IV.

Trust Funds in the Unified Budget

A prime objective of the President’s Commission on Budget Concepts in recommending adoption of the unified budget concept was to devise “an approach to budgetary presentation which will advance both public and congressional understanding of this vital document.” Whether this objective has been achieved is open to question. Within the Congress, in particular, there is growing evidence of dissatisfaction with the new concept. Among others, Representative Byrnes recently complained to budget officials about “this fixation on the unified budget concept, which has thrown the average member of Congress and the average citizen of this country into a quandry.”

There can, however, hardly be disagreement with the Commission’s finding that “trust fund activities have loomed larger in both absolute and relative magnitude in the total picture of Federal government receipts and expenditures.” The growing significance of trust fund finances is made obvious by examination of the data presented in Table 4, which compares their receipts and outlays with over-all budget totals for selected fiscal years since 1940.

It is especially noteworthy that since 1960 trust fund revenues have become a prominent element in the rise of total government receipts. While gross budget receipts from all sources (including trust funds) rose by about 119 percent between 1960 and fiscal 1970, trust fund revenues, taken alone, have increased more than 200 percent. Similarly, trust fund expenditures have contributed substantially to the rise of over-all budget outlays, increasing by more than 150 percent, as compared to a 118 percent increase in gross budget outlays (including those of trust funds).

Nevertheless, members of Congress and others are obviously not prepared to concede the budget concept commission’s concomitant conclusion that “receipts, expenditures, and the surplus or deficit in Federally owned funds, therefore, have correspondingly less significance.” For reasons examined in greater detail in the following section, the Congress is naturally more inclined to focus its attention upon the Federal funds sector of the budget, over significant portions of which it can exercise a greater degree of control through the appropriation process—“control,” even though its actions often tend to increase, rather than reduce, budget outlays.

Including Trust Funds—
Pros and Cons

Some of the basic arguments for and against including the trust funds in a unified budget were outlined in a staff paper prepared for the use of the President’s Commission on Budget Concepts.

2. Hearing before the House Ways and Means Committee on the Administration’s proposal to increase the public debt ceiling, May 25, 1970.
3. Excluding trust funds, the increase in budget receipts was 98 percent.
4. Coverage of the Budget, a staff paper included in volume entitled Staff Papers and Other Materials Reviewed by the President’s Commission, October 1967.
The principal arguments cited in support of inclusion of the trust funds were:

1) Although trust fund outlays do not require annual authorizations, Congress is responsible for legislating tax rates and benefit payment and grant formulas which determine trust fund expenditures. The extent of Federal responsibility for the size and scope of social security and highway programs, for example, does not differ substantially from the degree of Federal responsibility for most programs financed from general funds; 

2) Under the administrative budget concept, which excluded trust funds, there might be incentive to "finagle" budget totals by inventing new trust fund expenditures, being outside the budget; 

3) Exclusion of trust fund programs tends to "distort" priorities of social choice and lead to bad program decision." Trust fund expenditures, being outside the budget, do not seem to "cost" so much, can thus be more generously financed, and enjoy looser year-to-year scrutiny than do the regular budget programs.

The arguments cited in the staff paper for excluding trust fund receipts and expenditures were:

1) Trust funds have their own continuing sources of revenue, do not rely on annual congressional appropriations, and are not part of the current "action" part of the budget;

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Table 4

Trust Fund Receipts and Expenditures as Percentage of Total Budget

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Budget Receipts</th>
<th>Trust Fund Receipts</th>
<th>Trust Fund Receipts as Percent of Total</th>
<th>Total Budget Outlays</th>
<th>Trust Fund Outlays</th>
<th>Trust Fund Outlays as Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940</td>
<td>$7,464</td>
<td>$2,077</td>
<td>27.8%</td>
<td>$10,731</td>
<td>$1,941</td>
<td>18.1%</td>
</tr>
<tr>
<td>1950</td>
<td>43,714</td>
<td>6,669</td>
<td>15.3%</td>
<td>47,104</td>
<td>6,948</td>
<td>14.8%</td>
</tr>
<tr>
<td>1960</td>
<td>94,878</td>
<td>19,228</td>
<td>20.3%</td>
<td>94,608</td>
<td>19,743</td>
<td>20.9%</td>
</tr>
<tr>
<td>1961</td>
<td>96,979</td>
<td>21,800</td>
<td>22.5%</td>
<td>100,384</td>
<td>21,048</td>
<td>21.0%</td>
</tr>
<tr>
<td>1962</td>
<td>102,355</td>
<td>22,652</td>
<td>22.1%</td>
<td>109,492</td>
<td>22,898</td>
<td>20.9%</td>
</tr>
<tr>
<td>1963</td>
<td>109,349</td>
<td>25,799</td>
<td>23.6%</td>
<td>114,099</td>
<td>23,958</td>
<td>21.0%</td>
</tr>
<tr>
<td>1964</td>
<td>115,723</td>
<td>28,518</td>
<td>24.6%</td>
<td>121,645</td>
<td>25,884</td>
<td>21.3%</td>
</tr>
<tr>
<td>1965</td>
<td>120,173</td>
<td>29,230</td>
<td>24.3%</td>
<td>121,769</td>
<td>26,962</td>
<td>22.1%</td>
</tr>
<tr>
<td>1966</td>
<td>134,424</td>
<td>32,997</td>
<td>24.5%</td>
<td>138,220</td>
<td>31,708</td>
<td>22.9%</td>
</tr>
<tr>
<td>1967</td>
<td>154,770</td>
<td>42,935</td>
<td>27.7%</td>
<td>163,472</td>
<td>36,693</td>
<td>22.4%</td>
</tr>
<tr>
<td>1968</td>
<td>159,442</td>
<td>44,716</td>
<td>28.0%</td>
<td>184,604</td>
<td>41,499</td>
<td>22.5%</td>
</tr>
<tr>
<td>1969</td>
<td>195,338</td>
<td>52,009</td>
<td>26.6%</td>
<td>192,103</td>
<td>43,284</td>
<td>22.5%</td>
</tr>
<tr>
<td>1970</td>
<td>207,720</td>
<td>58,141</td>
<td>28.0%</td>
<td>206,220</td>
<td>49,517</td>
<td>24.0%</td>
</tr>
<tr>
<td>1971</td>
<td>211,707</td>
<td>64,107</td>
<td>30.3%</td>
<td>210,376</td>
<td>55,440</td>
<td>26.4%</td>
</tr>
</tbody>
</table>

