The New Budget

On January 29, President Johnson sent his annual budget message to Congress. In it he asked for authority to spend $201.7 billion. The budget document describes the proposed activities of the Federal government in the coming fiscal year. Thus, the budget recently presented covers the period July 1, 1968, to June 30, 1969, and is called the fiscal 1969 budget. This means that the estimates provide for activities as far ahead as 18 months. Since it takes considerable time to coordinate the requests of all Federal departments and agencies, the original agency estimates must be made in some cases two or two and one-half years before actual spending. It is not surprising, therefore, that spending frequently exceeds or (more rarely) falls short of the estimates. Those for fiscal 1966 and 1967 turned out considerably too low, primarily because the extent of the escalation of defense costs in Vietnam was not foreseen; it may be that defense costs have been underestimated once again.

Even if budget estimates were exactly correct, however, the Federal government would not spend $201.7 billion in fiscal 1969. This figure represents the "budget authority" requested by the President. Actual outlays (expenditures plus net lending) are estimated at $186.1 billion. The difference arises because a considerable portion of the budget authority covers future outlays—for example, construction programs that will not be completed within the forthcoming fiscal year—while some unspent authorizations enacted earlier will be used to make current outlays.

The $186.1-billion to be spent in fiscal 1969 is a $10.4-billion increase above the estimated total in fiscal 1968 (which ends this June 30). This rise, while sizable historically, is considerably smaller than the $17.2-billion estimated increase in 1968 and the $23.8-billion jump in 1967.

As in the two prior years, defense costs account for a large share of the increase—$3.3 billion out of $10.4 billion. Other major additions are $1.6 billion for salary advances for Federal employees and $4.2 billion in payments by the social insurance trust funds, mainly for social security and health and hospitalization (Medicare).

Receipts are estimated at $178.1 billion, provided Congress approves the tax advances proposed by the President. The most important of these measures is a 10-percent surcharge on personal and corporate income taxes. In addition, the Administration is proposing that corporate tax payments be accelerated in order to put corporations more nearly on a "pay-as-you-go" basis, and that existing Federal excise tax rates on automobiles and telephone services be extended beyond April 1, 1968, when, under present law, they would be reduced. This tax package is supposed

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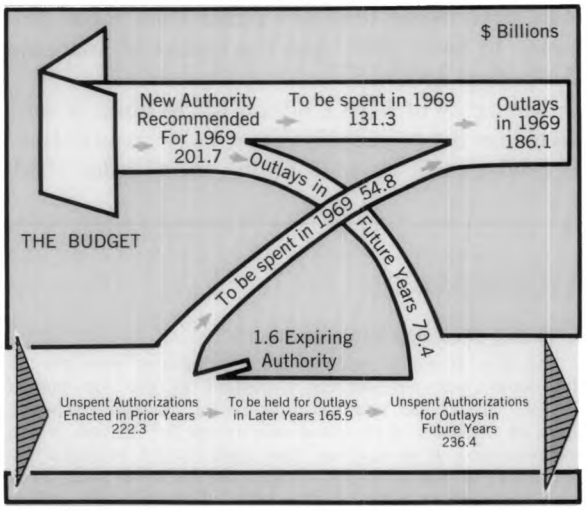
1969 Budget—Relation of Authorizations to Outlays



Source: The Budget of the U.S. Government, 1969.

to bring in $12.9 billion in fiscal 1969 and $3.0 billion in fiscal 1968.

The House Ways and Means Committee has approved the extension of the excise tax rates and the speedup of corporate tax payments, but no action has occurred so far on the income tax surcharges.

If all of the tax bills are approved, the Federal budget deficit should be approximately $8.0 billion in 1969. If none of them becomes law, it would be perhaps almost as large as the very heavy deficit estimated for fiscal 1968.

