A Primer on Federal Budgets

By JOSEPH SCHERER*

The Federal budget is a multipurpose document. Its original purpose had been, and its main purpose continues to be, to provide a system of planning and control over Government activities by the executive and legislative branches. In this respect, it serves the same functions that a budget plan performs for an individual or a business. But, unlike the budget of any other single economic unit, the Federal budget because of its sheer size—some $90-120 billion per year, depending upon the particular budget concept used—exerts a potent influence on the nation's economy. This influence, moreover, is being increasingly directed, as a matter of deliberate policy, toward assisting the economy to attain, and sustain, high levels of employment and economic activity. Not only have these growth and stability goals been incorporated in legislation, as in the Employment Act of 1946, but there appears to be a growing consensus among the citizenry that it is appropriate and desirable for the Federal Government to pursue such goals.

In order to evaluate how the Federal Government carries out these housekeeping and policy purposes, it is necessary to examine budget data, totals as well as components. This is not easy, since the needs of analysts have led to the development of a number of concepts that at times appear to provide conflicting data. For example, different dollar magnitudes can be found for categories designated by the same general name. Thus, the data for fiscal 1964 (the year ended June 30, 1964) show the Federal deficit as $8.2 billion in the administrative budget, or $4.8 billion in the consolidated cash budget, or $3.9 billion in the national income account budget. Likewise, for the current year, fiscal 1965, the Bureau of the Budget estimates the deficit will be $6.3 billion in the administrative budget, $4.0 billion in the cash budget, and $5.0 billion in the national income account budget. These three different deficit amounts are, of course, neither arbitrary nor unnecessary. Instead, they reflect an attempt to provide appropriate data for unraveling some exceedingly complicated economic and accounting relationships.

As a very abbreviated summary, each of the three widely used measures of the Federal budget has its own appropriate use. Yet each measure, singly, as well as all measures together, still leaves something to be desired in terms of providing a complete picture of the role of the Federal Government in the economy. For example, none of the budgets integrate complete information, on a current basis, about Government lending activities and guarantees of loans, although this information may be assembled from other sources.

The administrative budget provides data which are most useful to the Government itself for housekeeping and control purposes. Because of the detail given for individual agencies and the availability of detailed monthly data, the administrative budget may prove helpful to an analyst focusing on some narrow aspect of the Federal impact on the economy.

The consolidated cash budget provides the most comprehensive view of Federal expenditures and receipts. Changes in these flows have a direct impact on the Government's cash balances and constitute a major determinant of Treasury debt operations with the non-Federal sector.

Finally, the Federal sector in the national income accounts is often used for formulating and analyzing problems primarily in the framework of the national income and product accounts data.

It is the purpose of this article to delineate in broad terms the uses and limitations of the alternative budget series and also to indicate the typical sources where these data can be found. First, the budget process is briefly described. Then an explanation is given of the basic characteristics of each budget concept, of some of the interlocking relationships among the budgets, and of the way in which each budget serves different analytical or administrative purposes.

* Economist, Domestic Research Division.

THE BUDGET PROCESS

The President's budget message, and its accompanying documents, usually delivered to Congress in the third week of January, present a comprehensive view of Federal spending and receipts for the current and the next fiscal year. (The Federal Government's fiscal year runs from July 1 of one year to June 30 of the following year and is identified by the year in which it ends.) Implementation of the tax and spending programs described in the budget is dependent upon legislation already in effect, as well as on new legislation still to be enacted. The new legislation does not come in a single package, but is introduced and considered by Congress in separately proposed and separately enacted bills. It will be useful to consider for a moment the general process by which a bill is enacted, and then to focus more specifically on what further steps are necessary before a particular agency can actually spend funds for a program.

Each new activity of the Federal Government (or extension of an old activity) must be authorized by a bill which has passed both houses of Congress and has been signed by the President.[1] Such bills are considered first by the appropriate legislative committee responsible for the subject area (true of both the House of Representatives and the Senate), which in turn typically refers the bills to subcommittees specializing in particular segments of the over-all area covered by the full committee. After the relevant legislative subcommittee and committee have approved the bill—including, if necessary, authorization to appropriate up to a given amount of money for the program—the bill is brought to a vote before the full membership of each branch of Congress.

For major legislation in the House of Representatives, the Rules Committee ordinarily acts as an intermediary to determine when legislation can reach the floor for consideration. Failure of the Rules Committee to bring out a bill produces complications since the bill cannot be voted on by the full chamber, except by a cumbersome procedure which is not often tried. If the bills for a particular program passed by the two houses differ in any respect, these differences must be resolved by a conference committee composed of members of the two houses, so that identical bills can be resubmitted for passage in each house and then transmitted to the President for signature.