PERCENTAGE INCREASE:

<table>
<thead>
<tr>
<th>Period</th>
<th>Total</th>
<th>Trust Fund Receipts</th>
<th>Trust Fund Outlays</th>
<th>Trust Fund Outlays as Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-1970</td>
<td>118.9%</td>
<td>202.4%</td>
<td>118.0%</td>
<td>150.8%</td>
</tr>
<tr>
<td>1965-1970</td>
<td>72.9</td>
<td>98.9</td>
<td>69.4</td>
<td>83.7</td>
</tr>
</tbody>
</table>

a. Budget and trust fund totals are on a gross basis, not reflecting adjustments for Intragovernmental transactions.

b. Totals for 1970 and 1971 are based on latest official budget estimates.

Source: Budget documents of the U.S. Government; percentage computations by Tax Foundation.
2) Trust fund moneys do not “belong” to the Federal government;

3) Inclusion of trust funds in the budget totals would require a redefinition of the public debt; since the debt as presently defined has received so much congressional and public attention, a change in concept and definition might be regarded as “gimmickry.”

Experience with the unified budget concept since its adoption has broadened these and other arguments. Former Director of the Bureau of the Budget Robert P. Mayo—who also served as Staff Director of the Commission on Budget Concepts—suggested that combining of trust funds and general funds in a single budget could assist the Congress in its efforts to control Federal spending. He told House Appropriations Committee members that inclusion of the trust funds “no longer gives the pressure groups the incentive to say, ‘Let’s set up a trust fund and get it out from under the Appropriations Committee and get it out from under direct annual congressional control.’ They don’t have that incentive because we sit there and tell them, ‘Look, it doesn’t make any difference whether it is a trust fund or not.’”

However, recent developments—the establishment of the airport and airways trust fund, and current proposals to finance additional road systems through the highway trust fund or to expand that fund to cover other Federal transportation programs—would appear to challenge Mr. Mayo’s contention.

**Effect on Budget Deficit**

On the other hand, members of Congress most familiar with budgetary affairs have become increasingly critical of the unified budget. One of their principal complaints is that the new concept, because of the inclusion of the trust funds, creates confusion by distorting the “true” budgetary picture as reflected in the year-end surplus or deficit figure. Sizable surpluses in the trust funds, they argue, tend to camouflage substantial deficits in the general (or Federal) fund accounts.

The record substantiates this argument, whatever its merits. In 1969 (the first unified budget) there was a surplus of $3.2 billion, with $8.7 billion trust fund surplus more than offsetting a $5.5 billion deficit in the Federal fund accounts. In 1970, the Federal funds deficit rose to $13.0 billion; but trust fund surpluses totaling $10.1 billion reduced the unified budget deficit to $2.9 billion. There will be a somewhat similar result in the current fiscal year. The staff of the Joint Committee on Reduction of Federal Expenditures, based on Congressional budgetary actions through the summer (and including a projected shortfall in estimated revenues), estimated in late September that the unified budget deficit (fiscal 1971) might be as much as $12.8 billion—reflecting a $7.6 billion surplus in trust funds and a $20.4 billion deficit in general Federal funds.

Members of Congress also express concern that such “illusory” budget surpluses or “distorted” budget deficits under the unified budget concept have an adverse impact on efforts to restrain or control the growth of Federal spending. Chairman George Mahon of the House Appropriations Committee recently articulated such concern, saying...
he “senses the feeling of urgency withering on the vine in Washington and elsewhere.” And Representative Byrnes, during the debt ceiling hearings referred to earlier, told budget officials that “as long as you use surpluses in the trust funds to make the general fiscal picture look better, you are going to have pressures for greater and greater enlargements of spending.”

**Economic Analysis Aspects**

The unified budget as conceived by the Commission on Budget Concepts was designed, to use the commission’s words, to “serve the basic purposes of both resource allocation and economic stabilization.” In recommending inclusion of trust funds, the commission put great stress on the new concept as a tool for economic analysis. Its report held that any budget concept which excluded these funds was “incomplete and inadequate as a measure of what the government does and its economic impact.”

The new concept may have enhanced the utility of the budget as a tool of economic analysis. Some observers question, however, its effect on the budget as a weapon of fiscal control over the economy. In fact, arguments have been raised against deliberate use of trust funds as a device for stimulating or restraining the economy. This question is discussed in a recent Research and Statistics Note published by the Social Security Administration. Exploring reasons for maintaining the “fiscal neutrality” of the social security system, this paper asserts:

The other principal argument for fiscal neutrality for the social security system has to be made on institutional grounds, that the system is not an appropriate vehicle for discretionary counter-cyclical fiscal policy. This counter-cyclical function is best performed by other Federal taxing and spending activities, leaving only an automatic stabilizing function for the social security system. Even then whatever automatic stabilizing function the social security program has should probably be incidental to its income-maintenance function.

