rough statement of sources and uses of RFC funds during two periods, from its inception to June 30, 1940, and from June 30, 1940, to June 30, 1946. During the earlier period total sources exceeded \$4.5 billion. Half this total was net borrowings from the Treasury.¹² Although established to make loans on essentially a commercial basis, nearly 40 per cent of its funds during the period went into relief and subsidies (the subsidies were to regional agricultural credit corporations).

The table covers operations of subsidiary corporations to the extent that these are revealed in the 1946 financial statement. The wartime subsidiaries were particularly important. Under an amendment to its organic act, approved June 25, 1940, the RFC organized the Metals Reserve Corporation, Rubber Reserve Corporation, Defense Plant Corporation, Defense Supplies Corporation, War Damage Corporation, U.S. Commercial Company, and Petroleum Reserves Corporation.¹³ Thus provision was made for a \$7 billion munitions plant construction program; for investing nearly \$1 billion in stockpiles of strategic materials; for spending some \$200 million on a preclusive buying program; and for practically \$3 billion in direct subsidy payments, all essentially outside the budget.¹⁴ Because of the special interest attaching to the delegation of (negative) taxing power involved in this last program a note on the subject, prepared by Richard S. Martin, is appended to this chapter.

¹¹ The form of the action taken by Congress here means the appropriation committees held no hearings on the item.

¹² Net of the increase in most government and government agency obligations held by the RFC.

¹³ The two last named were transferred in 1943 to the Office of Economic Warfare, which office was shortly consolidated into the Foreign Economic Administration. In 1945 these two corporations and the Rubber Development Corporation (originally chartered by the RFC in Delaware) were transferred back to the RFC for liquidation.

¹⁴ The RFC kept Congress informed of its operations except to the extent that information concerning them was classified for national security reasons.

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But if Congress did not authorize these huge expenditure programs by appropriating the money for them before they could be carried out, it was called upon to approve them after the fact. Under acts of February 24,

TABLE 43
Total RFC Sources and Uses of Funds, from
Inception to June 30, 1946
(millions of dollars)

	2/20/32 to 6/30/40	6/30/40 to 6/30/46
SOURCES OF FUNDS		
A. Net borrowing from other federal agencies	2,334	9,443
B. Reimbursements by other federal agencies a/c "defense" plants	0	1,365
C. Net borrowing in the market	1,093	-1,093
D. Net operating receipts	471	1,437
E. Initial capital subscription	500	-175
F. Other sources	240	276
G. Total above	4,638	11,253
USES OF FUNDS		
H. Net increase in cash and receivables	30	168
J. Invested in capital assets	^a	8
K. Invested in miscellaneous property	42	-42
L. Net increase in loans and preferred stock held	1,791	-507
M. Subscriptions to capital of other government corporations	619	14
N. Relief expenditures	1,782	0
P. "Direct" subsidies	17	2,981 ^b
Q. Invested in defense plants	0	6,868
R. Invested in strategic materials, etc. ^c	0	1,135
S. Interest expense	265	383
T. Administrative expense	74	174
U. Other uses	16	72
	4,636	11,254
V. RFC notes canceled	1938 and 1941 acts 2,786	1947 and 1948 acts 10,063
W. Cash recoveries and assets transferred to other agencies	1,491 ^d	995

^a Less than \$500,000.

^b Chiefly food subsidies.

^c Includes preclusive procurement.

^d Includes some assets transferred under later acts.

SOURCE: See Appendix A.

1938, and March 28, 1941, nearly \$2.8 billion of RFC notes issued to finance expenditures during the earlier period and held by the Treasury were canceled. At the same time the securities and other assets acquired by the RFC through these expenditures were transferred to the Treasury

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or other federal agencies. During 1947 and 1948 a number of acts were passed authorizing additional RFC note cancellations totaling over \$10 billion and directing the RFC to make the additional property transfers appropriate thereto. Transferred securities and other properties valued at \$744 million were retained; most of these had been transferred under the 1938 and 1941 acts. Other properties were liquidated; about three-quarters of a billion was realized under the 1938 and 1941 act transfers, nearly a billion from the later transfers.