The above procedure only authorizes the program in a general way. Actual authority to spend funds typically involves a further step—the passage of an appropriations bill again by both houses of Congress, which is then signed by the President. An appropriations bill follows the same general procedure as any substantive legislation, that is, it must pass a subcommittee, then a full committee, and then the full chamber. But for an appropriations bill, no matter what Government agency or subject area is involved, the bill starts its trip in the Appropriations Committee of the House of Representatives before it can be voted upon by the full House and similarly must be passed by the Senate Appropriations Committee before it can be voted on by the full Senate.

In effect, then, legislation requiring the spending of money typically goes through two complete rounds of legislative approval—first, the act authorizing the program (with a bill considered first by the subject area committees) and, secondly, the act providing the funds for the program (with a bill originating in the appropriations committees). And it is important to note that the amount of the appropriations bill need not be the whole amount authorized in the legislation setting up the new program (first round). Since control over the scope of any program is ultimately determined by the amount of money made available, it is obvious that the appropriations committees in the two houses occupy a strategic position. Appropriations bills, however, are not the only avenue by which a Government agency can obtain the right to spend, although it is the most important one.

A Government agency acquires the authority to spend money from legislation providing new obligational authority (NOA). The NOA may be given in any of three forms—appropriations, contract authorizations, and authorizations to expend from debt receipts. Only the first two are directly under the control of the appropriations committees of the two houses.

1. APPROPRIATIONS. These permit an agency to order goods and services and draw funds from the Treasury to pay for these goods and services up to some stated amount. Most spending takes this form. Although appropriations are usually limited to one year, some may cover several years or be "no year" (i.e., available until expended) because of the long-term nature of the project. The Defense Department holds the bulk of these multi-year appropriations. There are also "permanent appropriations", such as for interest on the debt, which do not require new action by Congress when additional funds are needed.

[1] Some bills, of course, are passed over a Presidential veto, and a few bills have become law without Presidential signature under the Constitutional provision that, if the President does not sign or veto a bill, it becomes law after ten days provided that Congress is in session.

2. CONTRACT AUTHORIZATIONS. These allow an agency to contract for goods and services, but payments cannot be made until Congress passes an appropriation to provide funds for the obligations incurred.

3. AUTHORIZATIONS TO EXPEND FROM DEBT RECEIPTS. These allow agencies to borrow money, generally through the United States Treasury, to contract for the purchase of goods and services, and to pay for them with the borrowed funds. This procedure has been called "back door" financing and has been subjected to criticism by some members of Congress because the appropriations committees have no say in establishing the actual amount of spending by the agency under this system. Instead, the authority to borrow from the Treasury—and the amount —are given in the legislation authorizing the program. Under this arrangement, an agency may carry on its activities indefinitely without recourse to any annual appropriations, unless otherwise specified in the law. Many of the Government loan programs have been set up in this fashion since it is usually expected that such programs will sooner or later be self-supporting.

NOA is generally considered the avenue whereby Congress can control the size of the budget. An increase in NOA for a fiscal year above the amount for previous years suggests that Government spending will grow. The failure of NOA to rise, however, may not be significant since Congress may merely have legislated NOA at levels below the amounts needed to pay for commitments under already existing programs. For example, some veterans' programs specify benefit payments to veterans eligible under specified conditions. If NOA for a program of this type is cut without changing the eligibility requirements and claims under the program are greater than projected, then supplementary appropriations must be voted before the end of the fiscal year in order to prevent default on a commitment made by the Government.

NOA, including carry-overs from prior years, represents the potential level of spending for a particular program. By contrast, obligations are commitments already made which will require spending of funds—funds available to the agency from obligational authority previously granted.[2] Expenditures are the end of the line which runs from NOA to obligations to expenditures.

Spending in any single fiscal year is always made up of a combination of spending from appropriations carried over from previous years as well as from appropriations newly legislated. In fiscal 1966, for example, the Administration's recent budget document estimates that $27.6 billion will be spent from the pool of previously authorized NOA—to pay for those parts of long-range programs now under way which will be completed during fiscal 1966. An additional $72 billion will be spent in fiscal 1966 from part of the NOA that the President is asking for in his budget message. Thus, total spending (in the administrative budget) is expected to amount to $99.7 billion—part out of existing multiyear appropriations and part out of new appropriations to be voted this year, which will include some new multiyear appropriations to be spent over several successive fiscal years, roughly at the pace that the programs are carried out.

