

Mr. STEIN. Yes. Well, we know, or we believe or think that these loan transactions have a certain effect on the national economy. If the Federal Government is making loans, presumably it enters the business of making loans because it believes that the loans it would make would not have been made otherwise. So that there is kind of a stimulus to activity which results from the Federal Government's engaging in this lending activity.

It is probably true, or at least we think, that per dollar this lending activity does not have as much effect as expenditures and receipts, although there is great variation in the economic effects among expenditures and among kinds of receipts.

Chairman PROXMIRE. One thing, a lot of the—some of the loans probably would not have been made. Some of them would have been made. Some of them were made because it is desirable to make them at a lower rate of interest; for example, college housing. How that would—whether or not you would have roughly the same amount of college housing borrowing without the 3-percent subsidy, we do not know. But anyway, the Congress and the President thinks this is a good public policy to provide that kind of a subsidy.

Mr. STEIN. Yes. I am not answering about the policy, but what the economic effect is. But this is also true about some expenditures. There is some housing that is constructed publicly and appears clearly as an expenditure and might have been constructed privately if it had not been built publicly. But as long as you cannot think that the lending has zero effect, then which of these two budgets gives you a better measure of the economic impact depends on the relative sizes of the effects. Even if we agree that the expenditure effect is bigger than the lending effect, the budget excluding the lending effect will not give you a better measure of the total impact unless the expenditure effect is much bigger than the lending effect. And even then the answer will depend on the relative sizes of these two quantities.

Suppose the expenditure budget as defined by this Commission were always in balance so the deficit was always zero and you had net lending running between minus 10 and plus 10, and so on, billion dollars per year. Then the whole variability of the effect of Federal finance would appear in these loan transactions, and you would certainly have lost something if you left them out.

Ideally, I think we would like to assign weights to these various components of Federal finance and say that an expenditure counts 1.5 times as much as a net loan, but we do not have any idea what these weights are, I think.

Chairman PROXMIRE. So there is no really satisfactory way to solve this problem. But you think that the expenditure account is probably not as good an account as—

Mr. STEIN. No; I would not say that. But I would say that being uncertain about what is the correct answer from that standpoint, I look for some other standpoint for choosing a budget concept, and I say to myself, well, if we put the loan transaction outside the budget so that attention focuses on this particular budget which excludes them, you create an invitation for Congress to finance programs through loans, to convert what might otherwise be expenditure programs into loan programs. Well, I do not think that is a good idea.

Chairman PROXMIRE. As a understand it, though, the Commission was careful to say, to indicate in their judgment the economic effect