A sources and uses of funds statement for the Commodity Credit Corporation would be of considerable interest; for the CCC is the principal other agency that has operated on an appropriation-after-the-fact basis. But it would be extremely difficult to piece such a statement together. As a substitute, Table 44 gives a record of the after-the-fact acts of Congress¹⁵ to restore the corporation's capital impairment. Before World War II it engaged principally in making loans on agricultural commodities to promote orderly marketing and iron out year-to-year variations in prices and supplies. During the war its activities were expanded to include purchases for use by the United States and by foreign governments, purchases for surplus disposal, price support purchases and nonrecourse price support loans. An act approved March 8, 1938, provided for maintaining the corporation's capital unimpaired at \$100 million through an appraisal by the Secretary of the Treasury as of March 31 of each year of its assets and liabilities (in 1945 the appraisal date was changed to June 30). Under the 1938 act as amended, if what the CCC spends during the year results in the appraisal's showing a deficit in the corporation's net worth, an estimate in the amount of the deficit is incorporated in the budget for the second following year.¹⁶ If, however, the appraisal shows a surplus, the surplus is returned to the Treasury. As the table indicates, in addition to the regular annual provisions for the restoration of capital impairment (during 1938-54 there were only four surplus years), Congress has recently made after-the-fact provisions of funds in connection with several special programs. And besides the reimbursements covered by the table, there was a somewhat larger total of executive reimbursements for operations by the corporation as a procurement agent.

This review of the short cuts in fiscal procedures resorted to during the two world wars and the 1930's has focused on the development of outside-the-budget activities in all three periods and on blank-check appropriations in the 1930's. There were indeed blank-check appropriations during both wars, though as here defined they played a smaller role

¹⁵ Technically some of these are called cancellations of obligations, some of them appropriations.

¹⁶ The lag of appropriation behind appraisal was less than five months in the case of the 1938, 1939, and 1941 appraisals.

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than in the depression emergency. And there were other short cuts in fiscal procedures. Among them were very large appropriations without very precise specifications passed with anything but detailed hearings.¹⁷

TABLE 44
CCC Capital Reimbursements and Surplus Distributions, 1938-54
(millions of dollars)

<i>Restorations of capital impairment</i>	
1938	94
1940	120
1942	2
1945	257
1947	1,563
1951	67
1952	421
1953	109
1954	646
Total restorations	3,279
<i>Less surpluses returned to the Treasury</i>	
1940	44
1942	28
1948	18
1949	49
Total returned	138
<i>Plus other capital reimbursements</i>	
Losses on commodities, Foreign Aid Act of 1947	56
Foot and mouth disease eradication program	53
Costs of operations under International Wheat Agreement Act of 1949	483
Total other capital reimbursements	593
<i>Net capital reimbursements</i>	3,702

NOTE: This table is derived from information in Secretary of the Treasury, 1954 *Annual Report*, p. 652. Annual figures refer to fiscal years. Table excludes a larger total of reimbursements for procurement of commodities for government use under lend-lease, etc. Details may not add to totals because of rounding.

We may note, too, that funds appropriated for a particular fiscal year or other period will lapse if not legally obligated by a contract or other definite expenditure commitment made during the period; in general

¹⁷ The Third Supplemental National Defense Appropriation Act of 1942 (December 17, 1941), was for \$9.1 billion; the Fourth Supplemental (January 30, 1942), for \$12.5 billion; the Fifth Supplemental (March 5, 1942), for \$30.4 billion; the Sixth Supplemental (April 28, 1942), for \$18.9 billion. There were also seven very large regular appropriation acts during 1942-45: the Military Appropriation Act (1942), \$10.4 billion; the Military Appropriation Act (1943), \$42.8 billion; the Naval Appropriation Act (1943), \$23.7 billion; the Military Appropriation Act (1944), \$59 billion; the Naval Appropriation Act (1944), \$27.6 billion; the Military Appropriation Act (1945), \$15.4 billion; and the Naval Appropriation Act (1945), \$27.6 billion.

the commitment when not a formal contract must bind the two parties much as a formal contract would.¹⁸ But very indefinite expenditure commitments by the War and Navy Departments were taken to obligate appropriated funds during World War II.

This is certainly not an exhaustive list of the fiscal procedure short cuts; but what has been said should suffice to show that expenditure controls were significantly relaxed during the three emergencies, and that in effect important aspects of the appropriating power were delegated to the executive.