Expenditures usually take the form of the issuance of a check which, when cashed, will reduce the Treasury's balance at a Federal Reserve Bank. But there are exceptions. Sometimes an expenditure takes the form of the issuance of a security, as in the case of payments of subscriptions to the International Monetary Fund (IMF), which raises the debt but does not reduce the Treasury's cash or bank balances. Since payment by issuance of a security does not affect the Treasury's cash balance, it is therefore not a cash budget expenditure; it is, however, listed as an expenditure in the administrative budget and raises the debt. It does not become a cash expenditure until the security is redeemed (by the IMF in the illustration cited). At that time, the cash balance will be reduced and the transaction will also reduce the amount of outstanding Government debt. Ordinarily, retirement of Federal debt is not counted as an expenditure but as a debt transaction, which is similar to private accounting practice in distinguishing between "current" transactions and balance-sheet transactions.[3]

ADMINISTRATIVE BUDGET

When reference is made to *"the* budget" in the press or in the halls of Congress, it almost invariably means the administrative budget. The President is required by the

[2] Obligations, particularly of the Department of Defense, have sometimes been interpreted as a good approximation of a "new orders" series. Such an interpretation is incorrect, because obligations also include commitments for expected disbursements for the wages and salaries of Government employees.

[3] Of course, debt operations—selling or retirement of securities—will change the level of the Treasury's cash balance but will not be recorded as a receipt or expenditure. In other words, transactions in United States Government debt instruments are usually classified as debt operations and are not included in budget transactions.

Table I

FEDERAL BUDGETS AND THEIR DATA SOURCES
Fiscal 1964 and fiscal 1965

In billions of dollars

Item	Administrative budget		Cash budget (DTS basis)*		Consolidated cash budget — receipts from and payments to public		National income account budget	
	Fiscal 1964 (actual)	Fiscal 1965 (estimate)	Fiscal 1964 (actual)	Fiscal 1965 (estimate)	Fiscal 1964 (actual)	Fiscal 1965 (estimate)	Fiscal 1964 (actual)	Fiscal 1965 (estimate)
Receipts	89.5	91.2	121.6	‡	115.5	117.4	114.7	116.0
Expenditures	97.7	97.5	125.6†	‡	120.3	121.4	118.5	121.0
Surplus (+) or deficit(—)	— 8.2	— 6.3	— 4.0	‡	— 4.8	— 4.0	— 3.9	— 5.0
Type of data	Monthly seasonally unadjusted, available with a three-week lag. The Budget projects annual data for the current fiscal year and the next fiscal year based on the Administration's economic assumptions and proposed programs.		Daily and monthly seasonally unadjusted, available with a three- to four- day lag.		Monthly and quarterly unadjusted, quarterly seasonally adjusted, available with a one-month lag. The Budget projects annual data for the current fiscal year and the next fiscal year based on the Administration's economic assumptions and proposed programs.		Quarterly seasonally adjusted, available with a two-month lag (complete expenditure data and all receipts data except corporate profits tax accruals available with a one-month lag). Quarterly unadjusted, available in February and July. The Budget projects annual data for the current fiscal year and the next fiscal year based on the Administration's economic assumptions and proposed programs.	
Sources of data	Treasury Department: Monthly Statement, Treasury Bulletin; Survey of Current Business; Federal Reserve Bulletin; Economic Indicators; The Budget		Treasury Department: Daily Statement*, Treasury Bulletin		Treasury Department: Monthly Statement, Treasury Bulletin; Survey of Current Business; Federal Reserve Bulletin; Economic Indicators; The Budget		Survey of Current Business; Economic Indicators; The Budget	

Note: Because of rounding, figures do not necessarily add to totals.
* Daily Statement of the United States Treasury (DTS).
† Includes clearing account.
‡ Full reconciliation to DTS basis for estimates is not available.
Source: *The Budget of the United States Government*, Fiscal 1966.

Budget and Accounting Act of 1921 to submit this budget to Congress every January in order to initiate a new round in the legislative process authorizing funds to support the activities of the regular Government agencies. These agencies are "controlled" by Congress through the power of the purse, i.e., Congress determines how much each agency shall have to spend by specifically approving dollar amounts for various purposes in an appropriations bill (which may lump together a number of agencies).