Conversely, the possibility is also raised that inclusion of the trust funds in the unified budget could, in time, hold significant implications for some trust fund programs. This question is also dealt with in the paper just referred to, as follows:

For inclusion of the social security trust fund operation in the Federal budget now compels analysis of the program's impact on a unified budget definition. More important, the unified budget draws attention to the effect of social security operations on the total Federal budget.

Imbalances between social security collections from the public (tax revenue plus SMI premium income) and payments to the public (benefit payments plus administrative expenses) have a visible effect on the total budget, and proposed changes in either benefits or revenues will naturally be examined for their fiscal impact, in addition to their desirability from the standpoint of the program itself. Future policy decisions for social security will, therefore, have to be taken after consideration both of what is desirable for program reasons and what is desirable for fiscal policy reasons.

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9. Ibid.
Expenditure Control Aspects

Only about two-thirds of the new budget authority requested for any given fiscal year is subject to congressional consideration and approval in that year. Trust funds account for the largest share of budget authority which becomes available without current congressional action.

Spending authority which becomes available automatically, without action by the Congress, is designated as "permanent budget authority." In the case of the social insurance trust funds, the taxes are collected and deposited in the general fund of the Treasury: equivalent amounts are then automatically appropriated to the trust funds (permanent appropriations). Highway funds are made available through periodic Congressional grants of "contract authority" based on amounts available in the trust funds, with Congress then required subsequently to provide appropriations to liquidate such authorizations. Amounts to be made available from the new airway fund will be appropriated annually.

The chart indicates the total amount of new budget authority requested in the original budget submission for the current year, and for the two preceding years. It shows for each year the amounts requiring action by the Congress and the totals of "permanent" authority not requiring such action. Permanent authority for trust funds, amounting to $53 billion in 1969, has been estimated to rise to $64.5 billion in the current year.

Actually, the 1971 total is likely to exceed this estimate. Most of the remaining authority not requiring congressional action is for interest on the public debt.

An even larger proportion of budget outlays is classified as "relatively uncontrollable" on an annual basis. Budget officials have estimated that in the current fiscal year less than one-third of budget outlays will be subject to discretionary control. This is primarily due to the fact that substantial amounts of outlays — about 20 percent of the total — reflect contracts and obligations incurred in prior years, for which payment must now be made. Again, however, outlays of the social security and other social insurance trust funds are the largest among the programs classified as relatively uncontrollable. They will amount to about one-fourth of total outlays in 1971.

Table 5 identifies the relatively uncontrollable and controllable outlays for the current fiscal year, based upon the original February budget estimates, and the corresponding totals for the fiscal years 1969 and 1970.

Most, but not all, of the control which the Congress has over the levels of budget (spending) authority or budget outlays is exercised through the regular appropriation process. Legislative actions, however, are also involved and to a growing extent. Measures enacted or seriously considered by the 91st Congress — pay raises for Federal employees and military personnel, increased rates...

1. Appropriations or other authority which, in general, permits obligations to be incurred and payments to be made.
of compensation or pensions for veterans, or social security benefit increases, for example—add or would add, to the total of Federal outlays which become relatively uncontrollable in future budgets.

Similarly, other program reforms proposed by the Nixon Administration would limit control of future spending. The Federal revenue sharing proposal does not contemplate establishment of a new trust fund. But, in order to assure the flow of Federal funds to state-local units, the plan provides for creation of a permanent and indefinite appropriation account in the Treasury from which funds would be automatically disbursed each year in amounts corresponding to the stipulated percentage of Federal revenues to be shared. In terms of expenditure control aspects, therefore, this program would operate much as do the trust funds, outside the normal processes of budgetary review and evaluation.

Effects of Legislative Actions

Most legislation affecting trust funds is handled by the legislative committees of Congress, rather than by the appropriations committees. Measures concerned with the social security programs, for example, are under the jurisdiction of the House Ways and Means and Senate Finance Committees. The highway trust fund is one exception, since appropria-

Table 5
Controllability of Budget Outlays
Fiscal Years 1969-71a
(Billions)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Relatively uncontrollable outlays under present law:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Open-ended programs and fixed costs:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social security, Medicare, and other social insurance trust funds under January 1969 laws</td>
<td>$39.8</td>
<td>$43.8</td>
<td>$46.9</td>
</tr>
<tr>
<td>Social insurance benefit increases recently enacted</td>
<td>—</td>
<td>1.8</td>
<td>4.6</td>
</tr>
<tr>
<td>Military retired pay</td>
<td>2.4</td>
<td>2.9</td>
<td>3.2</td>
</tr>
<tr>
<td>Interest</td>
<td>15.8</td>
<td>17.8</td>
<td>17.8</td>
</tr>
<tr>
<td>Veterans benefits: Pensions, compensation, education, and insurance</td>
<td>5.7</td>
<td>6.4</td>
<td>6.7</td>
</tr>
<tr>
<td>Public assistance grants (including Medicaid)</td>
<td>6.3</td>
<td>7.5</td>
<td>8.5</td>
</tr>
<tr>
<td>Farm price supports (Commodity Credit Corporation)</td>
<td>4.1</td>
<td>3.5</td>
<td>3.7</td>
</tr>
<tr>
<td>Postal operations directly related to mail volume</td>
<td>0.5</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Legislative and judiciary</td>
<td>0.4</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Other</td>
<td>1.5</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Outlays from prior year contracts and obligations:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National defense</td>
<td>25.5</td>
<td>25.5</td>
<td>23.7</td>
</tr>
<tr>
<td>Civilian programs</td>
<td>16.4</td>
<td>18.5</td>
<td>19.6</td>
</tr>
<tr>
<td>Subtotal, relatively uncontrollable outlays</td>
<td>118.6</td>
<td>131.3</td>
<td>138.4</td>
</tr>
<tr>
<td>Relatively controllable outlays:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proposed allowance for revenue sharing</td>
<td>—</td>
<td>—</td>
<td>0.3</td>
</tr>
<tr>
<td>Civilian and military pay increases</td>
<td>—</td>
<td>0.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Postal rate increase</td>
<td>—</td>
<td>—0.2</td>
<td>—1.2</td>
</tr>
<tr>
<td>Other national defense</td>
<td>53.2</td>
<td>51.1</td>
<td>46.7</td>
</tr>
<tr>
<td>Other civilian programs</td>
<td>17.9</td>
<td>21.6</td>
<td>21.8</td>
</tr>
<tr>
<td>Undistributed intragovernmental transactions</td>
<td>—5.1</td>
<td>—6.1</td>
<td>—6.6</td>
</tr>
<tr>
<td>Total budget outlays</td>
<td>184.6</td>
<td>197.9</td>
<td>200.8</td>
</tr>
</tbody>
</table>