The outside-the-budget device, like that of the blank-check appropriation, was an emergency expedient of a temporary nature. In both cases there was the tendency to revert to normal fiscal procedures. Under the definitions of budget receipts and expenditures that prevailed from 1938 until 1945 (then called general and special account receipts and expenditures) the principal expenditures included in connection with government corporations were those for capital stock subscriptions and capital reimbursements. It is true the Budget included certain estimates for trust, etc. accounts as well as estimates for the general and special accounts and that among these were some estimates for corporation administrative expenses and for limitations on lending power.¹⁹ But in accordance with the Government Corporations Control Act (1945), the definitions were revised to bring corporations back under the budget and under audit by the General Accounting Office.²⁰ And the Public Debt Act (1945), in setting a new statutory limit of \$300 billion, brought those agency obligations fully guaranteed by the United States under this limit.

Indeed, even before these 1945 acts there were steps taken in this direction. Between 1930 and 1941 the obligations of government agencies held by the public had increased from \$2 billion to \$8 billion.²¹ During

¹⁸ *Budget-Treasury Regulation No. 1* (June 1952) provides in regard to letters of intent, "Where such letters constitute binding agreements under which the contractor is authorized to proceed, obligations will cover the amount indicated in the letters. If the letters merely indicate an intention on the part of the Government to enter into a contractual relation at a later date the amounts involved will not be treated as obligations."

¹⁹ The estimates in the 1945 Budget for the RFC and CCC were for administrative expenses only and totaled less than \$18 million.

²⁰ See the note on surplus and deficit concepts at the end of this chapter.

²¹ Figures for 1945, 1950, and 1954 are computed as follows:

A. Securities of federal instrumentalities not guaranteed by U.S. (Table 48)
 minus B. Such securities held by U.S. government in investment accounts (Table 48)
 plus C. Guaranteed agency obligations held outside the Treasury (Table 16)
 plus D. Private proprietary interest in government corporations (Table 76)
 equals E. Total federal agency bonds, notes, debentures, and capital stock held by the public.

All figures are as of June 30. Table number references are to Secretary of the Treasury, 1954 *Annual Report*. Of the \$1.5 billion held by the public as of June 30, 1954, only \$81 million were included in the general statutory debt limit.

the war a policy of contracting these then outside-the-debt-limit obligations was put into operation. On June 30, 1945, the volume held by the public was down to \$1.9 billion; five years later it was below \$1 billion.²² It is true that more recently this volume has increased again. On June 30, 1954, there were public holdings of \$1.5 billion. However, this total consisted of: (a) debentures of the FHA fully guaranteed by the United States, (b) obligations and private proprietary interests of banks for cooperatives and federal home loan banks, (c) obligations of federal intermediate credit banks, and (d) a small amount of matured HOLC and FFMC obligations. It seems fair to say that financing the activities of federal agencies by sales of securities to the public, 1945-54, was essentially confined to the financing of portfolio additions by government financial institutions.

3. Summary

The growth of social insurance funds in recent years has made non-financial deficits significantly smaller than budget deficits for state and local governments as well as for the federal government.

The growth of endowment and investment funds has had a like effect in the case of state and local governments.

Various fiscal devices resorted to during the two world wars emergencies and the depression emergency of the 1930's have amounted to *de facto* temporary delegation of a substantial part of the appropriating power of Congress to the federal executive branch. Such devices include: (a) appropriations that permitted the President to determine the purposes for which the funds were to be spent and the agencies that were to spend them, and (b) granting agencies powers that meant outside-the-budget sources and uses of funds. During World War II *de facto* delegation also took the form of appropriating very large sums for war purposes with the ordinary peacetime controls somewhat relaxed.

Had the emergency developments in respect to appropriation procedures been paralleled by analogous emergency developments in the levying of taxes, this chapter would have included another section. But the fact of the matter is that Congress has been far less ready to concede emergency short cuts in the legislative process of levying taxes than in that of making appropriations. We will follow one important implication of this fact in Chapter VIII.

4. *A Note on RFC Subsidy Payments, 1940-46, by Richard S. Martin*

This note concerns the approximately \$3 billion paid in direct subsidies by the Reconstruction Finance Corporation as a result of World War II (see Table 43). Interest in these payments arises particularly from the

²² See footnote 21.

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delegation by Congress of control over the subsidy program. This delegation of what is essentially negative taxing power is in contrast to the historical reluctance of Congress to delegate positive taxing power.

