

## FISCAL POLICY

Fiscal policy, which concerns the level and composition of Government expenditures, the level and sources of Government receipts, and the balance between expenditures and receipts, plays a key role in the attainment of our national objectives.

Federal expenditures for goods and services, or in the form of transfer payments to State and local governments or to individuals, affect the trend of private economic activity and the composition of national output.

Moreover, even Government programs which do not require significant cash outlays may strongly influence private economic decisions. For example, Government insurance and guarantee programs, such as those covering home mortgages, may require little direct expenditure but can have widespread economic consequences.

Similarly, not only the volume of tax receipts but also different levels and types of taxation produce far-reaching economic results.

The financial plans of the Federal Government must fulfill certain basic requirements:

National security, including military, other defense, and foreign policy requirements, must be met in full.

The need of the domestic economy for stimulation or restraint, or for an essentially neutral influence, as appropriate to economic conditions, must be met.

International financial consequences of domestic economic trends and policies must be taken fully into account.

Vital nondefense programs must be provided for.

An adequate revenue base must be established and maintained.

National security needs come first. While the Government must fulfill national security requirements as efficiently as possible—ever on guard against waste and duplication—it is inappropriate to confine national security programs within arbitrary expenditure ceilings. Other considerations of fiscal policy must be tailored to fit national security requirements, if necessary through tax increases, increased borrowing, postponement or curtailment of less-essential domestic programs, or some combination of these.

The influence of Government spending trends and of the Government's surplus or deficit position on the health and vitality of the national economy is a continuous consideration. Few dispute the appropriateness of Federal budget deficits in a time of declining

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or depressed economic activity, or of Federal budget surpluses in a time of rapid expansion and inflationary threat. But between such periods of obvious need for stimulation or restraint, there frequently exist economic conditions which call for fine tuning of fiscal policies to more complex economic needs. With the emergence of international balance-of-payments considerations as a factor in domestic economic policy judgments, additional delicate adjustments of fiscal policy nowadays are frequently required.

Decisions concerning the components of Government outlays also require the weighing of complex considerations. Since Government resources are limited, spending priorities must be established and essential programs distinguished from the merely worthwhile or desirable. How many in the latter category may be undertaken, and to what extent, will depend on the level of spending required by national security and essential domestic programs and the extent to which overall economic needs dictate a tighter or less restrictive fiscal policy.

### Major budget concepts

No single budgetary system is wholly adequate for complete analysis of the effect of Federal fiscal operations on the level and composition of economic activity. For this reason, other accounting concepts, in addition to the conventional administrative budget, have been developed. The most familiar is the cash budget which covers all cash receipts from and payments to the public, except borrowing from the public. More recently, the record of the activities of the Federal Government in the national income and product accounts has been increasingly used.

The administrative budget, the accounting system commonly referred to as "the Budget," is primarily a presentation of administration policies. It sets forth governmental programs, together with their estimated costs and proposed means of financing them. The administrative budget is, however, of limited use in appraising the effects of Federal financial transactions on the economy. In part this is because the operations of the Government trust funds and of Government-sponsored enterprises are largely omitted from the administrative budget figures.

The cash budget includes the activities of the Government's various trust funds, the largest of which are the social security and highway trust funds, but also the transactions of Government-sponsored enterprises, which include the Federal Deposit Insurance Corporation, Federal intermediate credit banks, Federal land banks, Federal home loan banks, and banks for cooperatives.

Unlike either the administrative or cash budgets, the timing of Federal receipts and expenditures in the national income and product accounts is designed to coincide with their impact upon the economy. Hence, most taxes are recorded at the time the tax liability is incurred, and purchases reflect the time of acquisition rather than of payment. This statement also includes trust funds but excludes certain financial transactions, such as loans or the purchase or sale of existing assets, which represent neither the production of current output nor incomes earned in production.

