flected and specifically disclosed in the expenditure account of the budget, and furthermore, that it be measured on a capitalized basis at the time the loans are made.

There are several alternative accounting procedures which could be followed in this capitalization of the subsidy and the best method should be prescribed only after careful consideration of the problems involved by the Bureau of the Budget and associated agencies. The problems connected with accounting for these subsidies, while difficult, do not appear insuperable, however.

Nor are the amounts large in relation to total loan programs as included in the loan account of the budget recommended by the Commission. For example, for the fiscal year 1966, a very rough and unofficial analysis revealed less than $\$1/2$ billion in capitalized interest subsidy on new loan disbursements of close to \$14 billion. The importance of spelling out the amount of loan interest subsidy is, however, not so much in revealing the dollar effect within the budget as in providing a better measuring stick to the government policymakers to help them decide on the relative merits of allocating resources among competing direct loan programs or between loans on the one hand and grants-in-aid or direct expenditures on the other.

The Commission also recommends that effective measures be developed to reflect (in the expenditure rather than the loan account of the budget) the further subsidy involved in the fact that Federal loans have a larger element of risk than Treasury borrowing. This should be done by creation of allowances for losses and making appropriate credits to those allowances and charges to expense as new loans are extended.

The loss experience on old established loan programs is one guide to the establishment of allowances for losses for those and similar programs. In fact the business-type accounting statements for many such programs, included in the detailed budget *Appendix* and in published Treasury reports, do include loss reserves now. On the other hand, there may be no experience from which to calculate the appropriate amount to be set aside as an allowance for losses in new loan programs where both the type of loan and the quality of the borrowers are unfamiliar to the lending agency. Nor would Government officials often wish to forecast through the medium of large allowances for losses projected in the budget, that a proposed new loan program is expected to result in heavy defaults, even if that were a reasonable expectation. It may be, therefore, that in some instances losses temporarily will have to be reflected in the budget only when they occur, rather than by trying to set up allowances in advance. The Commission is firm in its recommendations, however, that allowances for losses should be set up in all programs as soon as their feasibility is determined under Government-wide rules to be promulgated after further study and consultation among the principal Government agencies concerned.