The New Budget Format

The 1969 budget document is not at all traditional in one respect. It was presented in the new format recommended by the President's Commission on Budget Concepts. In past years three separate budgets were used; this year there is only one. The three separate budgets—administrative, cash, and national income—were developed *ad hoc* in response to the growing complexities of Federal government operations and the increasing need to analyze their impact on national output, the balance of payments, financial markets, and the economy in general.

Each of these "budgets" evolved to satisfy various information needs, but, in the words of the Commission, "the existence of several budgets . . . led to public confusion . . . This confusion . . . makes it difficult for the ordinary citizen to keep abreast of what his Government is doing."

The old administrative budget was for many years the only one used. It covered only receipts and expenditures of Federal funds, i.e., those owned by the Federal government, and excluded funds held in trust by the government, such as the social security trust fund. It was originally developed for the coordination, by the Bureau of the Budget, of spending requests of the various government departments and for unification of the financial plan of the government for consideration by Congress.

When the administrative budget was introduced in 1921, it represented a great advance over the previous uncoordinated system whereby Congress, rather than the President, initiated spending and taxing proposals. At that time, it encompassed nearly all the financial activities of the Federal government. Although it was not designed to facilitate analysis of the government's impact on important economic variables, this was not a serious drawback because the social accounting framework for this sort of analysis had not yet been created. In any case, the impact of government on the economy was still quite small.

The social legislation of the thirties created several new trust funds and independent government agencies and also increased the size of the Federal government relative to the whole economy. The receipts and payments of the trust funds were accounted for separately from the administrative budget, and the extent to which independent agencies were included on a gross or net basis depended on the technical legal provisions of their funding.

The necessity of understanding the government's growing impact on money and capital markets, through its lending programs, and on product and labor markets, through its purchases of goods and services, led to the cash and national income budgets. The cash budget attempted to cover all cash payments to and receipts from the public, including those relating to trust funds and the government's lending activities. It was an adaptation of the administrative budget, however, and suffered from many of the analytical deficiencies of that document. The national income budget has proven very useful, but, because of its nature, could never be more than supplemental information. Although it will be continued as part of the national income accounts compiled by the Department of Commerce, it will not be called a "budget." That word will be reserved for the new unified document that the President presents to Congress.

When all the adjustments recommended by the President's Commission have been made, the expenditure account (exclusive of lending) in the new budget should be practically the same as the Federal sector of the national income accounts. The total budget (including lending) does not

differ greatly in total magnitude from the old cash budget.

The Budget for Fiscal 1969

The new budget format is designed to show strictly governmental activities; the authority requested from the Congress to carry out the proposed programs; the receipts, expenditures, new loans and loan repayments that will result from these programs in fiscal 1969; and the means of financing the budget deficit.

The figure of $178.1 billion for receipts is estimated on the assumptions that : (1) gross national product will be $846 billion in calendar 1968,

Budget Concepts Compared

Some of the principal differences between the new and old budget concepts can be summarized briefly.

1. Coverage

The new budget, in the words of the Commission, "should encompass the full scope of programs and transactions that are within the Federal sector and not subject to the economic disciplines of the market place." Specifically, the new budget *includes* payments and receipts of the Federal trust funds (which the administrative budget did not do), but *excludes* the activities of the Federal Home Loan Banks and the Federal Land Banks, because these institutions are wholly privately owned and are not subject to budgetary review and annual appropriations by Congress. They were included in the cash budget.

If and when the secondary market operations of the Federal National Mortgage Association are transferred to private ownership, as the 1969 Budget message recommends, they will be excluded from the budget. The District of Columbia was included in the cash budget as a Federal agency, and both its receipts and expenditures were shown. It will now be considered on the same basis as any other municipal government, and only direct Federal payments to it will be recorded. Finally, the old cash budget included a number of "deposit fund" accounts representing primarily banking-type transactions or service activities of the Federal government as employer. Such, for example, are the funds into which money withheld from Federal employees' salaries for the purchase of savings bonds are temporarily deposited. Another example is the balance of the Exchange Stabilization Fund with the Treasury. The net change in these deposit fund accounts was carried in the cash budget as an expenditure. The new budget excludes these deposit fund accounts except that, to the extent that the government increases its liability to them, that amount is considered a means of financing the government deficit.