a. Data for 1970 and 1971 are estimated.

Relatively uncontrollable outlays under present law:

- Open-ended programs and fixed costs:
  - Social security, Medicare, and other social insurance trust funds under January 1969 laws
  - Social insurance benefit increases recently enacted
  - Military retired pay
  - Interest
  - Veterans benefits: Pensions, compensation, education, and insurance
  - Public assistance grants (including Medicaid)
  - Farm price supports (Commodity Credit Corporation)
  - Postal operations directly related to mail volume
  - Legislative and judiciary
  - Other

Outlays from prior year contracts and obligations:

- National defense
- Civilian programs

Subtotal, relatively uncontrollable outlays

Relatively controllable outlays:

- Proposed allowance for revenue sharing
- Civilian and military pay increases
- Postal rate increase
- Other national defense
- Other civilian programs
- Undistributed intragovernmental transactions

Total budget outlays

While legislative actions affecting trust fund operations occur with considerable frequency, these actions are primarily directed toward establishment of new benefit levels, adjusting grant formulas, adjusting tax rates or the taxable wage bases, etc. As a general rule, the result is to liberalize or expand the programs, and thus to increase the outlays of trust funds. Legislative actions affecting trust funds sometimes have political implications; for example, legislation to increase social security benefits became almost an election year tradition — and more recently has occurred with even greater frequency.
In the last few years the Congress has sought to impose a “ceiling” on annual budget outlays by enacting a legislative expenditure limitation. Such limitations, however, have usually exempted the expenditures of the social security and similar trust funds, along with certain other “relatively uncontrollable” programs; thus the limits have not affected trust fund expenditures. Obviously, if restraint on the growth of total Federal spending appears desirable, the exclusion of these large amounts will materially impair efforts to achieve that restraint. This omission has in fact contributed to the impairment of effectiveness of recent attempts to impose a legislative limitation on spending.

**Program Priority Aspects**

Criticism also has recently been directed at certain trust fund operations on the ground that they can adversely affect efforts to re-order budgetary priorities. In recent testimony before a Senate Public Works subcommittee, Senator Gaylord Nelson strongly urged that the segregation of highway tax monies be terminated, and the highway trust fund abolished. “Sound fiscal policy,” he argued, “would dictate that Federal-aid highway funds be appropriated in consideration of a total view of national priorities.” This is admittedly a controversial issue, with others vigorously defending the dedication of user taxes for highway construction and improvement.

Trust fund operations may, however, also affect the availability of general Treasury funds for other programs in other ways. Under the trust fund statutes the government is required to make substantial general fund contributions to the civil service retirement fund, the social security and health insurance funds, and certain others. In 1969 such general fund contributions totaled more than $4.0 billion. This is in addition to the payment of more than $3 billion in interest, also from general revenues, on debt securities held by the trust funds. Thus a total of more than $7 billion from general revenues, which might otherwise be available for other Federal programs or for tax relief, was paid to the trust funds in that year.

Finally, the trust funds have regularly been accumulating substantial surpluses each year, and are expected to do so for some years in the future. General fund payments into the trust funds contributed significantly to these surpluses. Since the balances in these funds in excess of current operating needs must be invested in Treasury securities, the surpluses provide a ready source of borrowing which does not require the Treasury to compete in the private capital markets. The question arises, therefore, as to whether this practice may not encourage debt financing of other new or expanded Federal spending programs, or at least lessen the resistance to proposals requiring increased outlays.

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VI.

Trust Funds and the Public Debt

Unquestionably, one of the most confusing aspects of trust fund operations is their relationship to the make-up and concept of the Federal debt, and to the statutory debt ceiling. And with an increasing proportion of the total Federal debt consisting of securities held by trust funds, this confusion is aggravated, both for citizens and officials.

At the end of 1969 the amount of Federal debt held by the public was $279.5 billion, and that held by trust funds and Federal agencies totaled $87.7 billion. By the end of 1971, however, debt held by the public is estimated to decline slightly, while that held by trust funds and agencies is projected to increase to more than $105 billion. This trend will likely continue so long as the trust funds accumulate sizable surpluses each year.