The administrative budget covers only those agencies for which Congress makes regular appropriations. Prior to the 1930's, this budget was a good measure of total Government activities. However, with the establishment and growth of self-financing agencies—whose operations are not included in the administrative budget—this budget has become an increasingly less adequate measure of the Federal Government sector. Government activities excluded from the administrative budget are the trust funds (of which the best known are the various social insurance funds) and quasi-public agencies, such as the Federal Home Loan Banks. These additional activities in recent years have added some $25 billion to $30 billion a year to Federal receipts and expenditures, as recorded in the cash budget.[4]

In addition to the direct exclusion of certain activities from the administrative budget, there are some accounting conventions in this budget which must be recast in constructing the cash budget and the Federal budget in the national income and product accounts. An example of these conventions can be seen in the treatment of interest payments. Interest payments for fiscal 1964 totaled $10.8 billion in the administrative budget, while actual cash outlays for interest payments totaled only $8.0 bil-

[4] Many of these activities (trust accounts) are financed by special earmarked taxes, while others (lending agencies) are financed, at least in part, by borrowing from the Treasury or in the market.

lion.[5] The bulk of some $3 billion of *noncash* interest is accounted for by "bookkeeping" payments by the Government to itself (intragovernmental transactions) for securities held by the trust funds and by the accrual of interest on outstanding Government securities, most notably savings bonds and Treasury discount bills, which becomes a cash expenditure when the savings bonds or Treasury bills are turned in for payment. Other intragovernmental transactions are included in the administrative budget figures, both for receipts and expenditures, in order to allocate these expenses and receipts more properly to the individual agencies concerned. This procedure raises the total of Government receipts and expenditures above the amount shown for the same agencies in the cash budget (described in the next section), because the cash budget eliminates intragovernmental transactions. However, the difference between the cash and the administrative figures for a particular agency in any given year is likely to be relatively small, compared with the total, except for interest payments as just discussed and for those agencies whose operations include trust fund functions, most notably the Department of Health, Education, and Welfare.

Despite its incomplete coverage of the Federal sector, the administrative budget is a source of valuable data to persons interested in knowing how much is spent by a "regular" Government agency and its major divisions. Data for this budget are published in the Treasury's *Monthly Statement of Receipts and Expenditures of the United States Government*, approximately three weeks after the end of each month (see Table I). To the extent that a Government agency, or activity, can be closely identified with a specific activity or segment of the economy (for example, the National Park Service, Rivers and Harbors and Flood Control, or Military Construction), these outlays as summarized in the *Monthly Statement* indicate the current scope of Government activities in the area concerned. Perhaps the most widely used data in the *Monthly Statement*, other than the summary budget totals, are those which give the breakdown of Defense Department spending by functional category—such as research and development, military construction, etc. (More detailed spending and order data are released directly by the Defense Department but are typically available with a much longer time lag than the administrative budget data.) Annual data classified by broad functional categories are given in the budget itself and usually in the budget review, generally issued after each Congressional session; current data appear in the *Monthly Statement* and in the *Treasury Bulletin*.

[5] Net interest paid in the Federal sector of the national income accounts for fiscal 1964 was $8.1 billion, compared with $8.0 billion in the cash budget. Usually the difference in levels for interest payments in the cash and national income budgets has been larger than that shown for fiscal 1964. The reason for differences in levels is discussed in the section devoted to the national income version of the budget.

CASH BUDGET

The cash budget is the most comprehensive budget statement issued by the United States Government and is designed to show the cash flows between the Federal Government and other sectors of the economy. Unlike the administrative budget, it covers not only the activities of the regular Government agencies found in the administrative budget but also the cash flows associated with the activities of the trust funds (such as social security) and Government-sponsored enterprises (such as the Federal Home Loan Bank Board). Like the administrative budget, it also covers the purchase and sale of assets (both "real", such as buildings, and "financial", such as mortgages and other loans). However, as noted earlier, certain items, e.g., interest payments, treated as accrual items in the administrative budget are placed on a cash basis. For many years a substantial number of economists have regarded the cash budget as the best measure of the total impact of the Federal Government on the economy.

Total expenditures and receipts in the cash budget are larger than in the administrative budget, since the cash budget includes a wide range of Government activities omitted from the administrative budget. Nevertheless, because the cash budget eliminates many transactions of Government agencies with each other (intragovernmental transactions), it records certain Government activities at lower levels than the administrative budget (for example, interest payments, as noted previously). The total of cash budget expenditures, however, does understate the full magnitude of the cash flows between the Government and the private sector, as some agencies are listed only on a *net* basis on the expenditures side. The Post Office, for example, is recorded as having spent $600 million in fiscal 1964—but this amount represents only "net expenditures" obtained after deducting postal receipts (sale of stamps, etc.) from total postal expenditures. Government corporations are also typically recorded only on a net basis. The device of netting, incidentally, is not restricted to the cash budget; it also affects some of the data reported in the administrative budget, as mentioned earlier, and in the national income budget.

