

SPECIAL ANALYSIS B

FEDERAL TRANSACTIONS IN THE NATIONAL INCOME AND PRODUCT ACCOUNTS

The budget is designed to serve several purposes:

- It sets forth the *President's request to the Congress* for appropriations action on existing or new programs and for changes in tax and entitlement legislation.
- It is a *report to the Congress and the people* on how the Government has spent the funds entrusted to it in past years.
- It is an *economic document* that reflects the taxation and spending policies of the Government for promoting economic growth, high employment, and a stable price level.
- It proposes an *allocation of resources* between the private and public sectors and within the public sector. Through its impact on consumption, investment, and the distribution of income it also affects the allocation of resources within the private sector.

No single budget concept can satisfy all these purposes fully. The budget documents and related Treasury reports provide complete, detailed information on the finances of the Federal Government and on the tax and spending programs proposed by the President. For study of aggregate economic activity, however, the national income and product accounts (NIPA) of the United States provide the most useful measures. This special analysis shows Federal finances as measured in the NIPAs. The analysis is divided into three major sections. The first shows the size, composition, and trends in Federal sector receipts and expenditures. Additional details will be published in the January 1989 issue of the Department of Commerce publication, *Survey of Current Business*. The second section of this analysis shows quarterly estimates of Federal sector receipts and expenditures. The final section explains the major differences between the budget and the NIPA concepts. A discussion of fiscal policy can be found in Part 3 of the *Budget* and in the *Economic Report of the President*.

FEDERAL SECTOR RECEIPTS AND EXPENDITURES

Table B-1 shows Federal sector NIPA receipts, expenditures, and deficits for 1988-90.

Table B-1. FEDERAL SECTOR RECEIPTS AND EXPENDITURES IN THE NIPAs

(In billions of dollars)

Description	1988 actual	1989 estimate	1990 estimate
RECEIPTS			
Personal tax and nontax receipts	413.1	436.8	470.5
Corporate profits tax accruals	109.9	118.5	140.7
Indirect business tax and nontax accruals	57.0	57.5	65.7
Contributions for social insurance	384.8	416.5	456.5
Total receipts	964.8	1,029.3	1,133.4
EXPENDITURES			
Purchases of goods and services	378.3	398.4	413.0
Defense	(296.9)	(298.3)	(304.8)
Nondefense	(81.4)	(100.1)	(108.2)
Transfer payments	434.2	463.4	488.0
Domestic ("to persons")	(421.3)	(450.1)	(474.5)
Foreign	(12.9)	(13.3)	(13.5)
Grants-in-aid to State and local governments	108.5	116.9	117.5
Net interest paid	150.4	165.9	171.1
Subsidies less current surplus of Government enterprises	34.8	29.6	23.4
Wage disbursements less accruals	0.1	0.0	0.0
Total expenditures	1,106.3	1,174.2	1,213.0
Deficit (—)	—141.5	—144.9	—79.6

Note: The estimates for 1989 and 1990 are preliminary; revisions will be published in the January 1989 issue of the *Survey of Current Business*.

Trends in Federal sector receipts.—Table B-1 divides receipts into four major categories, which are also illustrated in the chart on the distribution of Federal sector receipts by category. Table B-2 shows 10-year averages of Federal sector receipts by category as a percent of the gross national product (GNP). The decade averages are shown to provide a perspective relative to the 1990 levels.

Table B-2. FEDERAL SECTOR RECEIPTS AS A PERCENT OF GNP

Description	1950-59 average actual	1960-69 average actual	1970-79 average actual	1980-89 average estimate	1990 estimate
Personal tax and nontax receipts	7.9	8.3	8.6	8.9	8.6
Corporate profits tax accruals	5.0	4.0	3.1	2.1	2.6
Indirect business tax and nontax accruals	2.8	2.3	1.5	1.4	1.2
Contributions for social insurance	2.5	4.1	6.1	7.6	8.3
Total receipts	18.2	18.8	19.3	20.0	20.7

Personal tax and nontax receipts.—The largest receipt category—personal tax and nontax receipts—is composed primarily of individual income taxes but also includes estate and gift taxes and some miscellaneous receipts.

Prior to 1981, individual income taxes grew at a faster rate than taxable personal income, because of "bracket creep." Because tax

rates are progressive, increases in income due to inflation pushed taxpayers into higher tax brackets. Periodically, tax reductions were enacted that partially offset the increase in effective tax rates resulting from the progressive tax structure. However, the Economic Recovery Tax Act of 1981 (ERTA) dramatically altered those circumstances. That act provided for across-the-board tax reductions and—starting in 1985—indexing of income tax brackets, the zero bracket amount, and the personal exemption to inflation. Although subsequent legislation limited the reduction in personal tax and nontax receipts anticipated in ERTA, its central components—rate reductions and indexation—remained largely intact. Largely due to the rate reductions enacted in 1981, personal tax and nontax receipts fell from a peak of 9.9 percent of GNP in 1982 to 8.5 percent in 1986.

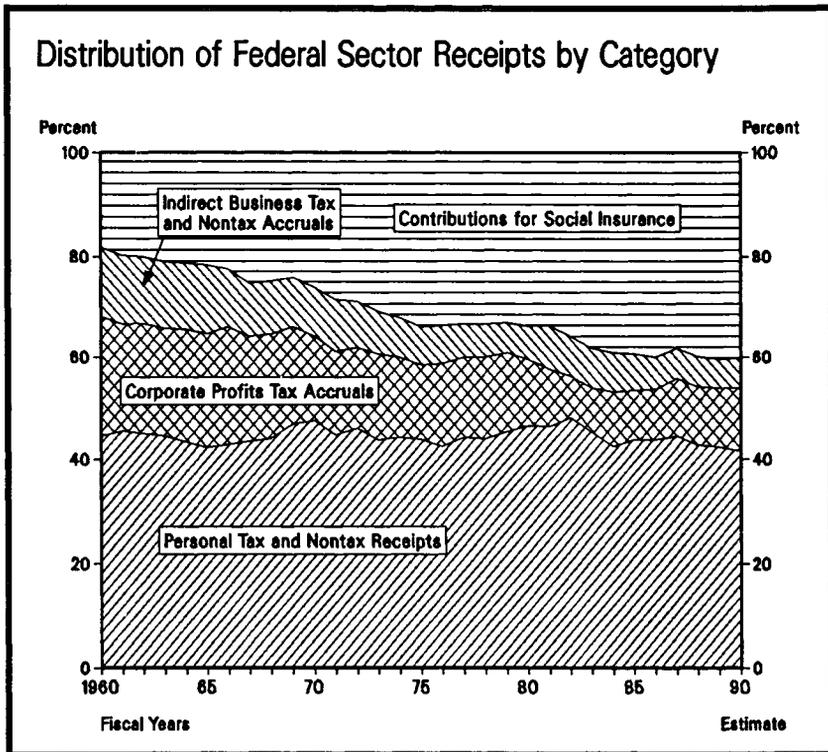
The Tax Reform Act of 1986 replaced the sixteen individual income tax brackets with two brackets having rates of 15 and 28 percent, in exchange for repeal of numerous deductions, exclusions, and special provisions. Despite generally lower tax rates, personal tax and nontax receipts are expected to increase slightly as a share of GNP to 8.6 percent in 1990 reflecting shifts in the composition of national income in favor of wages and salaries. This percentage is less than the 8.9 percent average for the 1980's as a whole, and the same as the average for the 1970's.

Corporate profits tax accruals.—Corporate profits tax accruals change significantly from year to year because corporate profits are highly volatile. The NIPA corporate profits taxes differ from the corresponding budget category primarily because: (1) the NIPAs include the deposit of earnings by the Federal Reserve System as corporate profits taxes, whereas the budget treats these collections as miscellaneous receipts; and (2) the NIPAs record corporate profits taxes when the profits are earned (that is, accrued), while the unified budget records the cash receipts.

