

an example. The Agency for International Development, the Treasury and other Federal agencies have almost \$12 billion in foreign loans outstanding made on noncommercial terms. These loans have a somewhat different status than domestic loans or other foreign loans made on commercial terms—such as Export-Import Bank loans—in part because experience is inadequate to determine an appropriate allowance for losses.

There are also certain cases where the entire loan is really more like a transfer payment or direct expenditure than it is a loan. The most obvious cases are the nonrecourse loans extended to farmers by the Commodity Credit Corporation where there is no obligation to repay either principal or interest if the farmer calculates that he would be better off forfeiting the commodities he has posted as collateral than repaying the loan. This type of “loan” is really an expenditure in the form of a deferred purchase of commodities by the Commodity Credit Corporation, and is so treated in the national income accounts.

Loan subsidies

Most Federal loan programs contain at least some element of subsidy. In fact, if this were not true, a serious question could be raised about the appropriateness of such activities being conducted by the Federal Government rather than by private financial institutions. To the extent that Federal loans include a subsidy element by lending at more favorable interest rates than the cost of money to the Government (or the even higher cost of money obtained through private sources) they are at least in part grants or transfer payments rather than loans.

It is not difficult to measure, at least conceptually, the extent to which “loans” are really transfer payments rather than pure loans from the standpoint of interest subsidy. If, for example, the Federal Government lends \$100 for 40 years on an amortized basis at an interest rate of 2%, but would have to pay 5% to borrow the money from the public for the same term of years, that “loan” is worth only about \$63—not \$100. The smaller amount represents the amount which if lent for 40 years at 5% interest would require the same annual repayments as \$100 lent at 2% interest over the same period of time. Thus, the borrower is receiving an asset worth \$100 but the Government is getting an asset in return worth only about \$63. The difference of about \$37 represents a Federal payment to him comparable to an ordinary government expenditure rather than a loan. This calculation does not purport to measure the full *value* of the interest subsidy to the borrower, but rather the major element of the *cost* to the Treasury of the interest subsidy. That cost to the Treasury is now in effect included over the life of the loan in budget expenditures for interest on the public debt, but is not directly identified in the budget.

It is the Commission's recommendation that the full amount of the interest subsidy on loans compared to Treasury borrowing costs be re-