The cash budget in the form of "receipts from and payments to the public" is also called "the consolidated

cash budget". Annual data giving a functional breakdown for receipts and expenditures are published in the budget and in the budget review (with some exceptions). Monthly data are also available (with functional breaks) for this cash budget in the *Federal Reserve Bulletin*, but seasonally adjusted data are available only on a quarterly basis and only for total cash income, total cash outgo, and the resultant cash surplus or deficit.

Detail for some ten categories of receipts and expenditures are available in a variant of the cash budget known as the *Daily Statement of the United States Treasury* (DTS) which excludes a few Government corporations whose accounts are not commingled with the Treasury's. These DTS data, *not* seasonally adjusted, are published for each working day, with a lag of about three or four days and are cumulated to a monthly total and for the fiscal year to date. The DTS data are used by analysts who are particularly interested in the level of, or changes in, the Treasury's cash balances and by those who need current data (daily and monthly totals) for major categories of Government receipts and expenditures and for debt operations.

Table II

FEDERAL EXPENDITURES AND RECEIPTS
ADMINISTRATIVE BUDGET AND CONSOLIDATED CASH BUDGET
Fiscal 1964-66

In billions of dollars

Type of transaction	Administrative budget			Consolidated cash budget		
	Actual	Estimate		Actual	Estimate	
	1964	1965	1966	1964	1965	1966
Receipts						
Individual income taxes	48.7	47.0	48.2	48.7	47.0	48.2
Corporation income taxes	23.5	25.6	27.6	23.5	25.6	27.6
Excise taxes (net)	10.2	10.7	9.8	13.7	14.4	13.7
Employment taxes	—	—	—	16.8	16.7	18.7
Estate and gift taxes	2.4	2.8	3.2	2.4	2.8	3.2
Customs	1.3	1.4	1.5	1.3	1.4	1.5
Deposits by states, unemployment insurance	—	—	—	3.0	3.0	2.9
Veterans' life insurance premiums	—	—	—	0.5	0.5	0.5
Other budget and trust receipts	—	—	—	5.6	6.1	7.1
Miscellaneous budget receipts	4.1	4.5	4.7	—	—	—
Interfund transactions	− 0.7	− 0.8	− 0.6	—	—	—
Total	89.5	91.2	94.4	115.5	117.4	123.5
Expenditures by function						
National defense	54.2	52.2	51.6	54.5	52.8	52.5
International affairs and finance	3.7	4.0	4.0	3.5	3.6	4.2
Space research and technology	4.2	4.9	5.1	4.2	4.9	5.1
Agriculture and agricultural resources	5.6	4.5	3.9	5.8	4.6	4.1
Natural resources	2.5	2.7	2.7	2.6	2.8	2.9
Commerce and transportation	3.0	3.4	2.8	6.5	7.4	6.5
Housing and community development	− 0.1	− 0.3	•	1.7	− 0.2	0.7
Health, labor, and welfare	5.5	6.2	8.3	27.3	28.9	34.1
Education	1.3	1.5	2.7	1.3	1.5	2.6
Veterans' benefits and services	5.5	5.4	4.6	6.1	6.0	5.1
Interest	10.8	11.3	11.6	8.0	8.5	8.8
General government	2.3	2.4	2.5	2.2	2.4	2.4
Unallocated and interfund transactions	− 0.7	− 0.7	− 0.1	—	—	—
Deposit funds (net)	—	—	—	− 0.6	•	•
Undistributed adjustments	—	—	—	− 2.9	− 1.8	− 1.6
Total	97.7	97.5	99.7	120.3	121.4	127.4

Note: Because of rounding, figures do not necessarily add to totals.
• Less than $50 million.
Source: *The Budget of the United States Government*, Fiscal 1966.

A comparison of the consolidated cash budget and administrative budget expenditures on a functional basis is shown in Table II. Differences for the same function, if large, are likely to reflect differences in coverage and in the treatment of intragovernmental transactions in the two budgets. In addition, relatively small differences in amount arise for functions called by the same general name in the two budget accounts because of differences in the accounting techniques used in recording these expenditures for the different budget accounts.

The surplus or deficit of the cash budget (not the administrative budget) will determine how the balances held by the Treasury will change. When a surplus is generated, the balances rise and Government debt held by the public may be retired. On the other hand, cash deficits, depending upon the level of the cash balance, may require that the Government borrow from the public in order to pay its bills. Consequently, the net flows as recorded in the cash budget are one of the major determinants of Government debt operations.