The gradual decline in corporate profits tax accruals relative to total receipts, as shown in the chart on the next page, resulted mainly from three factors: (1) a long-term decline in corporate profits relative to GNP; (2) a narrowing of the corporate profits tax base resulting from changes in the definition of corporate profits for tax purposes (largely increases in permissible depreciation allowances); and (3) reductions in effective tax rates on corporate profits resulting from statutory rate reductions and tax credits. Provisions of ERTA designed to stimulate investment further accelerated this trend, but subsequent legislation offset their effects on corporate profits tax accruals, which are now expected to increase. Corporate profits tax accruals are estimated to increase to 2.6 percent of GNP in 1990, the highest percentage since 1980.

Indirect business tax and nontax accruals.—These receipts are composed of excise taxes, customs duties, and various miscellaneous receipts. Over time, indirect business tax and nontax accruals have become a much less important part of total Federal sector receipts for two reasons. First, they normally do not rise in proportion to the nominal growth in the economy; most are taxes on physical quantities rather than on the value of a good. Second, some excise taxes have been reduced or repealed.

Despite their long-term decline as a general-purpose source of tax receipts, the use of excise taxes as user charges to finance Federal programs, such as highways, airports, and airways, makes them an important source of financing for certain specialized programs in the budget. Indirect business taxes and nontax accruals are estimated to be 1.2 percent of GNP in 1990.



Contributions for social insurance.—This is the second largest category of Federal sector receipts. The increase in contributions for social insurance since World War II has been caused by the growth in the labor force and in wage rates, the expanded coverage of existing social insurance programs, the enactment of new ones,

and increases in the taxable wage base and tax rates needed to finance liberalization of benefits. During the decade of the 1950's, contributions for social insurance averaged 2.5 percent of GNP. During the 1980's they are expected to average 7.6 percent. As a result of the rapid rise in social insurance taxes (mainly social security) and the passage of legislation reducing or eliminating individual income taxes for many low- and moderate-income individuals and families, millions of Americans now pay significantly higher social insurance taxes than income taxes. The reductions in individual income tax rates provided by the Economic Recovery Tax Act of 1981 and the Tax Reform Act of 1986, combined with the increases in social security and other social insurance taxes mandated by the Social Security Amendments of 1983 and the Railroad Retirement Revenue Act of 1983, reinforce the trend toward increases in social insurance contributions relative to GNP. The supplemental premium for medicare catastrophic illness and prescription drug benefits, enacted in the Medicare Catastrophic Coverage Act of 1988, also contributes to this trend. These premiums are recorded as individual income taxes in the budget but as contributions for social insurance in the NIPAs. Contributions for social insurance are estimated to increase from 8.1 percent of GNP in 1989 to 8.3 percent in 1990, reflecting the scheduled increase in the social security tax rate, effective January 1, 1990.

Major tax changes.—In the past 8 years, major tax legislation has been passed to reduce tax rates and increase investment incentives; to curb tax shelter abuse, limit unwarranted tax benefits, and increase taxpayer compliance; to increase payroll taxes as part of overall legislation to restore the solvency of the social security system; and to increase gasoline taxes to fund infrastructure improvements.

One of the most sweeping overhauls of the Federal income tax code in the Nation's history became law in October 1986, when the President signed the Tax Reform Act of 1986. The major provisions of this Act, which broadened the individual and corporation income tax bases and substantially lowered individual and corporation income tax rates, were designed to restore simplicity and fairness to the tax code.

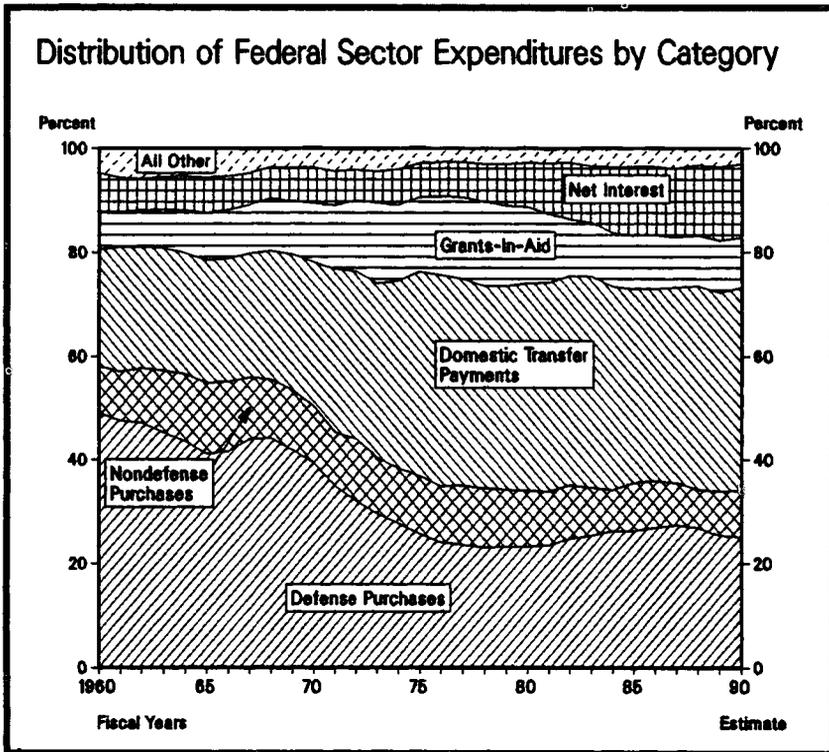
In this budget, the administration proposes several minor modifications of the existing tax system, the effects of which are included in both the budget and the NIPA estimates. The largest of these include extension of medicare hospital insurance coverage to all State and local government employees, permanent extension of the research and experimentation (R&E) tax credit, revisions in R&E allocation rules, and repeal of scheduled reductions in aviation-related taxes. Details about enacted and proposed tax changes on a unified budget basis can be found in Part 4 of the *Budget*; addition-

al details on an NIPA basis will be published in the January 1989 *Survey of Current Business*.

Trends in Federal sector expenditures.—Federal sector expenditures are divided into several major NIPA categories. The principal distinction is between purchases of goods and services (which are divided between defense and nondefense purchases) and all other transactions. Purchases are that portion of the Nation's output that is bought directly by the Federal Government and, therefore, is included in the GNP. The other expenditure categories consist primarily of transfer payments to individuals, net interest payments, and grants to State and local governments. The individuals and governments who receive these payments can use the income to finance their own purchases of goods and services, to save, and—in the case of States and localities—to hold down taxes or to make transfer payments.

Major changes in composition.—As can be seen in the chart on the distribution of Federal sector expenditures since 1960, major shifts in the composition of Federal sector expenditures occur over time.

Over most of this period, defense purchases of goods and services constituted a declining share of Federal spending. This trend was temporarily reversed for three years during the Vietnam period, but by 1970 the defense share was well below the pre-Vietnam percentages and continued declining through 1978. The defense share increased significantly in the early 1980's reaching a peak of 27.4 percent in 1987. It then declined to 26.8 percent in 1988 and is estimated to decline further to 25.4 percent in 1989 and 25.1 percent in 1990.



Spending for domestic transfer payments contrasts sharply with the general decline in defense purchases. After remaining relatively stable at just below 24 percent of total expenditures for most of the 1960's, domestic transfer payments began growing rapidly in the latter part of the decade, and reached a share of nearly 41 percent in 1976. This growth is largely explained by higher expenditures for retirement and other social insurance programs, due to increases in the number of beneficiaries, higher earnings histories, legislated increases in benefit levels enacted over a period of years, and by the creation and expansion of the medicare program. Slower growth in the retiree population, lower unemployment, and legislative initiatives have slowed the growth of transfers so that domestic transfer payments are now several percentage points below the 1976 share.