The Commission on Budget Concepts recommended adoption of a debt concept consistent with the definitions of budget receipts and outlays under the unified budget concept. In so doing, the report explained:

The unified budget recommended by the Commission entails the elimination of all intragovernmental transactions among different funds and agencies included in that budget. Thus the Commission’s recommendations point to the exclusion from the definition of Federal securities held by the public the holdings of all such securities by any Government account, trust fund, or agency whose receipts and expenditures are included in the budget.

Basically, adoption of such a debt concept would add to the present concept certain securities issued by Federal agencies, to produce a total of “gross debt outstanding,” from which Treasury and agency securities held by government agencies and by trust funds would then be deducted to produce the “net debt” concept. Essentially, this net debt would be limited to Federal securities “held by the public.”

The commission made no recommendation with respect to changing the statutory debt limitation, but did suggest re-examination of that ceiling with the new debt concept in mind.

Position of Congress

When Treasury and budget officials appeared before the House Ways and Means Committee in early 1969 and again in 1970, to seek increases in the statutory debt ceiling, they urged a change in the concept of debt subject to the statutory limitation to conform with the budget concept commission’s recommendation. In suggesting that the understanding of the Congress and the public would be enhanced “if the debt subject to the limit were brought more in accord with the unified budget concept,” former Director of the Budget Robert P. Mayo pointed out:

Under the present concept, an increase in the debt limit of considerable size is needed, even though our estimated budget deficits are small. This need occurs because the laws establishing the trust funds require that we invest their surplus funds in government securities. As long as the trust funds are operating at a surplus, and thus acquiring addi-
tional Treasury issues, the debt subject to the ceiling increases even if the overall budget is in balance. Conversely, if at some time in the future, the trust funds happened to operate at a deficit, the debt subject to limit might decline, even though the unified budget had no surplus.

The point was demonstrated in 1969 when, even though the unified budget was in a surplus position, the Treasury was required to request a substantial increase in the statutory debt limit; Congress had no alternative but to comply.

Mr. Mayo also argued that “from an economic analysis standpoint, the debt that is important here is the debt held by the American public—individuals, banks, insurance companies, and so on. This is the debt that affects interest rates directly. The debt held by the trust funds has only a very indirect effect on interest rates.”

The reaction of the Ways and Means Committee in both instances, however, was negative; the recommendation was not acted upon. While acknowledging the confusion which now exists, some members of the committee argued, in effect, that “debt is debt,” and that to differentiate between debt held by the public and that held by trust funds would not dispel confusion, but only create as much or more, even though in a different direction. The following colloquy between Representative Byrne and Secretary of the Treasury David M. Kennedy, during a 1970 committee hearing, illustrates the point:

MR. BYRNES. There isn’t any difference, is there, in borrowing from the general public or borrowing from the trust funds?

SECRETARY KENNEDY. There is a terrific market difference, yes, but not from the standpoint of the total—interest rates, economy and so on.

MR. BYRNES. But as far as the obligation of Uncle Sam is concerned, as far as the obligation of the general government is concerned, a bond or a note held by a trust fund is just as much an obligation and just as much a part of the debt as a bond held by an insurance company or anyone else in the public.

SECRETARY KENNEDY. It is a part of the debt of the United States, that is right.

MR. BYRNES. It is the same kind of obligation. It has to be paid.

SECRETARY KENNEDY. It has to be paid. It is a debt, that is right.

The committee also took the position—which, in the light of later action, appeared also to represent the position of the Congress—that it was the unified budget concept, as much as the debt concept, which was responsible for the confusion over this issue. This position was spelled out in the committee’s report on the most recent debt ceiling increase measure:

The difficulty, of course, is that the debt limitation, in most respects, is based upon the Federal funds budget rather than the unified budget which is the budget generally presented to the public. The unified budget shows the deficit or surplus, however, not just in the Federal accounts as such, but also takes into account the various trust funds which the Federal Government holds in what, for the most part, can be considered as a fiduciary capacity. As a result, while the unified budget may represent the appropriate way to view the budget from the standpoint of its overall economic impact or in viewing its financing insofar as the public is concerned, it does not reflect the cost of managing what is

1. Hearings before the Committee on Ways and Means, House of Representatives on the Administration’s proposal to increase the statutory debt ceiling, May 1970.
2. Ibid.
3. Ibid.
strictly the Federal funds as distinct from trust funds. To concentrate only on the unified budget when considering the Federal Government's debt ignores the debt owed these trust funds by the Federal Government.4

In line with this viewpoint the committee—and others in Congress as well—insisted that more emphasis be focused upon the general Federal funds budget. In the report just quoted, the committee also requested budget officials to include a new section in future Federal budget documents which "will develop the Federal funds deficit or surplus in much the same way as the present document develops the unified budget," to be "placed toward the forefront of the budget document so that the Federal funds concept will receive adequate attention by the public."5

The attitude of the committee and the Congress probably also reflects the fact that many Members regard the statutory debt limitation as a valuable, if imperfect, tool for enforcing some degree of expenditure restraint or control. In this view, a change in the concept of debt subject to the statutory limitation which would exclude trust fund debt from that ceiling would tend to weaken it as an instrument for requiring expenditure restraint. Representative Mills of Arkansas, Ways and Means Committee Chairman, probed at this point during the 1970 debt ceiling hearings, when he stated:

If we did what was recommended last year or the year before, I believe, and brought the debt ceiling concept into proper relationship with the unified budget concept, the excess of the increase in intake in the trust funds over the outgo from the trust funds would make it possible in almost all situations to provide a sufficient cushion to take care of the deficits that you would normally accumulate in the Federal [funds] accounts.6

**Investment Policies**

The basic statutes creating the major trust funds impose upon the Secretary of the Treasury the duty of investing such portions of those funds as is not required to meet current withdrawals, but "only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States." In addition those statutes, in all but one or two instances, provide for issuance of special issues exclusively to the trust funds, and include provisions determining the rates of interest paid on securities held by the trust funds. In certain cases, notably the social insurance and civil service retirement funds, the statutes also require that special issues shall have maturities fixed with "due regard to the needs of the trust funds."