2. Netting of receipts and expenditures

The Federal government conducts a number of business-type activities, such as the Post Office, the Tennessee Valley Authority, and National Service Life Insurance. The cash and administrative budgets were inconsistent in their treatment of these activities. In some cases, gross receipts and expenditures were shown. In others, only net figures were included. No matter which way it was done, the deficit (or surplus) was not affected. It was unnecessarily confusing, however, because an expansion of an activity that was shown gross would affect total receipts and expenditures, while an equal expansion of an activity shown net would not. The Commission recommended that a consistent rule be followed and that the test be whether a receipt is essentially "governmental" in character, such as taxes, social insurance premiums, and patent fees, or is a payment for a business-type service or commodity, such as hunting license fees, interest on loans, and sale of government property. In the former case, money received would be counted as budget receipts (gross); in the latter, as offset against outlays (net). The new budget follows this practice; and the netting of many receipts against expenditures, formerly shown gross, is the principal reason why its totals are lower than the cash budget totals would be.

3. Timing of receipts and expenditures

The time at which receipts and expenditures were put on the books was not entirely consistent in the old budget formats either. The administrative budget recorded expenditures on the basis of checks issued, except for interest, which was recorded as it accrued. The cash budget recorded expenditures at the time government checks were paid. They both recorded receipts on the basis of actual cash collections. The national income accounts record expenditures partly as they accrue, partly at the time of delivery, and partly on a cash basis; and receipts are recorded partly on a cash and partly on an accrual basis. The Commission recommended that government bookkeeping be placed entirely on an accrual basis, at least for budget purposes. It recognized that it would take time to make the changeover, however; and the fiscal 1969 budget uses cash receipts and checks issued (for expenditures), except for interest, which is accrued. The shift to accrual accounting should be completed within two years, and with some minor changes the Federal sector of the national income accounts can be made consistent with the new budget concept.

4. Treatment of government lending

The Federal government both lends and borrows. A loan, of course, does not have the same direct impact on the economy that a purchase of, say, a tank does, because the borrower is not providing a product or service immediately in return for the money; and he assumes a liability to repay as well. Nevertheless, they are important because of their impact on money and capital markets and because Congress must have information about them in order to carry out its responsibilities. The cash and administrative budgets had showed lending (net of repayments) as an expenditure; the national income accounts omit government lending altogether. The Commission's solution was to include net lending, but to show both total lending and repayments separately. Thus, it is possible to show a deficit (or surplus) on expenditure account and an overall budget deficit as well. The former will correspond eventually to the national income accounts deficit (once accrual accounting is introduced in the budget and assuming that national income accounting is brought into conformity with the new budget concept); the latter, essentially to what the old cash budget was trying to measure.

Some government loans are made on more liberal terms than could be obtained in the capital market, either by the government or the borrower. Some of the loans made to foreign goverments under the foreign aid program are of this nature. Other "loans" are not really loans, but direct expenditures. Nonrecourse loans made to farmers by the Commodity Credit Corporation fall into this category, since the farmer may freely decide whether to repay the "loan" or to forfeit the commodities pledged as collateral. The entire amount of these "loans" is treated as expenditure in the new budget, and eventually it is planned to treat the subsidy element in loans made on noncommercial terms as expenditures.

5. Treatment of borrowing

The government can finance a deficit by borrowing from the public, decreasing its cash assets, increasing its current

personal income will amount to $675 billion, and corporate profits before tax will be $87 billion; and (2) that Congress will pass the tax increases proposed by the Administration. The two assumptions are interdependent. That is, the projections of GNP, personal income, and corporate profits assume passage of the tax proposals. If the new tax program is not put into effect, these magnitudes will presumably be larger, so that the loss in tax revenues would be less than the full amount of the proposed tax increases. The rate of price rise would be greater, however, and government spending (other things being equal) would be inflated. The deficit, therefore, would

liabilities, and using its money creating powers. The first is done by the sale of securities, either direct obligations of the Treasury or obligations of independent government agencies.