For the remaining categories, two patterns stand out. Grants-in-aid to State and local governments grew rapidly in the 1960's and 1970's, but their share of Federal sector expenditures has declined from 16.2 percent in 1978 to an estimated 9.7 percent in 1990. Conversely, the net interest share more than doubled in the past decade—from about 6.5 percent throughout the 1960's and early

1970's to over 14.1 percent in 1990. This increase was due to a combination of growth in Federal debt and higher interest rates. By 1991, however, the increase in the net interest share is expected to reverse, because of lower interest rates and lower deficits that are projected to slow the growth of Federal debt.

Expenditures as a share of GNP.—The preceding section discussed the various categories of Federal sector expenditures relative to total expenditures. An alternative way to compare spending trends is to look at changes in the share of the Nation's current output represented by the major expenditure categories. Table B-3 shows 10-year averages of Federal sector expenditures by category as a percent of GNP.

Table B-3. FEDERAL SECTOR EXPENDITURES AS A PERCENT OF GNP

Description	1950-59 average actual	1960-69 average actual	1970-79 average actual	1980-89 average estimate	1990 estimate
Defense purchases	9.9	8.5	5.9	6.0	5.6
Nondefense purchases	1.7	2.2	2.3	2.2	2.0
Domestic transfer payments ("to persons")	3.2	4.6	7.5	9.2	8.7
Foreign transfer payments	0.7	0.4	0.2	0.3	0.2
Grants-in-aid to State and local governments	0.9	1.6	3.0	2.6	2.1
Net interest paid	1.3	1.2	1.4	2.8	3.1
Subsidies less current surplus of Government enterprises	0.4	0.6	0.5	0.5	0.4
Total expenditures	18.0	19.1	20.9	23.6	22.2

Note.—Total expenditures also include wage disbursements less accruals, which are less than 0.1 percent in most year

In the 1950's, defense purchases averaged nearly 10 percent of GNP. By the 1970's they had declined to an average of just under 6 percent. In 1986, defense purchases had increased to 6.6 percent of GNP, reflecting the Reagan administration's defense build-up. In 1990 they are expected to be 5.6 percent of GNP.

Between 1967 and 1984, domestic transfer payments increased dramatically as a share of GNP, although they have declined somewhat in recent years. Net interest has also increased sharply and is expected to continue increasing through 1990. Grants-in-aid spending relative to GNP increased rapidly before declining significantly in recent years. Spending for everything except defense purchases averaged 8.1 percent of GNP in the 1950's. In the 1980's such spending is estimated to average 17.6 percent of GNP; in 1990 its share is estimated to decline to 16.6 percent of GNP.

Defense purchases of goods and services.—Defense purchases consist of all purchases of goods and services under programs included in the national defense function in the budget. Also included are purchases of goods and services by the military assistance programs that are classified in the international affairs function. Nor-

mally about 95 percent of defense purchases are made by the Department of Defense-Military. Most of the remainder is for nuclear weapons programs, international security assistance, and civil defense, carried out by other agencies.

In 1944, at the peak of World War II, defense purchases were 41.3 percent of GNP. Four years later, they had declined to 4.2 percent.

During the Korean conflict, they increased sharply to 12.3 percent in 1952 and 13.4 percent in 1953, declining somewhat when the conflict was over, but averaging 9.7 percent from 1954-1963.

The defense purchases share declined somewhat in the years immediately preceding the Vietnam conflict, falling to 7.3 percent in 1965, but then increased to 9.1 percent in 1968.

The years after Vietnam saw defense purchases decline as a share of GNP in every year but one from 1969 to 1979, when it reached a low of 4.8 percent of GNP.

During the early 1980's, defense increased as a share of GNP in nearly every year through 1986, where it reached a peak of 6.6 percent. In 1990 it is estimated to be 5.6 percent.

Table B-4. PURCHASES OF GOODS AND SERVICES BY CHARACTER OF EXPENDITURE

(In billions of dollars)

	1985 actual	1986 actual	1987 actual	1988 actual	1989 estimate	1990 estimate
Defense purchases:						
Compensation of employees.....	99.2	103.6	107.6	112.1	116.4	121.2
Other.....	153.5	171.7	182.5	184.8	181.9	183.6
Total defense purchases.....	252.7	275.3	290.1	296.9	298.3	304.8
Nondefense purchases:						
Compensation of employees.....	39.0	39.4	41.4	44.1	47.3	50.4
Other.....	49.8	53.7	43.9	37.3	52.8	57.8
Total nondefense purchases.....	88.8	93.1	85.3	81.4	100.1	108.2

Table B-4 displays defense and nondefense purchases of goods and services, with a split by character of purchases between compensation of employees and all other purchases.

Nondefense purchases, which had actually declined from 1985 to 1988, are estimated to increase 23.0 percent in 1989, and 8.1 percent in 1990. The large increase in 1989 represents a rebound from the large commodity sales by the Commodity Credit Corporation (CCC) in 1988, which resulted from the drought. Excluding CCC, nondefense purchases are estimated to increase 9.3 percent in 1989 and 4.1 percent in 1990.

Nondefense compensation is estimated to increase by 6.6 percent in 1990, while defense compensation increases 4.1 percent. The larger nondefense increase is partly due to increased manpower for

the 1990 Census, and due to transition to the Federal Employee Retirement System. Agencies make higher employer contributions than to the old Civil Service Retirement System. Defense purchases other than compensation are estimated to increase by less than 1 percent in 1990.

Nondefense purchases of goods and services.—This category covers the goods and services purchased by Federal nondefense agencies. Included are such programs as the operation of national forest, park, and recreation areas; promotion of commerce; acquisition and disposal of agricultural commodities; construction of flood control and navigation projects; operation of the Federal airway system; a wide variety of medical, energy, space, and other scientific research; the capital outlays of Government enterprises; Federal law enforcement; and operation of veterans hospitals. Table B-5 shows these purchases by agency for the years 1981 to 1990, reflecting the agency structure in the 1990 budget.

Nondefense purchases consist mainly of the cost of operating the various nondefense agencies. In the case of Government enterprises, including the Commodity Credit Corporation (CCC) and the Postal Service, the data also reflect capital formation net of sales of assets and changes in inventories. The most volatile major segment of nondefense purchases is CCC purchases, because the CCC buys, sells, or otherwise disposes of agricultural commodities. On occasion—as in 1979 and in 1984—CCC sales and other disposals may exceed new purchases. As a result of the severe drought in the summer of 1988, CCC had unusually large sales, resulting in negative net purchases of $-\$14.8$ billion. Purchases are expected to remain negative in 1989 and 1990, at $-\$5.0$ billion and $-\$1.2$ billion, respectively.

The Department of Health and Human Services and the Department of Veterans Affairs are normally the two largest agencies in terms of nondefense purchases. Their combined purchases for health care, including research and administrative costs for medicare, are estimated at $\$22.6$ billion in 1990, about 85 percent of the total purchases for the two agencies. Most of their remaining purchases are for administering social security and income security transfer programs. Both the National Aeronautics and Space Administration, with $\$12.5$ billion in 1990 nondefense purchases, and the Department of Energy, with $\$3.6$ billion in 1990 nondefense purchases, conduct major research and development programs. The Transportation Department's $\$8.7$ billion of 1990 nondefense purchases is mainly for the Federal Aviation Administration and the Coast Guard. The Corps of Engineers has an estimated $\$3.2$ billion in 1990 nondefense purchases, which, along with the Tennessee Valley Authority's $\$1.2$ billion, is primarily used for natural resources public works projects and for power activities.