Most of the trust fund investments have been in special Treasury issues—over 85 percent as of December 31, 1969. Some of the trust fund statutes have provided that such special obligations shall be issued "only if the Secretary of the Treasury determines that the purchase of other interest-bearing obligations of the United States, or of obligations guaranteed as to both principal and interest by the United States on original issue or at the market price, is not in the public interest."7 It has, however, been the basic policy of every Secretary of the Treasury to invest trust fund monies mainly in special issues, irrespective of the wording of the basic statute. Some of the

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5. Ibid.
6. Hearings before House Ways and Means Committee on the Administration request for an increase in the debt limit, May 1970.
reasons in support of this policy cited earlier by the Treasury Department, and still considered appropriate, are:

The practice of issuing special obligations to Government trust funds, instead of permitting them to satisfy their investment requirements through open market purchases of Government obligations, has been followed because of certain important advantages that have become apparent. Among these have been the following: (1) The bond market is not disturbed periodically by purchases and sales of large blocks of securities; (2) the trust funds are provided with a ready avenue of investment and no attention need be given to short-term fluctuations in market prices; (3) in the case of retirement and social security funds, the funds can always earn the interest return specified by Congress when it fixed the appropriations for the funds; and (4) savings can be effected because of the smaller number of securities to administer, and commissions to brokers on purchases and sales are eliminated.8

The single compelling reason cited for investing trust fund monies in marketable securities rather than special issues has been the need to stabilize the Government securities market, i.e., one in which prices are falling. But it is pointed out that these are also the times when the narrower interests of the trust funds are likely to be served by acquisition of special issues. Additionally, market purchases would deprive the Treasury of the use of the cash for current operations, and require it to replace the special issues through new market borrowings.

The reference to "use of the cash" for current operations raises a point which has on occasion been the focus of some controversy. There have been criticisms

7. Such a provision was included in the most recent of these statutes, Public Law 91-258, establishing the airport and airway trust fund, approved May 21, 1970.

Table 6
Investments of Trust Funds, as of December 31, 1969
(Millions)

<table>
<thead>
<tr>
<th>Trust fund</th>
<th>Total public issues</th>
<th>Special issues</th>
<th>Total Treasury securities</th>
<th>Agency securities</th>
<th>Non-Federal securities</th>
<th>Grand total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old age and survivors insurance</td>
<td>$3,522</td>
<td>$23,718</td>
<td>$27,240</td>
<td>$640</td>
<td>$20</td>
<td>$27,900</td>
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<tr>
<td>Disability insurance</td>
<td>315</td>
<td>3,428</td>
<td>3,743</td>
<td>115</td>
<td>20</td>
<td>3,878</td>
</tr>
<tr>
<td>Supplementary medical insurance</td>
<td>—</td>
<td>182</td>
<td>182</td>
<td>—</td>
<td>—</td>
<td>182</td>
</tr>
<tr>
<td>Hospital insurance</td>
<td>—</td>
<td>2,408</td>
<td>2,408</td>
<td>70</td>
<td>—</td>
<td>2,478</td>
</tr>
<tr>
<td>Unemployment</td>
<td>2,254</td>
<td>10,675</td>
<td>12,929</td>
<td>215</td>
<td>20</td>
<td>13,164</td>
</tr>
<tr>
<td>Highway</td>
<td>—</td>
<td>1,953</td>
<td>1,953</td>
<td>—</td>
<td>—</td>
<td>1,953</td>
</tr>
<tr>
<td>Railroad retirement</td>
<td>793</td>
<td>3,235</td>
<td>4,028</td>
<td>210</td>
<td>20</td>
<td>4,258</td>
</tr>
<tr>
<td>Civil service retirement and disability</td>
<td>2,418</td>
<td>17,818</td>
<td>20,237</td>
<td>510</td>
<td>20</td>
<td>20,767</td>
</tr>
<tr>
<td>National service life insurance</td>
<td>—</td>
<td>6,966</td>
<td>6,966</td>
<td>455</td>
<td>—</td>
<td>7,421</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$9,302</strong></td>
<td><strong>$70,383</strong></td>
<td><strong>$79,686</strong></td>
<td><strong>$2,215</strong></td>
<td><strong>$100</strong></td>
<td><strong>$82,001</strong></td>
</tr>
</tbody>
</table>

Source: Treasury Department; from hearings on the Federal Budget for 1971, before Committee on Appropriations, House of Representatives, February 1970.
of this practice, on grounds that it "com-
promised" the trust funds and might
result in an inability to meet benefit and
other commitments of those funds in
future years. The response of officials is
to point out that (1) the funds are sep-
arately accounted for, and there is no
question that the debt securities held by
the trust funds will be redeemed as re-
quired, as would any other debt issues,
and (2) if the Treasury did not borrow
from the trust funds it would be required
to go into the market for its financing
needs more frequently.

Trust Fund Holdings

Prior to establishment of the social
security trust fund (OASI) in January
1940 the investments of trust funds in
debt securities were, of course, relatively
small. In 1941, trust fund investments
totaled about $6.2 billion. By 1951 these
investments had grown to $35.9 billion —
reflecting the sharp growth of the OASI
fund, as well as the unemployment insur-
ance fund, and the national service life
insurance fund established in behalf of
World War II veterans.