In recent years some independent agencies, such as the Export-Import Bank and the Federal National Mortgage Association ("Fannie Mae"), have issued "participation certificates." This is a device by which the government lending agencies can tap private funds for financing their loans and thus replenish their own resources for making further loans. The private purchasers of the participation certificates obtain a claim with a smaller risk of loss than the original promises to pay of the people to whom the government agencies made the loan. In this case the agencies are acting as financial intermediaries, as banks do. In the cash and administrative budgets, receipts from the sale of participation certificates were treated as a reduction of loan expenditures, and some members of the Commission wanted to continue this treatment of them in the new budget. The majority felt, however, that a more accurate picture would be obtained by treating participation certificates as a means of financing government lending programs. The new budget incorporates the majority view and treats the sale of participation certificates as borrowing from the public.

As mentioned earlier, any increase in the government's liability to deposit funds is considered in the new budget as a means of financing the deficit. So is an increase in checks outstanding, whereas the cash budget had treated it as a reduction in expenditures. This difference arises out of the fact that the cash budget was calculated on the basis of checks paid, while in the new budget the expenditure is assumed to be made when the check is issued. In the future, when Federal accounting is entirely put on an accrual basis, accrued liabilities (say, to a defense contractor) that have not yet been paid will be a means of financing, just as accounts payable are a source of funds to a private business.

The Treasury does not as a general rule create money nowadays, that function being left to the Federal Reserve System. One exception, however, is seigniorage, or the difference between the monetary value of an increase in the stock of coins and the cost of acquiring the raw materials to make the coins. In the administrative budget this was treated as a receipt instead of a means of financing.

Summary of Major Differences in Budget Concepts

	New unified budget	National income accounts	Cash budget	Administrative budget
Coverage				
Trust funds	Included	Included	Included	Excluded
District of Columbia	Excluded	Excluded	Included	Excluded
Federal land banks, Federal home loan banks.	Excluded	Excluded	Included	Excluded
Timing				
Receipts	Accrual[1]	Personal taxes (payment); all other (chiefly accrual).	Cash collections	Cash collections
Expenditures	Accrual[2]	Purchases (delivery); interest (accrual); all other (chiefly checks issued).	Checks paid	Interest (accrual); all other (checks issued).
Treatment of financial transactions				
Net lending activities	Included (but shown in separate loan account)[3].	Excluded	Included	Included
Participation certificates	Excluded	Excluded	Included as negative expenditures.	Included as negative expenditures.
Purchases of foreign currency	Included	Excluded	Included	Included

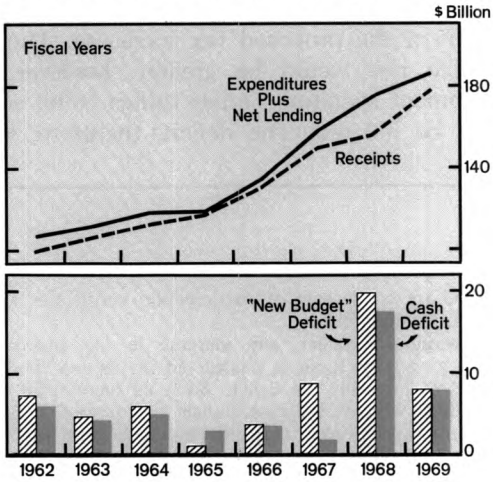
[1]Recorded on a cash collections basis in fiscal 1969 budget.

[2]Interest recorded on accrual basis in fiscal 1969 budget; all other expenditures recorded on checks issued basis.

[3]The "expenditure account" of the new unified budget excludes net lending as defined by the Budget Bureau, but includes several types of loans excluded in the national income accounts.

Source: U.S. Department of Commerce, Office of Business Economics.