But there is no one-to-one correspondence between cash deficits and Government debt operations. A deficit can be financed simply by running down the cash balance. Alternatively, the Government may borrow to build up its cash balance rather than to meet a deficit in the cash budget. Moreover, the average level of balances maintained by the Government varies from time to time by substantial amounts which are determined by operating and policy considerations not directly related to the cash surplus or deficit.

THE NATIONAL INCOME ACCOUNT BUDGET

The Federal budget in the national income and product accounts (NIP) records the receipts and expenditures of the Government sector as an integrated part of the recorded activities of other sectors of the economy. The national income accounts, sometimes called "the GNP

accounts", are a measure of current output (both goods and services) in the economy. The Federal sector data have gained wide currency in the last three years, since the President's Council of Economic Advisers has often used this version of the budget for its analyses of Federal fiscal impact.

Like the cash budget, the Federal sector account is a more comprehensive statement than the administrative budget. It differs from the cash budget, however, by restricting itself to receipts and expenditures which reflect the direct impact of Government spending and tax programs on the flow of current income and output, as measured by the national income accounts. A broader measure of the economic impact of the Government would include not only the direct impact but also influences on asset holdings and liquidity—which may indirectly affect income and output. Thus, such a measure would allow for the effect of all transactions involving existing assets, as well as any assets of a purely financial character (bonds, mortgages, loans, etc.).

On the expenditures side, the cash budget records spending at the time of payment, but in the NIP concept spending is typically recorded when delivery is made to the Government sector—which often does not coincide with the time of payment.[6] On the receipts side, the national income budget differs from the cash budget most importantly in recording corporate profits taxes when the tax liability is incurred rather than when the tax payment is made.

Expenditures in the Federal sector account are classified into five categories (see Table III) which identify the basic economic import of the expenditures. The largest single category, accounting for more than half of the total, is "purchases of goods and services". Such purchases are one of the major components of total GNP as viewed from the product side—the others being personal consumption expenditures, domestic investment, net exports, and state and local government purchases. The next largest category of Federal expenditures, approximately one fourth of the total, is "transfer payments", defined as payments for which no goods or services have been rendered in exchange. These are mainly made to individuals and include such items as old-age pensions and unemployment benefits. Although transfer payments are not directly included in GNP, they do affect GNP indirectly because they add to disposable personal income which in turn strongly affects personal expenditures on goods and services. The other three items, accounting for less than one fifth of total Federal expenditures, are (1) "grants-in-aid to state and local governments", which increase the receipts of these governmental units and, in turn, are spent by these units for goods and services or for transfer payments; (2) "net interest paid", which adds to personal income but is not counted as part of GNP;[7] and (3) "subsidies less current surplus of Government enterprises", a category

Table III

FEDERAL RECEIPTS AND EXPENDITURES IN THE NATIONAL INCOME ACCOUNTS
Fiscal 1964-66

In billions of dollars

Type of transaction	Actual	Estimate	
	1964	1965	1966
Receipts			
Personal tax and nontax	51.4	50.3	52.2
Corporate profits tax accruals	23.5	23.9	24.7
Indirect business tax and nontax accruals	16.0	16.8	16.1
Contributions for social insurance	23.8	25.0	28.0
Total	114.7	116.0	121.0
Expenditures			
Purchases of goods and services	66.1	65.9	66.7
Transfer payments	30.4	31.8	35.2
Grants-in-aid to state and local governments	9.8	10.7	13.0
Net interest paid	8.1	8.5	8.6
Subsidies less current surplus of Government enterprises	4.1	4.1	3.5
Total	118.5	121.0	127.0
Surplus (+) or deficit (—)	— 3.9	— 5.0	— 6.0

Note: Because of rounding, figures do not necessarily add to totals.
Source: *The Budget of the United States Government*, Fiscal 1966.

[6] It should be noted that the "delivery" concept for recording purchases (or spending) is the standard national income accounts treatment for purchases made by all sectors of the economy (and not only the Government sector). Goods produced, but not yet delivered, show up in the inventory component of gross national product (GNP).

[7] Interest paid by the Federal Government is considered as part of personal income, though, unlike private interest payments, it is not included in total GNP because Federal Government interest payments are not viewed as income arising out of current production. Government interest in NIP excludes intragovernmental payments (similar to the cash budget) but treats certain items, such as interest on Treasury bills and savings bonds, on an accrual basis (similar to the administrative budget). Therefore, the interest total in NIP is likely to be different from that in the cash and the administrative budgets.

which records the net of subsidy payments to private business offset by any profits made by Government agencies.

