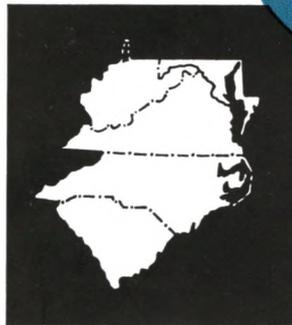


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MONTHLY REVIEW

The New Unified Budget
Fifth District Ports—West Virginia
Disintermediation
The Fifth District



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The New Unified Budget

The President in his January Budget Message employed a new format for the Federal budget. The new format, along with some conceptual changes, grew out of an exhaustive study by the President's Commission on Budget Concepts. The concepts embodied in the new budget have been well received, perhaps indicating some dissatisfaction with previous budget concepts. The Commission recommended that the new unified budget be called the Budget of the United States and that it replace such concepts as the administrative budget, the consolidated cash budget, and the national income accounts budget.

Why a New Budget? In its published report (Report of the President's Commission on Budget Concepts, Washington, D. C., October, 1967) the Commission observed that the budget must serve many purposes. Among others it must: (1) propose an allocation of productive resources between the public and private sectors of the economy, and within the public sectors; (2) embody the Government's fiscal policy for promoting high employment, price stability, economic growth, and balance of payments equilibrium; (3) give the Treasury the information necessary to manage its cash resources and the public debt. These different requirements have led to specialized and competing concepts of the budget. And while these various concepts have served important operating and analytical purposes, they have contributed to confusion and misunderstanding on the part of those not specialized in Federal budget accounting. The Commission set for itself the task of developing a budget concept which would serve all of the above purposes and at the same time be more readily understandable to the American public and their representatives.

Having a unified budget which serves most of the major purposes simultaneously is extremely important. In the absence of such a unified budget, it

is necessary to focus on different, and not readily relatable, concepts of the budget. In such a process there is a danger of treating different budget functions as completely separate rather than as interrelated entities. In the past it has been common practice, for example, to focus on the administrative budget when considering questions of resource allocation between the public and private sectors and within the public sector and to concentrate on the national income accounts budget when considering the question of fiscal impact on the economy. Actually, all taxing and spending decisions have both an allocative and an economic impact, and consequently it is highly desirable to have a budget concept in which both aspects of the situation are readily apparent.

The matter of understandability is also an extremely important consideration. As the Commission pointed out, "Budget formulation is a highly political exercise in the American democratic system, and it should not be otherwise While the public cannot be expected to become familiar with all the details and intricacies of the budget, it must be able to participate intelligently in the big decisions that come to focus there: the overall size of government; the relative emphasis on different government programs and activities intended to benefit the Nation; the efficiency and effectiveness of major government programs in the light of their intended purposes; the need for tax increases or the opportunities for tax cuts; and fiscal policies designed to promote national prosperity."

The New Budget Format The emphasis in the new format is on comprehensiveness and unity. It is designed to cover the full scope of Federal Government activity and at the same time to depict the budget process from start to finish. The following table, taken from the Budget of the U. S. Government for fiscal 1969, summarizes the budget in the

new format. The four major subdivisions lead the observer logically from the appropriation process to actual receipts and expenditures, to the resulting deficit, to the means of financing the deficit, and finally to the effects on Government debt outstanding.

Budget Authority The Commission recommended that the President's budget message and the initial summary table give more prominence to the new legislation and obligational authority being requested of Congress. It urged that the budget presentation "show clearly the total amount of appropriations requiring current action by Congress, as well as the total amount which will become available without further congressional action, including comparisons with the current and latest actual years." Increased emphasis on appropriations was deemed desirable for at least two reasons. First, it is largely in the appropriation process that choices are made and priorities established among alternative programs. Second, since actual spending has its origin in the appropriation process, there is a close relationship between appropriations and the ultimate impact of Federal activity on the economy. Consequently the Commission urged Congress to consider carefully the effect of its appropriations and legislative action on estimated expenses and receipts for the current and subsequent fiscal years. To this end, and in the interest of improved public information, the Commission suggested that frequent progress reports be published showing the cumulative total of appropriations by fiscal year as they are passed by Congress. It further recommended that these reports eventually be expanded to include estimates of the effects of Congressional action on revenues and expenditures.

Obviously, not all these

recommendations can be executed immediately. However, a start was made in the new budget format. As may be seen in the table, the President requested the Congress to authorize the various Government agencies to incur obligations to pay out Federal money up to \$141.5 billion in fiscal 1969. The document calls for another \$73.1 billion of authority to incur obligations to become available automatically under legislation passed in prior years. Such permanent authorizations include those to pay the interest on the national debt and to use the proceeds of special taxes to finance the programs of the trust funds. Total obligational authority, after certain deductions, is expected to equal \$201.7 billion.