The debt security holdings of the trust
funds stabilized in the early 1960's at
around $44 billion, but then increased
dramatically beginning in 1967. Between
June 30, 1966 and December 31, 1969,
the amount of debt securities held by
these funds rose from about $50 billion
to $82 billion.

The old-age and survivors insurance,
unemployment insurance, and civil ser-
vice retirement funds account for about
three-fourths of the total debt holdings
of all trust funds. Table 6 provides de-
tails of the investments status of the
major funds at the end of 1969.

Interest Paid to Funds

Interest credited to the trust funds on
their debt holdings, paid out of general
revenues, involves substantial amounts.
It is estimated that in the 1971 fiscal year
the interest income of these funds will
exceed $4 billion — about one-fifth of
total budget outlays for interest.

The interest commitment to the trust
funds has frequently been the subject of
debate. When the original Social Se-
curity Act was under consideration in
the House of Representatives, the issue
was raised in connection with the estab-
ishment of the "old-age reserve ac-
count," subsequently to become the
OASI trust fund. Representative Tread-
way of Massachusetts protested the in-
vestment requirement and interest com-
mitment, arguing that "even if our debt
should be retired, our taxpayers would
still have to pay . . . interest on the an-
nuity reserve . . . . This interest must be
paid whether the government has any
use for [the reserve fund monies] or
not."9 On the other hand, it can be ar-
gued that the taxes or contributions paid
to the trust funds represent a kind of
"compulsory lending," for which pay-
ment of interest is justifiable.

It also has been argued that elimina-
tion of interest payments to trust funds
would result in budget savings, through
reduction of benefit or program levels.
Others contend that interest elimination
would not reduce budget outlays, and
would more likely result in increases in
the tax and contribution levels which
provide basic financing of those funds.
Certainly in the case of the social insur-
ance trust funds their outlays are deter-
mined primarily by the levels of benefits,
and thus would presumably be unaf-
fected by a decision to terminate inter-

9. Congressional Record, Volume 79, pages 5532-3. The question of retirement of the total Federal debt is, of
course, an academic one.
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
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<tr>
<td>Federal old-age and</td>
<td>$1,008</td>
<td>$896</td>
<td>$718</td>
<td>$587</td>
<td>$582</td>
<td>$538</td>
<td>$511</td>
<td>$537</td>
<td>$528</td>
<td>$515</td>
<td>$6,420</td>
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<tr>
<td>survivors insurance</td>
<td>33a</td>
<td>18a</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>51a</td>
</tr>
<tr>
<td>Federal disability</td>
<td>140</td>
<td>83</td>
<td>62</td>
<td>59</td>
<td>65</td>
<td>68</td>
<td>70</td>
<td>70</td>
<td>61</td>
<td>48</td>
<td>726</td>
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<tr>
<td>insurance</td>
<td>9a</td>
<td>5a</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>14a</td>
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<tr>
<td>Health insurance (funds)</td>
<td>113</td>
<td>75</td>
<td>59</td>
<td>7</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>254</td>
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<tr>
<td>Unemployment</td>
<td>517</td>
<td>439</td>
<td>383</td>
<td>309</td>
<td>255</td>
<td>213</td>
<td>191</td>
<td>173</td>
<td>204</td>
<td>188</td>
<td>2,872</td>
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<tr>
<td></td>
<td>20a</td>
<td>19a</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>39a</td>
</tr>
<tr>
<td>Railroad retirement</td>
<td>185</td>
<td>174</td>
<td>157</td>
<td>150</td>
<td>143</td>
<td>130</td>
<td>105</td>
<td>107</td>
<td>111</td>
<td>110</td>
<td>1,372</td>
</tr>
<tr>
<td></td>
<td>13a</td>
<td>7a</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20a</td>
</tr>
<tr>
<td>Federal employees</td>
<td>805</td>
<td>705</td>
<td>619</td>
<td>546</td>
<td>482</td>
<td>420</td>
<td>362</td>
<td>316</td>
<td>280</td>
<td>251</td>
<td>4,786</td>
</tr>
<tr>
<td>retirement (funds)</td>
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<td>16a</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>44a</td>
</tr>
<tr>
<td>Highway</td>
<td>52</td>
<td>34</td>
<td>14</td>
<td>8</td>
<td>11</td>
<td>20</td>
<td>14</td>
<td>7</td>
<td>2</td>
<td>2</td>
<td>164</td>
</tr>
<tr>
<td>Veterans life insurance</td>
<td>256</td>
<td>242</td>
<td>225</td>
<td>224</td>
<td>216</td>
<td>210</td>
<td>210</td>
<td>210</td>
<td>213</td>
<td>211</td>
<td>2,217</td>
</tr>
<tr>
<td>(funds)</td>
<td>24a</td>
<td>45a</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>69a</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$3,076</td>
<td>$2,648</td>
<td>$2,237</td>
<td>$1,890</td>
<td>$1,754</td>
<td>$1,599</td>
<td>$1,463</td>
<td>$1,420</td>
<td>$1,399</td>
<td>$1,325</td>
<td>$18,811</td>
</tr>
<tr>
<td></td>
<td>127a</td>
<td>110a</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>237a</td>
</tr>
</tbody>
</table>

* Interest and profits from investments in participation certificates (shown separately but included in totals).
est payments. Also, interest income has a prominent place in the actuarial computations of these funds and in the determination of the tax and contribution rates required to finance these programs. One effect of eliminating interest might be to require greater use of general fund financing to meet part of the cost of these programs.