It is also clearly important in analyzing the economic significance of the Federal budget to recognize that it includes substantial outlays for public works and other durable assets and capital items that will continue to yield benefits for many years after the fiscal year in which the expenditures are recorded. Many loan and grant programs, as well as direct expenditures programs, fall in this category. In addition many categories of Government expenditures are "developmental" in nature, such as outlays for education and training and for research and development. The importance of the distinction between outlays for current and capital purposes, in fact, has caused many businesses and State and local governments, as well as foreign governments, to show separate budgets for current and capital expenditures.

### Fiscal year 1961

When this administration assumed office, the Nation was in its eighth month of economic decline. The gross national product, which had reached a peak of \$506.4 billion, seasonally adjusted annual rate, in the fourth quarter of fiscal 1960, had fallen to \$504.5 billion in the second quarter of fiscal 1961 and fell further to \$500.8 billion in the January-March quarter of 1961. The industrial production index, seasonally adjusted, had fallen, by December 1960, to 103 percent of its 1957 base from a high of 111 in January 1960 and continued to fall, reaching a low of 102 in February. The unemployment rate, seasonally adjusted, which had remained at 5 percent or more in every month but one since the 1957-58 recession, had reached 6.7 percent in December 1960 and continued near this level throughout the first ten months of 1961. In addition, our balance-of-payments position, which had progressively worsened during 1960, remained a serious consideration.

In those circumstances, a fiscal policy directed toward arresting the downturn and giving upward momentum to the economy was clearly in order.

Extended temporary unemployment benefits, a speedup in income tax refunds, early payment of Veterans' Administration life insurance

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dividends, and a special VA insurance dividend, added directly to disposable personal income and helped sustain purchasing power. Accelerated military procurement and construction and highway aid payments directly stimulated production and employment. Other, longer term programs were inaugurated, including a higher minimum wage with expanded coverage, assistance to areas of chronic unemployment, and increased Federal aids for housing.

These changes in Federal fiscal programs, with other measures employed by the new administration, helped spur an increase in economic activity. By the end of fiscal 1961 much more ground had been regained than had been lost during the recession months, without emergence of inflationary pressures.

*The administrative budget.*—Budget (net) receipts in fiscal 1961 totaled \$77.7 billion and expenditures were \$81.5 billion, resulting in a \$3.9 billion deficit for the fiscal year. In the previous fiscal year, expenditures had totaled \$76.5 billion and receipts \$77.8 billion, resulting in a surplus of \$1.2 billion.

The previous administration had estimated expenditures in fiscal 1961 of \$78.9 billion, receipts of \$79.0 billion, and a surplus of \$79 million. Thus, slightly more than one-third of the difference between the projected budget surplus and the actual deficit recorded resulted from failure of receipts to maintain the level anticipated by the outgoing administration.

By far the largest portion of the increase in expenditures over fiscal 1960 was the \$2.8 billion for national defense, international affairs and finance, and space research and technology. An additional \$600 million in added expenditures was incurred for necessary antirecession programs. Expenditures for all other purposes were \$1.6 billion greater than in fiscal year 1960, but only about \$200 million more than estimated by the outgoing administration. About one-fifth of this increase was for interest on the public debt.

Net budget receipts for fiscal 1961 included: \$41.3 billion in individual income taxes, which accounted for more than half of total budget receipts; \$21.0 billion in corporate income taxes; \$9.1 billion in excise tax collections; \$1.9 billion in estate and gift taxes; \$1.0 billion in customs collections; and \$3.4 billion in miscellaneous receipts.

Although individual income tax collections showed a gain, corporate and excise tax and customs collections were down from those of fiscal 1960 (after deduction of interfund transactions).

*Cash budget.*—In fiscal 1961, cash payments to the public exceeded cash receipts by \$2.3 billion. The cash deficit was less than the budget deficit, since trust funds receipts exceeded expenditures by \$568 million. Government-sponsored enterprises net receipts were \$236

million, and net interest accruals and other noncash adjustments amounted to \$821 million.