The President's new budget forecasts a deficit of $8 billion for fiscal 1969. The new budget concept totals are very close to those of the old "consolidated cash budget."



Source: The Budget in Brief, Fiscal Year 1969.

almost certainly be greater without the tax increase, and the harmful effects of inflation on the economy would be magnified. It should be noted that, in the absence of appropriate fiscal policies, the burden of restraining inflation would fall on monetary policy.

Personal income taxes still constitute the largest source of Federal revenue. 1969 projections estimate this source of revenue at $80.9 billion, or 45.4 percent of total receipts. Corporate income taxes should amount to $34.3 billion, or 19.3 percent. Employment taxes (which go primarily into social security trust funds) are now almost as important a revenue source as corporate income taxes, amounting to $34.2 billion, or 19.2 percent of total receipts. They will rise by $4.4 billion over fiscal 1968 because, under present law, the amount of wages subject to these taxes rose on January 1 of this year from $6,600 to $7,800. The combined tax rate on employees and employers will increase from 8.8 percent to 9.6 percent next January 1. Excise taxes, the fourth largest category of receipts, should amount to $14.7 billion, or 8.2 percent. The remainder (7.9 percent) is made up of unemployment insurance tax receipts, insurance and retirement premiums, estate and gift taxes, customs receipts and miscellaneous.

Of total outlays (including net lending) of $186.1 billion, national defense is expected to take $79.8 billion, or 42.9 percent. Nearly a third of defense outlays are earmarked for special Vietnam expenditures, totaling $26.3 billion, or 14.1 percent of the entire budget outlay. These costs amounted to $20.6 billion in fiscal 1967, or 13.0 percent of the total. Of civilian outlays ($106 billion), the largest amount goes to health, labor, and welfare programs. Total spending for these purposes is listed as $51.9 billion, or 27.9 percent of total budget outlays. The largest part of this, however, represents disbursements by the Medicare, retirement, and social security trust funds. These trust fund outlays amount to about $39.5 billion, leaving a little over $12 billion for health service and research, labor and manpower programs, economic opportunity programs, and public assistance and other welfare. Education and housing and community development add another $5.8 billion.

One large and growing expenditure item is interest, amounting to $14.4 billion, or 7.7 percent of total outlays. This is the result of a growing debt and new debt issued recently at rising interest rates. Space research and technology declined in both percent of total and total amount, $4.6 billion as compared with $5.4 billion in 1967. Most other functions, although increasing in absolute amounts, are decreasing percentages of the total.

Budget Summary
(Billions of Dollars)

Description	1967 Actual	1968 Estimate	1969 Estimate
Budget authority			
Requiring current action by Congress			
Previously enacted	135.4	125.1	
Proposed in this budget		3.3	141.5
Becoming available without current action by Congress	58.7	69.9	73.1
Deductions for interfund and intragovernmental transactions and applicable receipts	−11.5	−11.8	−12.9
Total, budget authority	182.6	186.5	201.7
Receipts, expenditures, and net lending			
Expenditure account			
Receipts	149.6	155.8	178.1
Expenditures (excludes net lending)	153.2	169.9	182.8
Expenditure deficit (−)	−3.6	−14.0	−4.7
Loan account			
Loan disbursements	17.8	20.9	20.4
Loan repayments	12.6	15.1	17.1
Net lending	5.2	5.8	3.3
Total budget			
Receipts	149.6	155.8	178.1
Expenditures and net lending	158.4	175.6	186.1
Budget deficit (−)	−8.8	−19.8	−8.0
Budget financing			
Borrowing from the public	3.6	20.8	8.0
Reduction of cash balances, etc.	5.3	−1.0	
Total, budget financing	8.8	19.8	8.0

Source: The Budget of the U.S. Government, 1969.

Net lending declines in the 1969 budget mainly because the Federal National Mortgage Association is expected to reduce its purchases of federally-insured or guaranteed mortgages(FHA and VA). It will be able to do so, it is hoped, because pending legislation would raise or eliminate contract interest ceilings on these types of mortgages. Legislation to shift the FNMA secondary market operations fund to private ownership has also been recommended.