This five-part classification is very useful in differentiating broadly, and in a way not available from any other source, between analytically distinct types of Government spending. Moreover, additional details for some of these categories, available on an annual basis only, further enrich our understanding of the composition of Government spending. However, the delivery basis for recording Government expenditures on goods and services sometimes fails to identify properly the time period when the Government is significantly influencing the level of private

Table IV

RECONCILIATION OF ADMINISTRATIVE BUDGET AND CASH BUDGET TO FEDERAL RECEIPTS AND EXPENDITURES IN THE NATIONAL INCOME ACCOUNTS
Fiscal 1964

In billions of dollars

Type of transaction	Administrative budget total	Adjustments from administrative to cash budget	Consolidated cash budget total	Adjustments from cash to national income account budget	National income account budget total
Receipts					
Administrative budget receipts	89.5	—	—	—	—
Less: Intragovernmental transactions	—	4.2	—	—	—
Receipts from exercise of monetary authority	—	0.1	—	—	—
Plus: Trust fund receipts	—	30.3	—	—	—
Equals: Federal cash receipts from the public	—	—	115.5	—	—
Adjustments for agency coverage:					
Less: District of Columbia revenues	—	—	—	0.3	—
Adjustments for netting and consolidation:					
Less: Interest and other earnings	—	—	—	1.4	—
Plus: Contributions to Federal employees' retirement funds, etc.	—	—	—	2.0	—
Adjustments for timing:					
Plus: Excess of corporate tax accruals over collections, personal taxes, etc.	—	—	—	— 0.7	—
Adjustments for capital transactions:					
Less: Realization upon loans and investments, sale of Government property, etc.	—	—	—	0.6	—
Equals: Receipts—national income budget	—	—	—	—	114.7
Expenditures					
Administrative budget expenditures	97.7	—	—	—	—
Less: Intragovernmental transactions	—	4.2	—	—	—
Accrued interest and other noncash expenditures	—	2.0	—	—	—
Plus: Trust fund expenditures (including Government-sponsored enterprise expenditures net)	—	28.9	—	—	—
Equals: Federal cash payments to the public	—	—	120.3	—	—
Adjustments for agency coverage:					
Less: District of Columbia expenditures	—	—	—	0.3	—
Adjustments for netting and consolidation:					
Less: Interest received and proceeds of Government sales	—	—	—	1.4	—
Plus: Contributions to Federal employees' retirement funds, etc.	—	—	—	2.0	—
Adjustments for timing:					
Plus: Excess interest accruals over payments on savings bonds and Treasury bills	—	—	—	0.9	—
Excess of deliveries over expenditures and other items	—	—	—	1.5	—
Less: Commodity Credit Corporation foreign currency exchange	—	—	—	0.6	—
Adjustments for capital transactions:					
Less: Loans—Federal National Mortgage Association secondary market mortgage purchases, redemption of International Monetary Fund notes, foreign assistance, etc.	—	—	—	3.4	—
Purchases of land and existing assets	—	—	—	0.5	—
Equals: Expenditures—national income budget	—	—	—	—	118.5
Surplus (+) or deficit (—)	— 8.2	—	— 4.8	—	— 3.9

Note: Because of rounding, figures do not necessarily add to totals.
Sources: *Economic Report of the President*, January 1965; *The Budget of the United States Government*, Fiscal 1966.

employment and output. This is particularly troublesome when the level of Government orders is subject to wide variation, as was the case at the beginning and end of the Korean war. This timing problem is one illustration of the need for different budget concepts: it is not possible to construct a single series which is appropriate for all uses.

The Federal sector data are available quarterly on a seasonally adjusted annual rate basis. The figures are released about one month after the quarter is over, except for corporate profit tax accruals which lag by about two months.[8] The data are revised as more information is obtained for the period. While individual adjustments of components are generally small, in combination they sometimes shift the budget from an originally estimated deficit to a surplus.

A comprehensive view of how the administrative, cash, and national income budgets are related is shown in Table IV. In summary, moving from the administrative budget to the cash budget primarily entails adding to the administrative budget a total for the trust funds plus Government-sponsored enterprises while eliminating from the administrative budget a total for intragovernmental transactions. The transition from cash to NIP transactions (with some qualifications) primarily involves: (1) timing adjustments (mainly to an accrual basis on the receipts side and to a delivery basis on the expenditures side), (2) the elimination of assets transactions included in the cash figures, and (3) the elimination of lending activities included in the cash figures.

THE BUDGET AND THE ECONOMY

Because of its sheer size, the Federal Government inevitably exerts a potent influence on the functioning of the economy. Budget data provide the raw material for analyzing this influence, but each form of the budget statement is not equally useful for this purpose. Typically, the administrative budget is not used for assessing the Government's impact on the economy, because it does not cover the full range of Government activities. Instead, the Government sector in the economy is usually analyzed with the data from the cash budget or the NIP budget.