Table B-5.—NONDEFENSE PURCHASES OF GOODS AND SERVICES BY AGENCY AND ACTIVITY

(In billions of dollars)

	Actual								Estimate	
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Legislative and judicial branches.....	1.8	2.1	2.2	2.4	2.6	2.7	3.0	3.2	3.7	3.7
Department of Agriculture.....	5.6	12.9	9.6	-2.0	12.1	15.8	4.4	-7.6	2.6	5.1
Commodity Credit Corporation.....	(1.2)	(8.0)	(4.3)	(-7.6)	(6.3)	(10.8)	(-0.8)	(-13.4)	(-4.1)	(-0.6)
Forest Service.....	(1.9)	(1.9)	(1.8)	(1.8)	(2.0)	(1.9)	(1.9)	(2.3)	(2.5)	(2.2)
All other.....	(2.6)	(3.0)	(3.5)	(3.9)	(3.9)	(3.1)	(3.3)	(3.4)	(4.2)	(3.5)
Department of Commerce.....	1.5	1.5	1.6	1.6	1.7	1.8	1.7	2.0	2.5	3.4
Corps of Engineers, Civil.....	3.2	3.0	3.0	3.0	3.0	2.8	2.7	3.0	3.3	3.2
Department of Education.....	0.8	0.8	0.7	0.9	0.8	0.8	0.9	0.8	1.0	1.0
Department of Energy.....	7.8	5.2	5.1	4.8	5.0	3.5	3.4	3.6	3.9	3.6
Department of Health and Human Services.....	8.3	8.7	8.6	9.2	9.8	10.0	10.6	12.0	13.5	14.5
Health, including medicare.....	(5.9)	(5.9)	(5.8)	(6.3)	(7.1)	(7.4)	(7.7)	(9.1)	(10.6)	(11.4)
Social security, income security, and other.....	(2.4)	(2.8)	(2.7)	(2.8)	(2.7)	(2.7)	(2.9)	(2.9)	(2.9)	(3.0)
Department of Housing and Urban Development.....	0.4	0.5	0.7	1.0	1.1	1.6	1.7	1.8	2.0	2.0
Department of the Interior.....	4.0	3.9	4.2	4.3	4.5	4.4	4.3	4.7	4.8	4.8
Department of Justice.....	2.3	2.4	2.7	3.0	3.4	3.5	4.2	5.2	5.7	6.2
Department of Labor.....	1.9	1.9	1.5	1.5	1.4	1.6	1.5	1.9	1.9	1.9
Department of State.....	1.0	1.1	1.3	1.4	1.6	1.9	1.9	2.3	2.4	2.4
Department of Transportation.....	5.1	5.3	5.7	6.0	6.3	6.5	6.9	7.3	7.9	8.7
Coast Guard.....	(1.6)	(1.8)	(2.1)	(2.2)	(2.2)	(2.1)	(2.2)	(2.3)	(2.5)	(2.7)
Federal Aviation Administration.....	(2.7)	(2.5)	(2.8)	(3.1)	(3.4)	(3.8)	(4.0)	(4.4)	(4.6)	(5.4)
Other.....	(0.8)	(0.9)	(0.8)	(0.8)	(0.6)	(0.5)	(0.8)	(0.6)	(0.8)	(0.7)
Department of the Treasury.....	4.2	4.2	4.6	4.7	5.4	5.8	6.3	7.4	8.0	8.3
Internal Revenue Service.....	(2.4)	(2.5)	(2.9)	(3.2)	(3.6)	(3.8)	(4.2)	(5.0)	(5.2)	(5.5)
Other.....	(1.8)	(1.7)	(1.7)	(1.5)	(1.9)	(2.0)	(2.1)	(2.4)	(2.8)	(2.8)
Veterans Affairs.....	7.6	8.1	8.9	9.6	10.3	10.7	11.0	11.6	11.9	11.7
Hospital and medical care.....	(6.8)	(7.3)	(8.1)	(8.7)	(9.5)	(9.7)	(10.1)	(10.7)	(11.1)	(11.2)
Administration and other.....	(0.8)	(0.8)	(0.8)	(0.9)	(0.8)	(1.0)	(0.9)	(0.9)	(0.8)	(0.5)
Environmental Protection Agency.....	1.0	0.9	1.0	1.1	1.3	1.4	1.6	1.9	2.2	2.5
National Aeronautics and Space Administration.....	5.3	5.9	6.5	6.9	7.2	7.3	7.5	8.8	10.4	12.5

SPECIAL ANALYSIS B

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Table B-5.—NONDEFENSE PURCHASES OF GOODS AND SERVICES BY AGENCY AND ACTIVITY—Continued

(In billions of dollars)

	Actual								Estimate	
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
All other	9.3	8.8	9.0	9.1	11.3	11.1	11.7	11.4	12.5	12.7
National Science Foundation	(0.4)	(0.5)	(0.5)	(0.5)	(0.6)	(0.7)	(0.7)	(0.7)	(0.8)	(0.9)
Nuclear Regulatory Commission	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)	(0.2)	(0.4)	(0.5)
Office of Personnel Management: Employee health benefits and imputed employee retirement contributions	(2.3)	(2.5)	(2.7)	(3.0)	(3.3)	(3.1)	(3.2)	(3.3)	(3.7)	(3.7)
Postal Service	(0.5)	(0.4)	(0.6)	(0.9)	(1.0)	(1.2)	(1.6)	(1.7)	(1.5)	(2.5)
Tennessee Valley Authority	(1.5)	(1.0)	(0.9)	(0.2)	(0.8)	(1.5)	(1.7)	(1.4)	(1.3)	(1.2)
United States Information Agency	(0.4)	(0.5)	(0.5)	(0.5)	(0.6)	(0.7)	(0.7)	(0.8)	(0.8)	(0.8)
Imputed bank service charges	(0.4)	(0.4)	(0.4)	(0.5)	(0.6)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Other	(3.3)	(3.1)	(2.8)	(3.0)	(3.9)	(2.9)	(2.7)	(2.6)	(3.3)	(2.5)
Total nondefense purchases	71.1	77.1	77.0	68.7	88.8	93.1	85.3	81.4	100.1	108.2

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THE BUDGET FOR FISCAL YEAR 1990

Domestic transfer payments.—This is the largest category of Federal sector expenditures. Spending for domestic transfers has expanded rapidly in recent years, mainly as a result of more beneficiaries and higher benefit payments under social insurance programs. As Table B-6 shows, spending on human resources programs, especially for social security and medicare benefits, dominates domestic transfer payments. Medicare is among the fastest-growing programs in the budget, and is expected to increase 10.4 percent in 1990. This includes spending on the recently enacted catastrophic health care programs. Social security is expected to increase 6.2 percent. Together they are estimated to account for 72.2 percent of total domestic transfer payments in 1990, while Federal civilian and military employees' retirement and disability account for 10.5 percent, veterans benefits for 3.7 percent of the total, and unemployment assistance accounts for another for 3.1 percent. Program trends on a unified budget basis are discussed in Part 5 of the *Budget* and elsewhere in the budget documents.

Most domestic transfer payments are for income support and are characterized by automatic eligibility of coverage and automatic benefit increases to adjust for changes in the cost of living. For these programs demographic and economic conditions dominate the growth patterns, and the rate of growth is quite substantial for most years shown. However, due to the sharp decline in the unemployment rate, transfer payments for unemployment benefits are estimated to decline by \$1.9 billion between 1980 and 1990, despite a significantly larger economy and a 50 percent higher price level. This, combined with legislative efforts to slow the growth of Federal spending, is thereby significantly slowing the rate of growth for transfer payments as a whole.

