

It's Time to Overhaul the \$10 Trillion Federal Credit Enterprise To Make it More Effective and Less Costly for Taxpayers, Brookings' Elliott Testifies

Offers nine recommendations for enhancing effectiveness and efficiency of federal loan and guarantee programs

Federal credit programs must be more effective in deploying capital to those most in need of subsidies and reduce the cost burden for taxpayers by better managing risk, streamlining and standardizing lending processes, and appropriately evaluating new and existing credit programs, [testified](#) Brookings Fellow [Douglas Elliott](#) before the Joint Economic Committee of Congress today.

Elliott affirmed that “well-designed federal credit programs are an appropriate response when there are imperfections in credit markets that cannot readily be solved in other ways.” Underscoring the need for programs to be well-designed, Elliott offered nine recommendations for improving these programs from his book [Uncle Sam in Pinstripes: Evaluating US Federal Credit Programs](#), including to:

- Target borrowers more carefully
- Take more account of the relative risk of different loans
- Use the same budget rules for all federal credit programs
- Use risk-based discount rates for federal budget purposes
- Formalize the process of initiating new credit programs
- Create a federal bank to administer all credit programs
- Focus more on optimizing the allocation of money between programs
- Spread best practices more effectively
- Improve the compensation and training of federal financial workers

In line with the purpose of the hearing, Elliott focused his testimony particularly on the desirability of revising the budget rules for federal credit programs to use risk-based discount rates. He argued that taxpayers *do* care about the risk of credit losses that might require future tax increases, just as shareholders of public companies care about potential losses. The government ought to use discount rates that appropriately reflect the risk, for the same reasons that economists virtually unanimously believe that private enterprises ought to use risk-based discount rates. Further, the behavioral effects of the current risk-blind approach are quite negative. Reflecting risk in federal budget figures would encourage programs to be structured and operated in ways that decreased risk.

[Read the full testimony.](#)