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B-141869 July 26, 1961

Number: B-141869

Date: 1961-07-26

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Honorable Edna F. Kelly House of Representatives

Dear Mrs. Kelly:

This is in response to your letter of July 18, 1961, requesting our views on the long-term financing of Federal agencies through borrowings from the Treasury. This method of financing is accomplished by authorizing agencies to borrow from the Secretary of the Treasury who in turn is authorized to use the proceeds of public debt receipts for making such loans. This procedure is sometimes called "back-door financing."

The General Accounting Office has consistently opposed this means of financing Government programs. In our audit report on the Reconstruction Finance Corporation for the fiscal years 1946 and 1947, we reported that the United States Treasury was authorized to supply financing to the Corporation from the proceeds of public debt transactions and that the withdrawal of funds from the Treasury in this manner does not require, and may in fact be utilized to avoid, the appropriations procedures by which the Congress ordinarily makes funds available to Government agencies.

On September 26, 1951, the then Comptroller General referred to this report and commented on the "back door" method of financing when he appeared before the Joint Committee on Reduction of Nonessential Federal Expenditures. At that time he stated that --

"Among the more effective expedients for eluding appropriation control has been the financing of programs by borrowing from the Treasury. During the was, this method was utilized to finance many activities including subsidy and loss programs to a very great extent. All that Congress could do was to appropriate the amount finally spent or to cancel indebtedness to the Treasury for the programs. For instance, Congress was forced into a rubber stamp approval of RFC expenditures for was and reconversion purposes to June 30, 1947, by authorizing the cancellation of noted payable to the Treasury in the amount of $9.3 billions plus accrued interest. The Congress found itself in a situation where it had not approved or placed specific limitations in advance on programs or activities contemplated by it. In my audit report on the RFC for the fiscal years 1946 and 1947 it was pointed out that the withdrawal of funds from the Treasury in this manner circumvents the appropriation procedure, and it was recommended that in the interest of financial control by Congress the RFC and other government corporations should be financed from appropriated funds. Incidentally, the current version of the Defense Production Act authorizes $2.1 billions for this

type of financing.

"Generally, government corporations are financed by the 'back door' method of Treasury loans. This is one of the reasons why I have strongly recommended that the corporate form of government instrumentality be chartered solely by Congress and not by executive act. The Senate Banking and Currency Committee agreed when it eliminated from the Defense Production Act of 1950 a request authorization for the President to create an unlimited number of government corporations to carry out certain provisions of the Act. Congress has to be diligent in watching for such proposals. The same provision was repeated in the proposed Defense Production Act Amendments of 1951, but deleted by the same Committee. I was also gratified when the amending Act provided for a Small Defense Plants Administration instead of the proposed corporation."

Since that time, however, many more bills have been introduced which embody public debt financing. This office has expressed its opposition to many of these. Recent bills of this kind were S. 1, 87th Congress, the Area Redevelopment Act, and various bills to amend the Federal housing laws, also in the 87th Congress. We submitted reports to the appropriate legislative committees on each of those bills. Our letter to the Chairman of the Senate Committee on Banking and Currency dated March 16, 1961, commenting on amendments to the Federal housing laws stated in part:

"Section 203(a) would authorize the Administrator to issue to the Secretary of the Treasury, from time to time, notes or other obligations for purchase by the Secretary of the Treasury in an amount not exceeding $1 billion. For such purpose the Secretary of the Treasury is authorized us use, as a public debt transaction, the proceeds of the sale of any securities issued under the Second Liberty Bond Act, is amended."

"Authorizations to finance programs and activities through public debt transactions are usually stated in terms of continuing maximum amounts of obligations in the Treasury which can be outstanding at any time with no annual limitation. The authorizations are contained in substantive legislation originated in legislative committees instead of appropriated legislation reviewed by the appropriation committees. The continuing feature of these authorization avoid the need of annual appropriations, and thus there is less compulsion for careful evaluation by successive Congresses of the need for continuing particular programs. We believe that the financing of loan programs through public debt transactions, by combining program authority with funding, tends to perpetuate programs that might not otherwise stand the test of recurring congressional review."

"The General Accounting Office has for many years stated objections to this method of financing, and recommends that funds to finance Government activities be made available to the agency responsible for administering the program through the normal appropriation process rather than through authorizations to finance through public debt transactions."

As noted in your letter, there are over 20 agencies now utilizing the public debt method of financing their operations. At May 31, 1961, total authorizations to spend from public debt receipts amounted to about $59.8 billion and of this amount about $34.8 billion had been used, leaving a balance of unused authority of about $25 billion. Our views on this method of financing have remained unchanged through the years and we still firmly believe that congressional

control of the programs so financed could better be exercised if these agencies were required to present to the Congress annual justifications for their fund requirements and to be subjected to the normal appropriation process as are those agencies whose programs are financed by direct appropriations.

We hope that the information furnished herein is satisfactory for your purpose.

Sincerely yours,

JOSEPH CAMPBELL Comptroller General of the United States