

## Statement No. 42

# The On-Budget Status of Expenditures to Resolve Thrift Insolvencies

May 15, 1989

The House Ways and Means Committee recently expressed its sentiment that expenditures of the \$50 billion provided in the pending "Financial Institutions, Reform, Recovery and Enforcement Act of 1989" to bail out the Federal Savings and Loan Insurance Corporation should be scored as budget outlays. The Shadow Financial Regulatory Committee applauds this action.

The Ways and Means Committee vote represents an important break with deposit-insurance agency and federal budget gimmickry that has for years deceived the public about the size of the FSLIC bailout and who would have to pay the FSLIC's bills. On-budget treatment of the assistance outlays makes it clear that the bailout is a taxpayer obligation. It also eliminates the unnecessarily high costs that non-Treasury borrowing would impose on the taxpayers. This higher borrowing cost would be about \$3 billion to \$5 billion over the lifetime of the proposed non-Treasury (i.e., Resolution Funding Corporation) debt instruments, far too much to pay for the alleged political benefits "off-budget" treatment would afford.

Assertions by the Secretary of the Treasury that the financial markets would be disturbed and that higher costs would be incurred for Treasury debt by on-budget treatment for thrift bailout outlays are without apparent foundation. Fifty billion dollars of government expenditures will have the same effects on financial markets whether financed by an on- or off-budget entity. Indeed, in the aftermath of the Ways and Means Committee's action, the financial markets were essentially unaffected. The argument that on-budget treatment would undermine the fiscal discipline imposed by Gramm-Rudman restraints is also fictitious. These losses have already been incurred.

Other significant benefits flow from the Ways and Means Committee decision: The convoluted Resolution Trust Corporation (RTC)/Resolution Funding Corporation (RFC)/FDIC structure becomes unnecessary when budgetary honesty is pledged. What would undoubtedly be an unwieldy and wasteful three-way bureaucracy can be streamlined. With the elimination of the need for the off-budget fig leaf, the Federal Deposit Insurance Corporation alone can resolve thrift insolvencies. It is ironic that the Administration proposes to eliminate the discredited Federal Asset Disposition Association (FADA), but to replace it with *two* new bureaucracies—the RTC and RFC.

The public is entitled to candor and efficient performance from its elected officials. The Shadow Committee urges Congress to enact on-budget treatment of outlays to resolve troubled thrift insolvencies, as well as to eliminate altogether the RTC/RFC concept (together with the Regional Advisory Boards, which are fraught with conflict of interest and potential for scandal). The FDIC, as expanded by its merger with the FSLIC, should be charged with handling thrift resolutions directly, without muddled lines of authority and responsibility.