ECONOMICS, LABOR & BUSINESS

A Budget in the Shadows

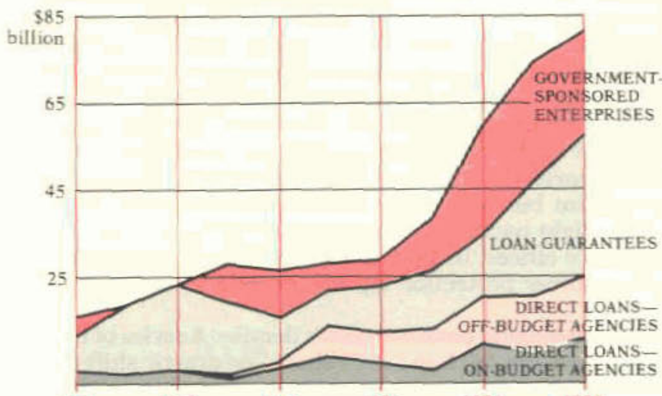
"Federal Credit and the 'Shadow Budget'" by Herman B. Leonard and Elisabeth H. Rhyne, in *Public Interest* (Fall 1981), P.O. Box 542, Old Chelsea, N.Y. 10014.

As any executive realizes, it is difficult, if not impossible, to cut back on costs one does not know about. That, write Leonard and Rhyne, of Harvard and the Congressional Budget Office, respectively, is just the problem with the "shadow budget"—financial commitments made by the U.S. government but not listed in the federal budget.

A key part of the "shadow budget" is government credit. Most Americans are aware of the Chrysler Corporation's federal loan guarantee and of the federal guarantee of New York City's debt. But few realize that federal credit in 1980 exceeded $100 billion—much of this not recorded in the federal budget. "Off-budget" federal credit takes four forms: direct loans (such as the $1.2 billion extended by the Rural Electrification Program), loan guarantees (including those offered by the Export-Import Bank), lending by government-sponsored enterprises (e.g., the privately owned but federally chartered Federal National Mortgage Association), and tax exemptions for interest paid on state and municipal bonds.

Federal credit in fiscal 1980 was more than six times what it was in 1971. Much of this "credit explosion" can be traced to the Congressional Budget Act of 1974, when Congress carefully kept loan guarantees "uncontrolled" and neglected to prohibit off-budget loans.

FEDERAL CREDIT ACTIVITIES, 1970–80



In 1970, all direct federal loans appeared on the federal budget. Since then, on-budget loans have held steady, but off-budget lending and other types of federal credit not accounted for in the federal budget have mushroomed.

Adapted from The Public Interest *(Fall 1981).*

Congress probably wanted to favor government loans over grants, say the authors, while at the same time keeping a back door open for unpublicized federal expenses. But it is likely, too, that Congress failed to grasp what the true costs of federal credit are. The federal budget is designed to record direct spending, not the extension of credit and such variables as interest rates, the risk of default, and, in the case of loan guarantees, eventual expiration.

Yet in the private sector, such calculations are routine. And therein, contend the authors, lies a possible solution. Instead of, say, directly providing loan guarantees, the government should *buy* loan guarantees from private loan-insurance companies. The purchase price would give legislators—and voters—unambiguous information about the true costs of federal credit, which, though subtle, are "extraordinarily high" and have an impact on the economy.

What Happened to Consumerism?

"The Maturing of Consumerism" by Paul N. Bloom and Stephen A. Greyser, in *Harvard Business Review* (Nov.-Dec. 1981), Subscription Service Dept., P.O. Box 3000, Woburn, Mass. 01888.

The middle-class consumer movement, so active during the 1960s and most of the '70s, seems lately to be out of the news, pre-empted by such matters as defense, the economy, and events abroad. According to Bloom and Greyser, business professors at the University of Maryland and Harvard, respectively, the picture is more complicated: While some large, national consumer groups are beset by declining memberships, many local organizations are thriving. The "brand" of consumerism they offer accounts for the difference.

Early consumer organizations, led by well-known activists such as Ralph Nader and Betty Furness, pushed protective federal legislation. Feathers in their caps included the federal Truth in Packaging (1966), Truth in Lending (1968), and Consumer Product Safety (1972) acts. But, by the late '70s, the public was beginning to have second thoughts about some of these efforts. Many did not want to be protected by mandatory automobile air bags and seatbelt interlock systems; many more looked askance at such consumerist causes as the Fight to Advance the Nation's Sports (FANS), launched by Nader. Consumer groups' tendency to paint business as a villain worked against them. And business began to fight back, with advocacy advertising as well as new consumer assistance offices. In 1978, Congress rejected a proposal to create a federal consumer protection agency, despite intensive consumer lobbying.

Yet such setbacks do not signal consumerism's demise. A series of five opinion surveys taken between 1971 and 1979 show "no drastic shifts in consumer attitudes." And a 1979 Union Carbide study indicates that most Americans favor "stricter health and safety regulations and [are]