*National income and product accounts.*—In the national income and product accounts, Federal expenditures exceeded receipts by \$2.2 billion in fiscal 1961. A moderate surplus in the first quarter of the fiscal year changed to a substantial deficit in the last half of the fiscal year, reflecting additional expenditures largely for defense and the effects of the recession on tax accruals.

### Fiscal year 1962

In a year of presidential change, the budget for the succeeding fiscal year is presented according to law by the outgoing administration. Thus, during its first several months in office the new administration was simultaneously planning to meet immediate needs in the remaining months of fiscal 1961, reviewing the fiscal 1962 proposals of the outgoing administration, and formulating its own programs. Paramount considerations were the need to stimulate economic recovery and to alleviate the worsening international situation which culminated in the Berlin crisis in July 1961.

Although by the last quarter of fiscal 1961 it was clear that the economy was again expanding, it was also clear that a satisfactory decrease in unemployment was still many months in the future. It was decided, therefore, that necessary increases in military and domestic spending should be put into effect without any compensating increase in taxes, thus continuing the economic stimulus of a Government deficit.

*The administrative budget.*—In the January 1962 budget message expenditures in fiscal 1962 were estimated at \$89.1 billion, or \$7.6 billion more than in fiscal 1961. Receipts were estimated at \$82.1 billion, compared with \$77.7 billion in fiscal 1961, resulting in an estimated deficit of \$7.0 billion, compared with a deficit of \$3.9 billion in fiscal 1961.

Since budget receipts in a fiscal year are primarily associated with income and profits levels in the calendar year which ends in the fiscal year, the increase in estimated receipts for fiscal 1962 over fiscal 1961 reflects the rise in economic activity in 1961. However, since the low point of the 1960-61 recession was reached in the first quarter of calendar 1961, fiscal 1962 receipts still reflect the impact of that recession.

The estimated increase in budget expenditures from fiscal 1961 to 1962 is \$7.6 billion, of which \$4.7 billion, or more than 60 percent, is for national defense, international affairs and finance, and space research and technology. Of the remaining \$2.9 billion increase,

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\$1.2 billion is for agricultural programs, particularly farm income stabilization and food for peace programs.

In the January budget document the estimates for fiscal 1962 show an increase in expenditures of \$8.2 billion, compared with the estimates submitted by the previous administration. Of this amount, more than half, \$4.7 billion, represents the increase in planned outlays for defense, space technology, and international programs, and the larger anticipated cost of interest on the public debt. Another \$1.2 billion is accounted for by the rise in the cost of agricultural programs.

According to the January budget document budget receipts for 1962 were expected to run about \$200 million lower than estimated by the previous administration.

Individual income tax collections were estimated at \$45.0 billion and corporate tax collections at \$21.3 billion—the former a significant increase from fiscal 1961, the latter a modest one. All other major categories of receipts were expected to show some rise, with the exception of miscellaneous receipts, because of a large advance loan repayment by the Federal Republic of Germany in 1961. Excise tax collections were estimated at \$9.6 billion; estate and gift taxes at \$2.1 billion; customs collections at \$1.2 billion; and miscellaneous receipts at \$2.9 billion.

*Cash budget.*—Cash payments to the public were estimated to exceed cash receipts from the public by \$8.5 billion in fiscal 1962, a deficit larger than the budget deficit, mainly because trust fund expenditures were expected to exceed receipts by \$1.0 billion. Expected net expenditures of \$514 million from the operations of Government-sponsored enterprises account for nearly all the remaining difference between the administrative and cash budget deficits.

*National income and product accounts.*—It was estimated that the national income and product accounts would show a deficit of \$0.5 billion in fiscal 1962, compared with a deficit of \$2.2 billion in fiscal 1961. The Federal Government was expected to shift from a deficit position to a surplus position in the latter part of the fiscal year, thus providing a moderate restraining influence on the economy, as output increases, in place of the net stimulative effect exerted throughout calendar 1961.

