

discussed more fully below, and after careful deliberation, the Commission recommends that:

*The budget should include the receipts and expenditures of trust funds. This recommendation fully recognizes that individual trust funds must be accounted for separately, and that their activities must be reported on in a way which allows the identity and integrity of trust fund transactions and balances to be preserved.*

The trust fund programs have grown rapidly since the 1930's when most of the large funds were established. The exclusion of this large and growing volume of Federal activity from the administrative budget was an important reason for the development of the consolidated cash budget concept. In recent decades, considerable significance has been attached to the difference between the *Federally owned funds* included in the administrative budget, and the *trust funds* which were excluded. In theory, trust funds do not *belong* to the Federal Government; the Federal Government acts only as *trustee* for them. Old-age and survivors insurance, unemployment insurance, Federally aided highway construction, medicare, and civil service retirement represent some of the important and sizable programs handled through trust funds, rather than through Federally owned funds.

There has never been a question of the Federal Government's responsibility for determining the size and shape of the major trust fund programs, or for altering or redirecting these programs by appropriate changes in legislation. In fact, legislation changing contribution formulas or tax rates affecting trust fund revenues, or changing benefit and grant formulas affecting trust fund expenditures, has come to be expected with increasing frequency. Legislative changes affecting one or another of the major trust funds occur almost every year. Rather than removing funds from the influence of the administration or the Congress, the trust fund technique, in the case of major trust funds, earmarks certain expenditure programs for financing by specific taxes or other revenue sources. This couples the benefits and costs of these programs more closely, and it also lends a degree of assurance to beneficiaries and grantees that trust fund benefit or grant schedules once established will be protected.

The partial isolation from the budget and appropriations processes that results from financing programs through trust funds has its warm defenders and severe critics. The major criticism comes from those who want the budget process to embrace more fully and flexibly the relative costs and effectiveness of alternative approaches to program objectives and social needs.

With the passage of time, trust fund activities have loomed larger in both absolute and relative magnitude in the total picture of Federal Government receipts and expenditures. Receipts, expenditures, and the surplus or deficit in Federally owned funds, therefore, have correspondingly less significance.