Table B-6. FUNCTIONAL COMPOSITION OF DOMESTIC TRANSFER PAYMENTS

(In billions of dollars)

Description	Actual										Estimate	
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
HUMAN RESOURCES PROGRAMS												
Social security (OASDI)	99.4	113.7	134.1	149.6	163.3	170.9	181.2	190.9	199.4	210.7	223.7	237.6
Medicare (HI, SMI, and CHI)	28.1	33.8	41.1	49.0	56.1	60.8	68.3	73.8	81.4	85.7	95.3	105.3
Income security:												
Railroad retirement	4.2	4.7	5.2	5.6	6.0	6.1	6.2	6.3	6.5	6.5	6.8	7.0
Civil service retirement	12.4	14.6	17.6	19.4	20.7	21.8	23.0	23.9	25.7	28.2	29.7	29.5
Military retired pay	10.1	11.8	13.6	14.7	15.8	16.3	15.6	17.5	17.9	18.9	19.9	20.5
Unemployment benefits	9.9	16.4	17.9	22.0	29.4	16.9	16.0	16.3	15.8	13.7	14.2	14.5
Benefits for coal miners	1.6	1.8	1.7	1.7	1.7	1.6	1.6	1.6	1.6	1.5	1.5	1.5
Supplemental security income	5.2	5.7	6.4	6.9	7.2	8.1	8.7	9.4	10.1	11.4	11.3	11.0
Food and nutrition	5.7	7.9	9.8	9.5	11.1	10.7	10.7	10.6	10.5	11.1	11.3	11.4
Earned income tax credit	0.8	1.3	1.3	1.2	1.2	1.2	1.1	1.4	1.4	2.7	3.8	3.8
Workers' compensation	0.7	0.8	0.9	0.9	0.9	1.0	1.1	1.1	1.2	1.2	1.3	1.4
Other	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.5	0.5	0.4	0.4
Subtotal, income security	50.6	65.0	74.5	81.9	94.2	83.9	84.1	88.5	91.1	95.6	100.3	100.9
Health	0.6	0.7	0.7	0.6	0.6	0.6	0.6	0.7	0.7	0.8	0.8	0.9
Education, training, employment, and social services:												
Education	3.4	4.5	5.7	5.3	5.9	6.1	6.3	6.0	5.9	6.6	7.6	7.4
Training, employment, and social services	0.9	1.5	1.1	0.9	0.8	1.0	1.0	1.0	1.0	1.1	1.1	1.1
Subtotal, education, training, employment, and social services	4.3	6.0	6.8	6.2	6.7	7.1	7.2	7.0	7.0	7.7	8.7	8.5
Veterans benefits and services	14.0	14.4	15.5	16.2	16.5	16.3	16.5	16.6	16.5	16.8	17.3	17.5

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THE BUDGET FOR FISCAL YEAR 1990

Total human resources programs	196.9	233.5	272.7	303.6	337.4	339.6	358.0	377.5	396.1	417.3	446.1	470.5
ALL OTHER FUNCTIONS												
National defense: CHAMPUS ¹	0.7	0.7	0.9	1.1	1.2	1.3	1.5	1.7	1.9	2.6	2.5	2.8
Other	0.9	1.1	1.1	1.0	1.1	1.4	1.1	1.1	1.4	1.5	1.4	1.2
Total functions not included in human resources grouping	1.5	1.8	1.9	2.1	2.3	2.7	2.6	2.8	3.2	4.0	4.0	4.0
Total domestic transfer payments	198.5	235.4	274.6	305.6	339.8	342.2	360.6	380.4	399.4	421.3	450.1	474.5

*\$50 million or less.

¹ Health care for dependents of active duty personnel and retired military personnel and their dependents.

SPECIAL ANALYSIS B

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Grants-in-aid.—These expenditures help State and local governments provide general public services and finance programs for the needy. Table B-7 shows grants-in-aid by budget function and major activity. Grant expenditures are discussed in greater detail in Special Analysis H in this volume. While the definition of Federal aid used in that analysis differs somewhat from that used in the NIPAs, the two sets of data largely overlap. Special Analysis H explains the relationship between the series.

Grants-in-aid may often substitute for domestic transfer payments and, to a lesser degree, nondefense purchases. For example, low-income veterans could be eligible for free medical care under medicaid (Federal grants to finance State and local transfer payments), in a veterans hospital (nondefense purchases), or perhaps under medicare (transfer payments). Medicaid and most grants in the income security function are grants to assist States to provide income support; most other grants finance State and local services to the public. (The income support may be aid-in-kind, as is the case for medicaid, where much of the State and local spending is to reimburse the cost of providing medical care for the poor.)

The growth in most Federal grants-in-aid categories has been constrained over the last 8 years as part of the administration's efforts to curb the growth in overall spending. However, expenditures have increased significantly for two categories—medicaid and transportation. Despite reforms to increase program efficiency and effectiveness, medicaid grants are estimated to increase by 12.5 percent in 1989 and 5.0 percent in 1990. Transportation grants are estimated to increase by 0.6 percent in 1989, and 1.1 percent in 1990. Outlays for other grants are estimated to increase by 7.4 percent in 1989 and to decline by 2.0 percent in 1990.

Table B-7. FUNCTIONAL COMPOSITION OF FEDERAL GRANTS-IN-AID

(In billions of dollars)

Description	Actual										Estimate	
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
HUMAN RESOURCES PROGRAMS												
Income security:												
Family support payments.....	6.5	7.2	8.4	7.9	7.8	8.2	8.5	9.2	10.5	10.7	11.2	10.7
Child nutrition and other food programs..	3.3	3.9	4.4	4.2	4.7	5.4	5.8	6.2	6.6	7.0	7.7	7.1
Other.....	1.7	2.2	4.5	4.7	5.4	5.4	5.6	6.3	5.9	5.3	5.0	5.0
Subtotal, income security.....	11.5	13.3	17.2	16.7	17.9	19.0	19.9	21.7	23.0	23.0	24.0	22.9
Health:												
Medicaid.....	12.4	13.9	16.8	17.3	18.9	20.0	22.6	24.6	27.4	30.4	34.2	35.9
Other (includes research, construction, services, and medical training).....	2.7	3.0	3.1	3.1	2.8	3.0	3.2	3.3	3.4	3.8	4.2	4.2
Subtotal, health.....	15.1	16.9	19.9	20.5	21.8	23.0	25.7	27.9	30.8	34.2	38.3	40.1
Education, training, employment, and social services:												
Education.....	6.6	7.3	7.5	7.0	6.6	6.6	7.9	8.3	8.0	8.7	9.5	9.9
Training and employment.....	8.5	7.7	6.7	3.3	3.3	2.6	2.9	3.1	2.9	2.9	3.0	2.9
Social services.....	5.3	6.3	5.4	5.0	5.4	6.2	5.8	6.3	6.3	6.9	8.5	8.1
Subtotal, education, training, em- ployment, and social services.....	20.3	21.3	19.6	15.3	15.3	15.5	16.6	17.7	17.3	18.4	20.9	20.9
Other (social security, medicare, and vet- erans benefits and services).....	0.4	0.5	0.6	0.7	0.8	0.8	0.8	0.9	0.9	1.0	1.1	1.2
Total human resources pro- grams.....	47.4	52.0	57.2	53.2	55.8	58.2	63.0	68.2	71.9	76.6	84.4	85.0

SPECIAL ANALYSIS B

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Table B-7. FUNCTIONAL COMPOSITION OF FEDERAL GRANTS-IN-AID—Continued

(In billions of dollars)

Description	Actual										Estimate	
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
OTHER FUNCTIONS:												
Natural resources and environment:												
EPA	3.9	4.6	4.1	4.0	3.2	2.9	3.2	3.4	3.2	2.9	2.9	2.9
Other	0.6	0.7	0.7	0.7	0.6	0.8	0.8	0.7	0.6	0.8	0.7	0.5
Subtotal, natural resources and environment	4.5	5.2	4.8	4.7	3.9	3.7	4.0	4.1	3.8	3.6	3.7	3.4
Community and regional development:												
Local public works	1.6	0.4	0.1	*	*	*	*	*	*			
Block grants	3.2	4.0	4.3	4.1	3.9	4.1	4.2	3.7	3.2	3.2	3.3	3.2
Other	1.6	1.8	1.5	1.1	0.9	0.8	0.8	0.9	0.8	0.9	0.8	0.8
Subtotal, community and regional development	6.4	6.2	5.9	5.2	4.8	5.0	4.9	4.5	4.0	4.1	4.1	4.0
Transportation	9.6	11.8	12.2	10.8	12.1	14.3	16.0	17.7	16.1	17.1	17.2	17.4
General purpose fiscal assistance:												
General revenue sharing	6.8	6.8	5.1	4.6	4.6	4.6	4.6	4.6	4.4			
Other	0.9	1.1	1.1	1.4	1.2	1.6	1.6	1.5	1.4	1.4	1.5	1.4
Subtotal, general purpose fiscal assistance	7.8	7.9	6.3	5.9	5.9	6.1	6.1	5.9	1.4	1.4	1.5	1.4
All other functions	3.5	3.5	3.7	3.6	3.3	3.4	3.7	7.0	5.9	5.7	6.0	6.3
Total other functions	31.7	34.7	32.9	30.3	29.9	32.5	34.7	39.3	31.2	31.9	32.5	32.5
Total grants-in-aid	79.1	86.7	90.1	83.4	85.7	90.7	97.8	107.4	103.1	108.5	116.9	117.5

* 50 million or less.