### Fiscal year 1963

The economic considerations which underlay budget policy for the fiscal year 1963 were somewhat more complex than those which had characterized the two previous years.

The fiscal 1963 budget was in preparation during the final months of calendar 1961, when the economic recovery was well established

and nearly every measure of economic activity had reached new records. Although unemployment and underutilization of productive capacity remained high, continuous expansion and fuller utilization of resources were expected. Moreover, balance-of-payments problems, which the recession, with its accompanying lower demand for imports, had helped to ease, were again causing concern.

Although strong stimulation of the economy by fiscal means seemed no longer necessary, it was important to avoid a degree of restraint which might choke off the expansion needed to bring down unemployment and set the economy firmly on the road to sustained growth.

While the existing high unemployment and underutilization of capacity might, in other circumstances, have made continuation of budgetary deficits desirable as a stimulus to growth, balance-of-payments considerations indicated a need for different measures.

Continued strong economic expansion without upward pressures on prices was necessary. The clearly evident means of achieving this was a higher level of private investment in productive facilities, investment which would not only directly stimulate expansion, but would also substantially increase the competitiveness of American products in markets at home and abroad, thus easing the balance-of-payments situation.

The need for an expanding level of private investment emphasized the desirability of a situation in which the Federal Government would not have to draw savings from the private economy to finance a Government deficit. It also required that credit be relatively easily attainable and at favorable rates.

Thus, it was decided to present a balanced budget for the new fiscal year which will begin in July 1962. Only a moderate surplus of \$463 million was provided, however, in the conventional or administrative budget. It was considered necessary to avoid a repetition of the pattern of the previous recovery period, when the Federal budget moved from a deficit, on an administrative budget basis, of \$12.4 billion in fiscal 1959 to a surplus of \$1.2 billion in fiscal 1960. This movement, totaling more than \$13½ billion, contributed to the premature termination of the expansion phase of the business cycle in calendar 1960. In contrast, the budgetary swing planned between fiscal 1962 and fiscal 1963 would total only about \$7½ billion.

*The administrative budget.*—For fiscal 1963 budget expenditures were estimated at \$92.5 billion and receipts at \$93.0 billion. Budget expenditures were expected to be \$3.4 billion greater than in fiscal 1962, with more than three-fourths of the increase accounted for by additional expenditures for national defense, international affairs and

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finance, and space programs. In addition, the interest cost on the public debt was expected to be \$400 million greater than in fiscal 1962.

The rise in all other domestic programs was estimated at less than \$400 million. Budget receipts were expected to rise by \$10.9 billion from fiscal 1962 to fiscal 1963, mainly as a result of the anticipated higher levels of personal income and corporate profits in calendar 1962.

Individual income taxes were expected to account for \$49.3 billion of the total revenues, an increase of \$4.3 billion over fiscal 1962 levels. Corporate tax collections were expected to reach \$26.6 billion, a gain of \$5.3 billion from fiscal 1962. Excise taxes were estimated at nearly \$10.0 billion; estate and gift taxes at \$2.3 billion; customs collections at \$1.3 billion; and miscellaneous receipts at \$4.2 billion. All were expected to show increases over 1962.

*Cash budget.*—In comparison with the excess of cash payments over receipts of \$8.5 billion in fiscal 1962, cash receipts will exceed cash payments by \$1.8 billion in fiscal 1963.

*National income and product accounts.*—It was estimated that the Federal Government will show a surplus of \$4.4 billion in the national income and product accounts in fiscal 1963, in comparison with a deficit of \$0.5 billion in fiscal 1962. Purchases of goods and services in the national income and product accounts were expected to rise by \$4.0 billion, transfer payments by \$1.6 billion and grants-in-aid by \$0.7 billion. Net interest and other expenditures were expected to decline by \$0.5 billion. Total expenditures were estimated to rise by \$5.8 billion, but receipts on an accrual basis were estimated to increase by \$10.7 billion, accounting for the change in the Government's net position.