Fiscal Uncertainties

As mentioned earlier, some spending due to take place in fiscal year 1969 was estimated as much as two or two and one-half years prior to actual outlay. Estimates made that far in advance must be subject to a margin of error. Furthermore, the estimators had to make certain assumptions about the state of the world in 1969, and these assumptions, while perhaps the most reasonable at the time, may not be borne out. At the moment, for example, the news from Vietnam is far from cheerful, and there is discussion of increasing our armed forces by 50,000 to 100,000 men. If this is done, defense expenditures would be above budget estimates.

Recently, the President's National Advisory Commission on Civil Disorders recommended a large expansion in Federal programs to relieve the most urgent and dangerous problem areas in urban unemployment and housing. The Commission did not put a price tag on its recommendations, but the most conservative horseback estimate would put the cost at upward of $10 billion over the next two to three years. These are simply the largest and most obvious possibilities whereby spending might be pushed up.

Not everyone is certain that it is appropriate to impose income surtaxes at this time. Some observers are skeptical of the projections of large growth in gross national product and personal income made by the Council of Economic Advisers and most private forecasters. They point out some indications of softness in the economy and argue that even the Council's projections of large growth in 1968 imply a slowing in the growth rate in the second half of the year. If the growth in output and incomes is considerably slower than the current "standard" projection of large growth in 1968, some of the expected pressure on prices might not occur. Thus, in their view, higher Federal taxes might not only be unnecessary; they might deal a blow to a weakening economy. Aside from arguments based on purely domestic considerations, however, the recent run on gold and the generally unsettled state of international financial markets have added a new urgency to the need for fiscal restraint.

History may prove which view is correct. In any case, the more likely probability at present is unsustainable growth, which calls for both fiscal and monetary restraint. Each of these policy instruments is more effective when they operate in the same direction and reinforce each other.

LAWRENCE F. MANSFIELD

Suggestions for further reading on the 1969 budget and the new budget concepts:

The Budget of the United States Government, 1969. Washington: U. S. Bureau of the Budget, 1968.

The Budget in Brief, Fiscal Year 1969. Washington: U. S. Bureau of the Budget, 1968.

"Federal Programs for Fiscal 1969," by Charles A. Waite, *Survey of Current Business,* February 1968, pp. 11-16.

Review of Report of the President's Commission on Budget Concepts, Hearing before the Subcommittee on Economy in Government of the Joint Economic Committee, Congress of the United States, 90th Congress, 1st Session. Washington: U. S. Government Printing Office, 1967.

Special Analyses, Budget of the United States, Fiscal Year 1969. Washington: U. S. Bureau of the Budget, 1968.

Statement of the Honorable Henry H. Fowler, Secretary of the Treasury, before the House Ways and Means Committee on the President's Fiscal Program, January 22, 1968. Washington: U. S. Treasury Department (press release).

Treasury Bulletin, February 1968.

Bank Announcements

Two nonmember banks—the **Bank of Moulton,** Moulton, Alabama, and **Farmers and Merchants Bank,** Summerville, Georgia—began to remit at par on February 1 for checks drawn on them when received from the Federal Reserve Bank.

The **Citizens National Bank of Naples,** Naples, Florida, a new member bank, opened on February 1 and began to remit at par. E. L. Turner is president, and James P. Barnette, vice president and cashier. Capital is $250,000; surplus and other capital funds, $250,000.

On February 17, the **Munroe and Chambliss National Bank of East Ocala,** Ocala, Florida, opened as a member bank and began to remit at par. Officers are A. G. Skipper, president, and William R. Peebles, cashier. Capital is $250,000; surplus and other capital funds, $250,000.

The **Peoples State Bank,** Grant, Alabama, a new nonmember bank, opened on February 22 and began to remit at par. Officers are Charles Willmon, president, and Terry Canady, cashier. Capital is $100,000; surplus and other capital funds, $100,000.