Whatever the points at issue, interest payments to trust funds do represent a major budget item. Table 7 sets forth the interest amounts credited annually to the major trust funds in the 10-year period ending with fiscal 1969. Total interest payments to all the major trust funds over this period amounted to almost $19 billion.
Summary and Conclusions

Trust fund operations represent a large and rapidly expanding segment of the unified Federal budget. In 1970, based on preliminary budget totals, trust fund outlays exceeded $49 billion, accounting for more than 47 percent of total Federal spending for domestic programs (i.e., excluding outlays for national defense, international affairs, and interest).

Between 1960 and 1970 trust fund expenditures rose by over 150 percent, as compared to an increase of about 109 percent in outlays from general Federal funds. Trust fund receipts have increased even more sharply. Between 1960 and 1970 trust fund receipts rose by 209 percent — from $19 billion to $59 billion — as compared to a 98 percent rise in general Federal revenues. The growth in both the receipts and expenditures of the trust funds has been particularly significant since the mid-1960’s and this trend is likely to continue.

The recent adoption of the unified budget concept, in which trust funds are included along with general Federal funds and the net results of Federal lending programs, has given new and increased emphasis to the operations of trust funds. Whether their inclusion in the new concept works to advance public and congressional understanding of budgetary issues remains an open question. The interplay between trust fund and Federal fund accounts has at times appeared to create rather than disperse confusion, particularly with respect to the surplus or deficit position of the unified budget and the concept of Federal debt. It is perhaps too early to tell whether this is simply due to a lack of familiarity with, or understanding of, the new budget concept and its purposes, or is symptomatic of more chronic and serious difficulties.

Careful evaluation of trust fund operations highlights several characteristics which tend to emphasize their role in the total budget picture, and point up certain difficulties they create for the Executive and the Congress in seeking to deal with the larger budgetary issues and establish some order of spending priorities. Among these are:

• Trust fund outlays largely escape review and control through the regular annual appropriation process; and yet they add significantly to the growing total of “relatively uncontrollable” budget expenditures. Additionally, their special status tends to give most of these funds greater immunity to efforts by the Executive or the Congress to reduce total budget outlays, or limit spending increases — for example, significant amounts of total trust fund outlays have been exempt from recently imposed legislative expenditure limitations.

• Trust funds introduce a strong element of rigidity into the budget and, particularly when the earmarking of general-type revenues is involved, can result in misallocation of funds, resulting in an excess of support for certain programs and the under-funding of others. And, like other government pro-
grams, trust fund outlays tend to continuing growth, and resist termination.

- Although financed largely through special taxes or contributions, the trust funds do call upon general revenues for a substantial — and increasing — amount of support. Moreover, a number of proposals are being advanced, particularly with respect to social security programs, which, if approved, would require significantly increased contributions from general revenues.

- The requirement that unneeded trust fund balances be invested in Treasury securities, while strongly supported, complicates the problems of Congress in seeking to control the incurrence of debt — and also in part to restrain spending — through the statutory debt limitation. The frustrations which the Congress has encountered in attempting to cope with this problem may accelerate a trend away from emphasis on the unified budget concept.

Conclusions

It is quite possible to conceive of sound economic as well as other justifications for use of the trust fund device in structuring certain types of Federal programs, despite some of the problems discussed in this analysis. To suggest that all the existing trust funds be liquidated, or that the device should never be used in the future, would be unrealistic and probably unwise.

Nevertheless, there are undoubtedly considerations which should be carefully weighed before decisions are taken to broaden the use of the trust fund or similar devices. The studies of the President's Commission on Budget Concepts, for example, found among those who considered the problem a general agreement, that strict criteria should be applied before new trust funds or other types of special accounts were established — though it noted there were few suggestions submitted to guide the design of such criteria.

Based upon the findings in this study, and views and opinions expressed in published materials examined in connection with its preparation, the following suggestions appear to merit consideration:

1) Because the expenditures of trust funds, once established, are not scrutinized so regularly or so closely as are most other spending programs financed by general revenues, there should be some presumption against the use of this device.

One who has taken this position is Dr. Otto Eckstein, a former member of the Council of Economic Advisers. Responding to questions raised by the budget concepts commission, he commented:

In general, it weakens the power of the Presidency, and a President concerned with the future of the office will resist most trust fund proposals. It weakens the power of the Congress by weakening the annual review process.

2) As a general proposition, the establishment of trust funds or other types of special accounts which are financed through earmarking of general-type revenues should be avoided whenever possible. (See discussion of earmarking in Section III.)

1. A somewhat related problem, not dealt with in this study, involves the increasing payroll tax burden required to finance higher benefit levels and extension of coverage under the social security program. A 1967 Tax Foundation study, Issues in Future Financing of Social Security, pointed out that "At lower income levels the social security tax for most families would exceed the income tax."


3. In letter to Research Director, Commission on Budget Concepts, included in Staff Papers and Other Materials Reviewed by the President's Commission, October 1967.
3) In considering future proposals to establish new trust funds, or to extend or expand existing ones, careful attention should be given to efforts to provide for control of the outlays of such funds through the regular executive and legislative budgetary processes. In this connection, it is noted that very limited control can be exercised by the Congress over highway fund outlays (and only temporary additional control by the Executive Branch); the statute creating the airway trust fund does provide for regular appropriation of trust fund monies by the Congress.

4) Finally, the most careful consideration should be given to all proposals which would involve increases in contributions from general revenues to the trust funds. Some of these — such as interest on debt securities held by those funds, and the matching contributions made by Federal agencies to the civil service retirement funds — are unavoidable. Nevertheless, there appears to be a trend toward proposals to finance expansions of certain trust fund programs from general revenues which, if not minimized, could create budgetary problems for the future.