Not all of this \$201.7 billion is scheduled to be spent in fiscal 1969, however. The relationship between budget authority and anticipated spending is summarized in the following flow diagram, repro-

BUDGET SUMMARY
(in billions of dollars)

Description	1967 actual	1968 estimate	1969 estimate
I. 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			
Deductions for interfund and intragovernmental transactions and applicable receipts	58.7	69.9	73.1
.....	-11.5	-11.8	-12.9
Total, budget authority	182.6	186.5	201.7
II. 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
III. 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
IV. Outstanding debt, end of year:			
Gross amount outstanding	341.3	370.0	387.2
Held by the public	269.2	290.0	298.0

* Less than \$50 million.

Source: The Budget of the United States Government, 1969, page 51.

duced from the Budget document. Only \$131.3 billion is expected to be spent in fiscal 1969. The remaining \$70.4 billion is to be carried over to future years. This carryover may be due to either of two factors: (1) obligations may be incurred in 1969 which will not have to be honored until some future fiscal year when goods are received and payment is made; or (2) it may not be necessary for agencies charged with the responsibility of implementing a program over a period of several years to obligate the Government for the entire cost of the program in fiscal 1969. Of obligational authority carried over from prior years, \$54.8 billion is expected to be spent in fiscal 1969, bringing estimated total spending for the year to \$186.1 billion. The carryover of obligational authority into future years is \$236.4 billion, up \$14.1 billion from the previous fiscal year.

Receipts, Expenditures, and Net Lending A prime concern of the Commission was to insure that the budget would present the President's fiscal policy recommendations in such a way as to measure the economic impact of the Federal Government as accurately as possible. While the Commission recognized that single numbers, such as surpluses or deficits, cannot be relied upon to measure economic impact adequately, it felt that their usefulness in this regard could be improved. Hence, the Commission recommended a number of significant changes in the

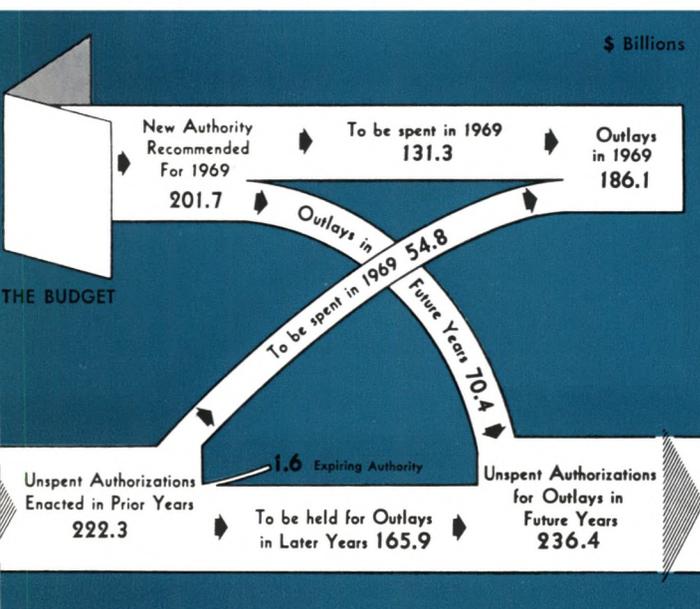
section entitled Receipts, Expenditures, and Net Lending.

Some of these recommendations were incorporated immediately. An obvious change, already incorporated, is the inclusion, but separate treatment, of net lending. Loan activity was formerly included in the old cash budget, but excluded entirely on the national income accounts basis. In the new budget, loan activity is recorded separately because loans, which have to be repaid, have a different and more indirect impact on the economy than regular Government expenditures. They are included, however, because ignoring them completely would understate the impact of the Federal Government on the economy. In the new budget quasi-loans are to be treated as expenditures and not as loans. For example, loans such as Commodity Credit Corporation nonrecourse loans to support farm prices, which are loans in name only, and loans made to foreigners on non-commercial terms are classified as expenditures. Net lending is added to the expenditure deficit to produce the total budget deficit.

Another innovation incorporated in the 1969 budget is in the treatment of participation certificates. These are now regarded as a means of financing the total deficit and are no longer treated as a reduction of loan disbursements. Under the old administrative and cash budgets, which included the direct lending activity of the Federal Government, sales of participations in pools of Government owned assets were regarded as an offset to disbursements of the lending agency on grounds that the agency was simply financing its own credit programs through sale of its financial assets. The new approach of including revenues from sale of participations in loan disbursements raises "net lending" and the size of the total deficit by that amount.