Foreign transfer payments.—There are three major types of foreign transfer payments: expenditures to assist foreign economic development, grants of surplus agricultural products, and payments under social security and similar programs to individuals living abroad. Although payments to individuals living abroad are gradually rising, roughly in proportion to the rise in GNP, total foreign transfer payments have declined to just 0.2 percent of GNP. The peak year for foreign transfer payments was 1949; in that year they were equal to 1.9 percent of GNP, due to the Marshall Plan.

Net interest paid.—Net interest paid depends on the size of Federal debt, loans outstanding, and the interest rates on borrowing and lending. Large budget deficits in the 1980's, in combination with high interest rates made net interest among the fastest growing components of the budget, increasing from 8.6 percent of total expenditures in 1980 to 14.1 percent in 1990. However, this trend is projected to reverse as lower interest rates and smaller deficits cause net interest to decline after 1990.

Subsidies less current surplus of Government enterprises.—This category of expenditures consists of two elements: (1) subsidy payments to resident businesses (including farms); and (2) the "current surplus" or "deficit" of Government enterprises. In this context, a subsidy is a monetary grant to a unit engaged in commercial activities. Examples are housing subsidies, farm subsidies, railroad subsidies, and mass transit subsidies. As Table B-8 shows, normally about half of the subsidies are for housing programs (including Department of Agriculture housing programs). These subsidies are designed mainly to reduce the cost of housing to low- and moderate-income families.

"Government enterprise" is the term used in the NIPAs to designate certain business-type operations of the Government that usually appear in the budget as public enterprise revolving funds. The operating costs of Government enterprises are, to a great extent, covered by the sale of goods and services to the public rather than from tax receipts. The difference between the sales and the current operating expense of a Government enterprise constitutes its surplus or deficit. The net capital formation of Government enterprises is classified as nondefense purchases. The largest Federal Government enterprises are the Commodity Credit Corporation, the Postal Service, and the Tennessee Valley Authority.

Table B-8. SUBSIDIES LESS CURRENT SURPLUS OF GOVERNMENT ENTERPRISES

(In billions of dollars)

Description	Actual										Estimate	
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Subsidies:												
Commodity Credit Corporation.....	2.0	0.5	1.4	1.6	4.9	10.6	8.0	10.0	13.0	14.9	10.4	10.0
Rural housing insurance fund.....	0.6	0.6	0.8	1.4	1.7	1.7	1.9	2.1	1.8	1.7	1.6	1.3
Other Department of Agriculture.....	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.2	0.2	0.3	0.2	0.2
Housing (HUD).....	4.3	5.1	6.3	7.6	9.2	9.7	11.0	11.0	11.0	12.3	13.7	15.0
Maritime.....	0.5	0.6	0.5	0.6	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.2
Railroad and mass transit.....	1.5	2.0	2.2	1.9	1.7	1.7	1.6	1.3	1.3	1.4	1.4	0.4
Other ¹	0.6	0.5	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Subtotal.....	9.9	9.5	11.7	13.5	18.2	24.4	23.2	25.0	27.6	30.9	27.6	27.2
Enterprise surpluses (—) or deficits:												
Commodity Credit Corporation.....	1.4	1.5	1.8	2.3	5.5	2.5	2.0	4.5	8.0	10.6	9.0	2.7
Postal Service.....	0.6	1.6	1.1	-0.1	0.4	0.6	1.1	-0.1	0.5	-0.2	-1.3	-0.1
Bonneville Power Administration.....	-0.2	-0.2	-0.3	-0.2	-0.4	-0.7	-0.7	-0.5	-0.5	-0.3	-0.3	-0.8
Tennessee Valley Authority.....	-0.8	-1.1	-1.0	-1.2	-1.4	-1.5	-2.0	-2.0	-2.4	-2.2	-2.3	-2.6
Federal Housing Administration.....	-0.2	-0.4	-0.5	-0.5	-0.5	-0.4	-0.5	-0.6	-0.5	-1.1	-1.1	-1.3
Federal Deposit Insurance Corporation.....	-0.3	-0.3	-0.4	-0.6	-0.6	-1.1	-1.2	-1.4	-1.4	-1.4	-1.7	-1.8
Federal Savings and Loan Insurance Corporation.....	-0.3	-0.3	*	-0.2	-0.3	-0.4	-1.4	-1.9	-1.9	-1.4	-0.6	*
All other ¹	-0.2	*	*	*	-*	0.1	-0.2	*	0.2	*	0.3	-*
Subtotal.....	-*	1.0	0.9	-0.5	2.7	-1.0	-2.6	-2.1	2.0	4.0	2.0	-3.8
Total subsidies less current surplus.....	9.9	10.4	12.5	13.0	20.9	23.4	20.7	22.9	29.6	34.8	29.6	23.4

* \$50 million or less.

¹ Includes wage disbursements less accruals.

Wage disbursements less accruals.—This is an adjustment occasionally made in the NIPAs to bridge between the sum of the expenditure components and the totals. This is necessary when wages and salaries are received in a time period that is different from when they are earned. The unified budget records these payments on a cash basis (when they are paid). The NIPA treat such payments on an accrual basis (when they are earned) for nondefense purchases and the current surplus of Government enterprises, but on a cash basis for total expenditures. Wage disbursements less accruals is the timing adjustment necessary to allow the individual expenditure categories to sum to the total expenditures. The net adjustment made is normally small since wage and salary payments disbursed in one year but earned in another are approximately offset by payments disbursed in the next year but earned in the current one.

QUARTERLY ESTIMATES

Table B-9 presents quarterly NIPA receipts and expenditures estimates at seasonally adjusted annual rates for 1988 to 1990. The translation of the budget into the NIPA categories is inexact. When the annual NIPA estimates are converted into quarterly distributions that are seasonally adjusted at annual rates, greater imprecision must be expected. The data presented in Table B-9 are the best available estimates of the quarterly NIPA receipts and expenditures consistent with the 1990 budget.

Table B-9. FEDERAL RECEIPTS AND EXPENDITURES IN THE NIPAs, QUARTERLY, 1988-90

(In billions of dollars; seasonally adjusted at annual rates)