THE DEFENSE PERIOD

During the defense period the RFC became involved in the government's program to ease shortages of strategic and critical materials. In June 1940 the organic RFC Act was amended to authorize the creation of one or more subsidiary corporations whose powers would include authority to "... produce, acquire, and carry ..." these materials.²³ In June 1941 these powers were broadened to allow the corporations to "... produce, acquire, carry, sell, or otherwise deal in strategic and critical materials ..." ²⁴ The grant of these broader powers occurred after the passage of the Lend-Lease Act in March and the declaration by the President on May 27 of an unlimited national emergency. Despite the broad powers of the June 1941 amendment, however, the RFC prior to Pearl Harbor refused to engage in even indirect subsidies for strategic and critical materials.²⁵

THE WAR PERIOD

Direct subsidy payments were explicitly authorized by Congress in the Emergency Price Control Act of 1942.²⁶ According to section 2(e):

"Whenever the [Price] Administrator determines that the maximum necessary production of any commodity is not being obtained or may not be obtained during the ensuing year, he may, on behalf of the United States, without regard to the provisions of law requiring competitive bidding, buy or sell at public or private sale, . . . or make subsidy payments to domestic producers of such commodity in such amounts and in such manner and upon such terms and conditions as he determines to be necessary to obtain the maximum necessary production thereof: *Provided*, That in the case of any commodity which has heretofore or may hereafter be defined as a strategic or critical material . . . such determinations shall be made by the Federal Loan Administrator, with the approval of the President, and, . . . such commodity may be bought or sold, or stored or used, and

²³ Act approved June 25, 1940 (54 Stat. chap. 427, pp. 573-74).

²⁴ Act approved June 10, 1941 (55 Stat. chap. 190, pp. 249-50).

²⁵ Thus the RFC would not purchase copper from marginal producers at premium prices until arrangements had been made, in this case under the lend-lease program, to dispose of the copper at a gain rather than a loss. See testimony of Leon Henderson before the Senate Committee on Banking and Currency during hearings on the Emergency Price Control Act of 1942.

²⁶ Act approved January 30, 1942 (56 Stat. chap. 26, pp. 26-27).

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such subsidy payments to domestic producers thereof may be paid, only by corporations created or organized pursuant to section 5d [of the RFC Act]”²⁷

In addition to this exclusive responsibility for action with strategic and critical materials, the RFC was soon directed to purchase or subsidize other commodities when requested by the Price Administrator.²⁸

Rather curiously, the broad authorization for direct subsidy payments contained in the Emergency Price Control Act of 1942 was added almost as an afterthought and aroused little interest in Congress. Neither the House version of the original bill,²⁹ passed in November 1941 before Pearl Harbor, nor the Senate version passed in January 1942 contained this authorization. It was added by the conference committee. In the House debate on the final bill, the complete list of changes was presented. But this one was no more than mentioned. The verbal report of the Senate conferees was limited to what were considered the important changes. The subsidy authorization, although subsequently mentioned in the debate, was not included in this category.³⁰

The distribution by product of the cumulative direct subsidies paid by the RFC as of June 30, 1946, is as follows:³¹

	(millions of dollars)
Livestock—to slaughterers	1,537
Petroleum transportation compensatory adjustments, net	356
Flour—to producers	349
Butter—to producers	183
Copper, lead, and zinc—to producers who exceeded quotas	293
Other ^a	263
Total	2,981

^a Principally on production from stripper oil wells, on coffee, and on transportation of coal and sugar.

These figures exclude the substantial subsidy payments made by the Commodity Credit Corporation. To some extent there was product overlap in the subsidy payments made by the two agencies. The figures also exclude any indirect subsidies involved in the processing or purchase for resale of various commodities by the RFC subsidiaries.³²

²⁷ Between February 1942 and February 1945 the powers and duties of the Federal Loan Administrator relating to the RFC were exercised by the Secretary of Commerce.

²⁸ Executive Order 9250, October 3, 1942.

²⁹ *H.R. 5990*, 77th Congress, 1st Session.

³⁰ *Congressional Record*, 77th Congress, 2nd Session, pp. 656–88, 693–725.

³¹ Reconstruction Finance Corporation, *Consolidated Balance Sheet and Operating Statement*, June 30, 1946.

³² From July 1943 to October 1945 the Rubber Development Corporation, the U.S. Commercial Company, and the Petroleum Reserves Corporation were under the jurisdiction of the Foreign Economic Administration. On November 15, 1945, the Petroleum Reserves Corporation became the War Assets Corporation.