Perhaps the most far-reaching and ultimately most significant innovation will not be implemented until at least 1970. This is the recommendation to record expenditures on an accrual basis rather than on a checks issues, checks paid, or delivery basis as is now the case. It is felt that the better timing of expenditures will improve immeasurably the usefulness of surpluses or deficits as measures of fiscal impact. Actually, in the vast majority of Government transactions, recording on an accrual basis makes little difference since payment is made shortly after the liability is incurred. Consider, for example, employee compensation or payment for mass produced items which are bought from existing inventories. But in the case of items like major military hardware which is made to order, the differences between accruals and actual cash disbursements can become very

1969 BUDGET
Relation of Authorizations to Outlays



Source: The Budget of the United States Government; 1969, page 56.

significant. In such cases, the major impact on the private sector of the economy is felt when the business sector gears up to meet new Government orders and not when ultimate payment is made. Consequently, recording of expenditures on other than an accrual basis during a period of rapid defense mobilization, for example, can seriously understate the stimulative economic impact of the budget.

Unfortunately, implementation of this recommendation will have to await changes in the accounting procedures of those Government agencies not presently operating on an accrual accounting system. The Commission expressed the hope that accrual expenditure data would be available by January 1970, at which time the President will present the budget for fiscal 1971. When it is possible to begin recording expenditures on an accrual basis, the surplus or deficit should provide a much more reliable measure of economic impact than is presently the case.

The Commission recommends that beginning with the January 1970 budget, tax receipts from corporations be recorded on an accrual basis as is now done in the national income accounts budget. In the case of individual and employment taxes, the Commission recommends further study, however. So it is not yet clear whether these taxes will be reported on an accrual basis.

Another very desirable innovation not scheduled to go into effect until fiscal 1971, is the recommendation to treat specifically as expenditures the subsidy elements in loans, on grounds that subsidies are more like grants than loans and therefore have a more immediate fiscal impact. This treatment, says the Commission, "will make a meaningful separation of loans from other budget expenditures possible." Measurement of the subsidy in loans would reflect any interest rate subsidy as well as adequate allowances for losses. Separation of subsidies from the loan account would also have the advantage of getting subsidies out into the open for public scrutiny.

Budget Financing and Debt Outstanding The Commission recommends a concept of the Federal debt which parallels the new budget concept, namely, one which follows logically from the definitions of receipts, expenditures, and net lending. The purpose is to show more clearly the close relationship between the budget totals and the need for financing. The new concept of gross Federal debt would include all debt instruments issued by the Treasury and those

issued by all agencies whose receipts and expenditures are included in the new budget. Securities held by the agencies and trust funds would be deducted to obtain the concept of Federal debt held by the public.

The deficit might be financed in any of a number of ways. In the short run the Treasury could draw down its cash balances, or build up its unpaid liabilities to contractors and others providing goods and services to the Government. In the long run, a small part could be financed by seignorage, or the profit made from the minting of coin, but most of the deficit would have to be financed by borrowing from the public, a concept measured by the change in outstanding Government securities held by the public. The public in this connection is defined to include the Federal Reserve System. Since the implications of a budget deficit of a given size for financial markets and economic activity are different depending on whether new Government securities are acquired by the Federal Reserve, the commercial banking system, or nonbank investors, the Commission recommends that the means of financing for *past* years show the year-to-year changes in Federal securities held by (1) Federal Reserve Banks, (2) commercial banks, and (3) nonbank investors.

Summary The new budget is a sort of amalgam of the national income accounts budget and the cash budget presented in a unified format. Except for certain accounting modifications, the receipts and expenditures account of the new budget is analogous to the national income accounts budget. Again, with modifications, the total package of receipts, expenditures and net lending is similar to the old cash budget. The coverage and accounting changes seem, on the whole, to be quite desirable and the new format represents a distinct improvement. In particular, the interrelatedness of the new accounts permits the tying together of the whole budget process from appropriation to changes in Federal debt outstanding. The new format does not foreclose the use of special tabulations for various analytical and operational purposes, but the publication of these as appendices and not as competing concepts of the budget will reduce confusion and improve public understanding of the budget and its allocative and fiscal impact. The adoption of accrual accounting of expenditures and taxes in fiscal 1971 will improve the surplus or deficit as a measure of the impact of the Federal sector on the private economy.

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