Description	Actual				Estimate							
	Oct.-Dec. 1987	Jan.-Mar. 1988	Apr.-June 1988	July-Sept. 1988	Oct.-Dec. 1988	Jan.-Mar. 1989	Apr.-June 1989	July-Sept. 1989	Oct.-Dec. 1989	Jan.-Mar. 1990	Apr.-June 1990	July-Sept. 1990
RECEIPTS												
Personal tax and nontax receipts	422.3	404.6	425.0	408.3	420.4	431.6	441.9	445.4	454.3	466.0	472.7	480.8
Corporate profits tax accruals	107.7	107.2	111.7	113.1	113.9	114.2	119.3	126.4	131.5	139.1	143.8	148.5
Indirect business tax and nontax accruals....	55.0	55.9	55.9	57.1	59.0	56.9	57.0	57.2	63.5	66.3	66.5	66.8
Contributions for social insurance.....	359.4	383.4	390.3	397.0	404.1	414.9	420.0	425.0	432.6	455.7	461.5	467.0
Total receipts.....	944.4	951.0	983.0	975.5	997.4	1,017.6	1,037.9	1,054.0	1,081.9	1,127.1	1,144.5	1,163.1
EXPENDITURES												
Purchases of goods and services.....	391.4	377.7	382.2	367.7	385.0	398.4	403.6	406.3	404.2	412.0	419.1	416.2
Defense.....	(299.2)	(298.4)	(298.8)	(294.3)	(294.9)	(298.3)	(299.3)	(300.5)	(297.3)	(303.8)	(308.1)	(309.6)
Nondefense	(92.2)	(79.3)	(83.4)	(73.4)	(90.1)	(100.1)	(104.3)	(105.8)	(108.2)	(108.2)	(111.0)	(106.6)
Transfer payments.....	422.5	434.4	437.6	440.7	448.8	463.4	468.2	471.7	476.6	487.9	491.9	496.1
Domestic ("to persons")	(406.1)	(422.9)	(426.5)	(428.3)	(433.2)	(450.9)	(455.7)	(459.1)	(460.8)	(475.2)	(479.2)	(483.3)
Foreign	(16.4)	(11.5)	(11.0)	(12.5)	(15.6)	(12.5)	(12.5)	(12.6)	(15.8)	(12.7)	(12.7)	(12.8)
Grants-in-aid to State and local govern- ments	101.4	111.1	110.4	111.5	115.0	116.9	118.1	117.9	117.5	117.4	117.5	117.7
Net interest paid	149.5	149.9	152.1	154.9	160.9	165.4	167.9	169.4	170.1	170.8	171.5	172.2
Subsidies less current surplus of Govern- ment enterprises.....	39.7	33.0	34.0	24.1	36.6	30.1	29.3	22.2	30.7	23.0	22.0	18.2
Wage disbursements less accruals	0.2											
Total expenditures.....	1,104.9	1,106.1	1,116.3	1,099.0	1,146.3	1,174.2	1,187.1	1,187.5	1,199.1	1,211.1	1,222.0	1,220.4
Deficit (-).....	-160.4	-155.1	-133.3	-123.5	-148.9	-156.6	-149.2	-133.5	-117.2	-84.0	-77.5	-57.3

Note.—Because of the methods normally used to seasonally adjust NIPA data, the average of seasonally adjusted data for the 4 quarters of a fiscal year may not be equal to the unadjusted fiscal year total.

RELATIONSHIP OF THE BUDGET TO THE FEDERAL SECTOR, NIPA

Table B-10 shows the major differences between the budget and the Federal sector in the NIPAs. Adjustments required to reconcile the budget to the Federal sector in the NIPAs are explained below.

Table B-10. RELATIONSHIP OF THE BUDGET TO THE FEDERAL SECTOR, NIPA

(In billions of dollars)

Description	1986 actual	1987 actual	1988 actual	1989 estimate	1990 estimate
RECEIPTS					
Total budget receipts ¹	769.1	854.1	909.0	975.5	1,059.3
Government contributions for employee retirement (grossing) ..	33.7	35.4	38.8	40.5	42.4
Other netting and grossing.....	12.6	13.9	16.4	19.4	26.7
Timing adjustments.....	1.1	-0.1	2.3	-4.4	6.9
Geographic exclusions.....	-1.5	-1.7	-1.7	-1.7	-1.9
Other.....	*	*	*	*	*
Federal sector, NIPA receipts	815.0	901.7	964.8	1,029.3	1,133.4
EXPENDITURES					
Total budget outlays ¹	990.3	1,003.8	1,064.0	1,137.0	1,151.8
Lending and financial transactions.....	-11.9	-3.9	-15.2	-18.3	-4.8
Government contributions for employee retirement (grossing) ..	33.7	35.4	38.8	40.5	42.4
Other netting and grossing.....	12.6	13.9	16.4	19.4	26.7
Defense timing adjustment.....	4.0	8.0	7.0	-0.3	-1.1
Bonuses on Outer Continental Shelf land leases.....	2.1	1.6	1.3	0.8	2.0
Geographic exclusions.....	-5.4	-5.4	-5.7	-6.0	-6.1
Other.....	2.4	5.5	-0.3	1.1	2.1
Federal sector, NIPA expenditures	1,027.8	1,058.9	1,106.3	1,174.2	1,213.0

¹ Includes off-budget amounts.

* \$50 million or less.

Lending and financial transactions.—The NIPAs conceptually measure the Nation's current income and production, and therefore do not include transactions, such as loans, that are an exchange of existing assets and liabilities rather than current income or production. Loan transactions have a significant economic impact, affecting the allocation and distribution of income and output, but they are analyzed more appropriately within a financial market framework, such as that provided by the flow-of-funds data of the Federal Reserve Board. Special Analysis E, "Borrowing and Debt", and Special Analysis F, "Federal Credit Programs", both contain information on the financial market implications of the budget.

Most of the lending and financial transactions included in Table B-10 are shown in Special Analysis F. However, this total differs from the total for direct loans shown in Special Analysis F principally because: (a) the NIPAs record nonrecourse agricultural commodity loans as purchases rather than loans; and (b) capital contri-

butions to international financial institutions are not loans, but are financial transactions excluded from the NIPAs.

In 1987, the administration began a pilot program to sell existing and newly made loan assets without recourse, or the right to make a claim against the Federal Government in the event of borrower default. In 1987, proceeds from the sale and prepayment of loans were \$5.6 billion. Proceeds from loan asset sales and prepayments are estimated to be \$7.4 billion in 1989 and \$4.3 billion in 1990. The net proceeds of all of these loans are excluded from the NIPAs.

The other major financial transaction excluded from the NIPAs was the sale of Conrail stock. In 1987, the Federal Government received \$1.9 billion from the sale of Conrail stock.

Government contributions for employee retirement.—The contributions of Government agencies to the retirement trust funds of their employees constitute the largest netting and grossing adjustment. Since these contributions are made by Government accounts to other Government accounts, they do not affect the unified budget receipt and outlay totals, which conceptually measure the Government's current transactions with the public. While the contributions are recorded as outlays of the agencies, they are offset by an intragovernmental deduction. However, the NIPAs have long counted Government payments for civilian employee retirement as part of the compensation paid to Government employees and, therefore, as Government expenditures. This treatment maintains comparability with the treatment of employee retirement contributions in the rest of the economy. Contributions for employee retirement by Government enterprises such as the Postal Service are recorded as an increase in the current deficit of enterprises. Contributions by other civilian accounts are recorded as purchases of goods and services. These retirement contributions are then treated as a governmental receipt in the NIPAs, as contributions for social insurance. Since receipts and expenditures are increased by identical amounts, this treatment has no net effect on the surplus or deficit. Around 80 percent of these payments go to the Federal retirement and disability trust funds, while most of the remainder are for social security and medicare.

The NIPA treatment of Government contributions for military retirement is also as a contribution for social insurance. In 1985, the budget began financing military retirement on an accrual basis akin to the financing of civil service retirement. A trust fund was created to pay retirement benefits to current and future military retirees. Benefits are financed by payments to the retirement trust fund from three sources: employing agencies, for services currently rendered (the "accrual charge"); the general fund, to cover the unfunded liability that existed when the new retirement trust fund

was created; and the interest earned on trust fund balances. These payments also do not affect the budget totals since they are offset by intragovernmental deductions. In the NIPAs, a social insurance fund and an employer contribution for military retirement are imputed. The imputed contribution is equal to benefits paid. Since an equal amount is added to both receipts and expenditures, imputed accruals have no impact on the surplus or deficit. However, the contributions imputed in the NIPAs differ significantly from the budget accruals in many years. The budget estimates are based on benefits earned in the time period when service was rendered, while the NIPAs use the cash benefits paid in one period as a proxy for the budget accruals.