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The above RFC payments included both general and differential subsidies. The livestock subsidy, instituted with some others at the time of the price rollback in 1943, was largely in the form of specified payments per hundred pounds of weight. Differential costs within a species were, in general, disregarded. Under the copper premium price plan a specified subsidy per pound was paid for all production in excess of designated quotas. The use of quotas afforded some leeway in the recognition of differential costs. The transportation subsidies, for petroleum as an example, allowed compensation for higher costs due to greater war risks, or for shifting to a more expensive means of transportation without an increase in product price. The type of subsidy paid was, under the law, an administrative determination.

The control over subsidy payments which Congress delegated in January 1942 was not recovered until after the war period. In 1944 a deadline of June 30, 1945, was established, after which "... neither the Price Administrator nor the Reconstruction Finance Corporation nor any other Government corporation shall make any subsidy payments, or buy any commodities for the purpose of selling them at a loss and thereby subsidizing directly or indirectly the sale of commodities unless the money required for such subsidies, or sale at a loss, had been appropriated by Congress for such purpose."³³ Before the deadline arrived, however, Congress exempted the RFC from these provisions with respect to (a) obligations incurred prior to July 1, 1945, referring to 1945 and prior fiscal year activities; and (b) payments and purchases during fiscal 1946 involving direct and indirect subsidies of up to \$1.5 billion.³⁴

The published information on the RFC subsidy payments does not lend itself to an analysis of operations under the limitations imposed. The

³³ Amendment to the Emergency Price Control Act of 1942 contained in section 102, Stabilization Extension Act of 1944, approved June 30, 1944 (58 Stat. chap. 325, p. 632).

³⁴ Act approved June 23, 1945 (Public Law 88, 79th Congress). The act specified the following product limitations:

	(millions of dollars)
Foreign rubber and rubber products	60
Other foreign products	80
Domestic products	
Meat	595
Butter	100
Flour	190
Petroleum and its products	290
Copper, lead, and zinc	88
Other	100
<hr/> Total	<hr/> 1,503

It was provided that in the event the entire amount of any of the above allocations was not required for its purpose, the unused portion, not to exceed 10 per cent of such allocation, might be used for making payments and purchases for any other items enumerated.

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available figures on direct subsidies are on a payments-made basis rather than an obligations-incurred basis for any period. The somewhat flexible product limitations set up by Congress for fiscal 1946 applied to both direct and indirect subsidies. For some products the RFC was engaged in both types of subsidies. Perhaps the most that can be said is that direct payments of \$1,020 million, or slightly more than one-third of the total up to June 30, 1946, occurred during fiscal 1946.³⁵ During 1946, as in prior years, the subsidies were paid from funds borrowed by the RFC from the Treasury.³⁶

In summary, it may be said that from the passage of the Emergency Price Control Act of 1942 through fiscal 1945 the control of subsidy programs in furtherance of the war effort was an administrative matter. There were no substantial congressional controls over the selection of domestic products for subsidy payments, over the types or rates of the subsidies, or over the total costs of any or all programs. For fiscal 1946 an over-all limitation and flexible product limitations were imposed. Within these limits, however, administrative discretion was still large. There was no requirement that any or all programs be continued. The types and rates of payments were not specified, and there was still leeway for discretion over the products to be subsidized. Thus the authority delegated by Congress during this period was indeed broad.

By the end of 1946 the subsidy program was largely complete. Net payments in fiscal 1947 amounted to \$213 million, including liquidation of liabilities incurred in prior years.³⁷ In the Government Corporations Appropriation Act 1949,³⁸ the Secretary of the Treasury was directed to cancel notes of the RFC in the amount of \$9,314 million plus accrued interest. Relatively minor amounts were included in other acts passed in 1947 and 1948 to bring the total amount of RFC notes canceled to over \$10 billion. This amount represented the net loss of the RFC due to national defense and war activities. Charges for direct subsidies amounted to \$3,089 million, or not far from one-third of the total.³⁹

³⁵ *The Budget of the United States*, 1948, p. 1061.

³⁶ See Table 43 above.

³⁷ *The Budget of the United States*, 1949, p. 1108.

³⁸ Approved June 30, 1948 (Public Law 860, 80th Congress).

³⁹ Reconstruction Finance Corporation, *Annual Report and Financial Statements*, June 30, 1947, p. 18.