A lively controversy has been going on for a number of years over the relative merits of the cash versus the NIP budget as the best measure of the Government's impact on the economy. When annual data are used, disagreement over the relative merits of the two comprehensive budget statements is not great. Although there are some differences in the levels of receipts and expenditures and the size of the surplus or deficit, the general trends observed in using either of the two comprehensive budget measures by and large will be similar. When quarterly data are used, however, the problems of choosing between the two measures become more troublesome because there are often conflicts both as to the direction and the magnitude of changes. Much depends on the particular problem under investigation, and often data from both budgets are needed to obtain a rounded picture.

The popular view of budget impact is that a surplus is a contractionary influence, that a deficit is an expansionary influence, and that a balanced budget is neutral. This popular view is, at best, only a partial view of the role of fiscal policy in the economy; a fuller perspective of the role of Government impact is somewhat more complex. In its simplest form, this popular view may be called the "cross section" approach. Taking the economy for a fixed period, a balance sheet of each of the sectors is compiled to show how each is affecting the economy. In this view, a Government deficit of $2 billion for the period is expansionary, because the Government is adding to the demand side of the economy more than it is taking out in taxes. But this is far from the full story. Another dimension is added by the "time series" approach which looks at the change in budget position between two periods. For example, a deficit of $2 billion may be considered restrictive in the second period if it follows a deficit of $7 billion in the first period, whereas it may be held to be expansionary compared with a previous surplus. In other words, if the $2 billion deficit followed a period when the budget deficit has been larger, say $7 billion, then the budget is exerting an effect in a contractionary direction. Given the change in strength of the forces at work in other sectors of the economy, this reduction in the amount of stimulus from the Government sector may be just the right amount of restraint for the economy, if high levels of activity are to be maintained and if potential excesses are to be curbed before they develop.

Both of the approaches described above, however, by measuring the fiscal impact of the Government in terms of the over-all budget surplus and deficit ignore the fact that for any given budget structure (the combination of spending programs and tax programs), the budget outcome depends not only on the specific character of these programs but also on the level of operation of the economy itself. Thus, for any particular year, an economy operating at full employment may give a budget surplus, while the same economy operating at 6 per cent unemployment, with the same expenditure and tax programs, will probably show a

[8] Seasonally unadjusted figures are also available in the February and July issues of the *Survey of Current Business*, United States Department of Commerce.

sizable budget deficit. As a correction for the distortion introduced by the impact of the economy itself on the realized net budget position, the concept of the full-employment budget surplus has been developed.

The full-employment budget surplus is an estimate of the budget outcome for any given budget structure, assuming that the economy is at full employment. (In theory, there could of course be a full-employment deficit.) By estimating the net surplus or deficit of different budget structures for the assumed full-employment level of activity for any year, it is possible to measure the relative restrictiveness of these different structures, i.e., the budget structure with higher full-employment surplus is taken to be more restrictive than budgets with smaller surpluses (or deficits). While the full-employment surplus concept is a highly suggestive addition to the other techniques of analysis, estimates of the precise magnitude of "full employment" and of the budget outcome at that level of activity are not particularly easy, and there are also some problems in the analytical interpretation of the estimates. The development of this concept, however, is indicative of the imaginative way new analytical tools are being forged to advance the art of fiscal analysis.

The full Government impact, of course, depends not only on the absolute levels of its receipts and expenditures, or how they change, but also on the further changes in spending by the private sector induced by the impulses emanating from the Government. Furthermore, different kinds of Government spending may affect the economy differently—for example, increases in Government purchases of goods may not have the same impact on the economy as an equal dollar increase in old-age payments. Similarly, an increase or decrease in income taxes will affect the economy differently from an equal dollar change in excise taxes. But what is not yet known with much certainty is the quantitative extent of these differences and how they may themselves vary under different economic conditions. Thus, a less aggregative approach also will have to be developed eventually to provide greater information.

The Government sector influences the economy in many different ways—by its spending programs, by its tax programs, by its credit programs, by its debt management actions, by its monetary policy, and by other actions which do not fit neatly into any of the foregoing classifications. Only part, although a very important part, of all this economically significant behavior is encompassed by the data typically found in the various budget documents. Much, however, is still to be learned. In part, improved insights will come from advances in the analytical tools applied to the public finance field. In part, advances also will depend on improvements of the kinds and quality of data available, for data provide the raw materials for the application of the analytical tools.