Other netting and grossing.—The budget normally counts as receipts only income from taxation or similar sources that arises from the exercise of Governmental power to compel payment. Money received in the course of business-type transactions is normally shown as offsets against outlays. For instance, receipts from social insurance programs operated by the Veterans Administration (such as the National Service Life Insurance and U.S. Government Life Insurance) are netted against outlays in the budget since these programs are voluntary, commercial-type activities. However, in the NIPAs these insurance premiums are treated as social insurance receipts just as are receipts from compulsory Government programs. Likewise, noncompulsory insurance premiums under the supplementary medical insurance program and similar but much smaller noncompulsory hospital insurance premiums are classified as offsetting collections (negative outlays) in the budget, but are classified as social insurance contributions in the NIPAs.

Other netting and grossing includes some imputed contributions for social insurance for Federal employees for unemployment compensation (which adds an equal amount to purchases of goods and services) and workers' compensation (which adds an equal amount to domestic transfer payments). Social insurance contributions are imputed for medical care for military personnel and their dependents and for unemployment benefits for former military personnel.

One major element of netting and grossing in recent years has been due to budgetary collections arising from the Outer Continental Shelf leases. All such collections are recorded in the budget as negative outlays. The rents and royalties component—but not the bonuses—are recorded in the NIPAs as indirect business nontaxes; this converts the collections from an offset to outlays in the budget to a receipt in the NIPAs.

In the 1990 budget, the administration proposes to auction off rights to unassigned frequencies in the electromagnetic spectrum for \$2.3 billion and rights to emit chlorofluorocarbon pollutants for \$0.4 billion. The treatment of these transactions is similar to that

for outer continental shelf rents and royalties. They are recorded as undistributed offsetting receipts in the budget and business nontaxes in the NIPAs.

All netting and grossing items, including Government contributions for employee retirement, have an equal impact on receipts and expenditures, so they have no effect on the calculation of the NIPA deficit.

Timing adjustments.—The budget records receipts at the time the cash is collected regardless of when the liability is incurred. In contrast, the NIPAs attempt to record most receipts from the business sector in the time period in which the liability is incurred rather than when taxes are actually collected. Personal income taxes and social insurance contributions are recorded at the time of payment by the individual taxpayer rather than when the liability is incurred or the cash is received by Treasury. Hence, receipts recorded in the budget for one fiscal year are sometimes recorded in the prior fiscal year in the NIPAs due to the lags between the time when liability is incurred or payment made and time of collection. The timing adjustments made to budget receipts attempt to account for these time lags.

Receipts in the NIPAs are decreased by \$4.4 billion in 1989 and are increased by \$6.9 billion in 1990, relative to the budget, due to receipts timing. This timing adjustment is largely for corporate profits tax accruals and reflects the effects of legislated changes on the tax base and the timing of collections.

The principal timing adjustment made to expenditures is for defense purchases. The major defense timing adjustment normally involves procurement items (such as missiles and airplanes) purchased under fixed-price contracts. The Federal Government normally makes progress payments for work in process for major procurement programs. Progress payments are excluded from NIPA Federal sector expenditures, because work in progress is counted in the NIPAs as part of private business inventories until the goods are completed and delivered to the Government, when they are recorded as defense purchases. An additional defense timing adjustment is made to convert foreign military sales, which are recorded on a cash basis in the unified budget, to a basis consistent with net exports in the NIPAs. In addition, some accounting adjustments are included with the defense timing adjustment in this translation. Nondefense timing adjustments are normally small and are included in the "other" category in Table B-10.

Bonuses on Outer Continental Shelf land leases.—In recent years, bonuses paid on the Outer Continental Shelf oil leases have become a significant reconciliation item between the unified budget and

the NIPAs. As already noted, the budget records these bonuses as proprietary receipts and, therefore, deducts them from budget outlays. The NIPAs exclude these transactions as being a transfer of assets, because the payments are not included in calculating book profits under current corporate accounting practice.

Geographic exclusions.—Geographic exclusions arise because Puerto Rico, the Virgin Islands, and other U.S. territories are not included in the United States for purposes of computing the GNP and related data series (such as contributions for social insurance, domestic transfer payments, and grants-in-aid). Nor are they treated as foreign for purposes of producing data on exports, imports, and foreign transfer payments. Since the budget includes receipts from and payments to persons and local governments in these territories, and the NIPAs exclude such transactions, this constitutes a major reconciliation item between the two data series.

Other.—In 1990, the administration proposes to sell the naval petroleum reserves, yielding \$1.0 billion in offsetting receipts. The NIPAs exclude this transaction, along with other purchases and sales of land and existing natural assets. The administration also proposes to sell the Alaska power administration, the Southwest Power Administration, and the Department of the Interior's helium mining operations. The land portion of these sales is similarly excluded. Sales of structures and equipment are recorded as negative purchases by the Government in the NIPAs. This category also contains miscellaneous adjustments, such as foreign currency transactions that are included in the NIPAs but not in the budget.

Table B-11. FEDERAL TRANSACTIONS IN THE NATIONAL INCOME AND PRODUCT ACCOUNTS, 1979-1990

(In billions of dollars)

Description	Actual										Estimate	
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
RECEIPTS												
Personal tax and nontax receipts.....	222.9	250.7	289.6	310.0	292.5	302.5	340.4	357.0	401.6	413.1	436.8	470.5
Corporate profits tax accruals.....	75.7	70.2	69.4	52.1	55.7	75.3	74.6	80.7	101.7	109.9	118.5	140.7
Indirect business tax and nontax accruals....	29.0	35.3	53.4	50.0	50.2	54.9	55.9	51.2	53.2	57.0	57.5	65.7
Contributions for social insurance.....	163.6	182.3	211.4	231.1	247.3	279.2	305.8	326.0	345.2	384.8	416.5	456.5
Total receipts.....	491.2	538.6	623.8	643.3	645.7	711.9	776.8	815.0	901.7	964.8	1,029.3	1,133.4
EXPENDITURES												
Purchases of goods and services.....	173.1	199.9	231.8	264.4	287.4	297.2	341.5	368.4	375.4	378.3	398.4	413.0
Defense.....	(117.7)	(137.2)	(160.7)	(187.3)	(210.4)	(228.5)	(252.7)	(275.3)	(290.1)	(296.9)	(298.3)	(304.8)
Nondefense.....	(55.5)	(62.8)	(71.1)	(77.1)	(77.0)	(68.7)	(88.8)	(93.1)	(85.3)	(81.4)	(100.1)	(108.2)
Transfer payments.....	203.5	241.1	281.3	312.8	347.5	352.2	374.0	394.6	411.1	434.2	463.4	488.0
Domestic ("to persons").....	(198.5)	(235.4)	(274.6)	(305.6)	(339.8)	(342.2)	(360.6)	(380.4)	(399.4)	(421.3)	(450.1)	(474.5)
Foreign.....	(5.1)	(5.8)	(6.7)	(7.2)	(7.7)	(9.9)	(13.4)	(14.3)	(11.7)	(12.9)	(13.3)	(13.5)
Grants-in-aid to State and local govern- ments.....	79.1	86.7	90.1	83.4	85.7	90.7	97.8	107.4	103.1	108.5	116.9	117.5
Net interest paid.....	40.7	50.8	66.7	82.2	90.6	109.7	128.3	134.4	139.7	150.4	165.9	171.1
Subsidies less current surplus of Govern- ment enterprises.....	9.9	10.4	12.5	13.0	20.9	23.3	20.7	22.9	29.6	34.8	29.6	23.4
Wage disbursements less accruals.....	*		-0.1	*	0.4	-0.1	0.1		-0.1	0.1		
Total expenditures.....	506.4	589.0	682.4	755.9	832.4	873.0	962.3	1,027.8	1,058.9	1,106.3	1,174.2	1,213.0
Deficit (-).....	-15.2	-50.4	-58.5	-112.6	-186.7	-161.0	-185.5	-212.8	-157.2	-141.5	-144.9	-79.6

*\$50 million or less.

Note.—The estimates for 1989 and 1990 are preliminary; revisions will be published in the January 1989 issue of the *Survey of Current Business*.