



Business Trends

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BUDGETS FOR '63

In January of each year, the Administration is required to submit a budget document to the Congress for the latter's review and approval. Last month--on January 18--the President presented to the Congress his recommendations for Federal spending and his anticipations of Federal revenues for fiscal year 1963, which begins on July 1 of this year. The budget represents only a highly tentative accounting statement of "to-be-appropriated" expenditures and "to-be-received" revenues for a twelve-month period which does not begin for another five months. In no way is it possible to determine at this time what effects the course of business activity, Congressional action, and the state of international affairs will have on the budget in the months to come.

As indicated in the Budget Message of the President, the budget was prepared with two principal objectives: (1) to enable the Federal government to carry out the activities assigned by general national agreement, e.g., social and economic welfare and national defense; and (2) to attempt to achieve a relationship between Federal spending and receipts which will best contribute to the attainment of the broad goals of the national economy--economic growth, maximum levels of employment, and price stability.

For the first time in an initial budget message, three alternative accounting concepts were used to measure Federal receipts and

expenditures, namely, the administrative budget, the cash budget, and the Federal-sector account.

Administrative Budget. The administrative budget is the set of accounts most familiar to general observers. The administrative budget does not represent the actual flow of cash to and from the public; it excludes various trust funds and includes cash flows within the government.

For fiscal year 1963, expenditures in the administrative budget represent an all-time high for a peacetime period. Spending for national defense, international affairs, space programs, and interest costs accounts for about seven-eighths of the estimated increase in expenditures over 1962. Various domestic programs account for the remaining portion of the increase between fiscal years 1962 and 1963.

Estimated receipts for fiscal 1963 have been based on the assumption that the Gross National Product will rise from an estimated \$521 billion in calendar year 1961 to \$570 billion in calendar 1962. At this level of economic activity, it has been further assumed that individual income tax receipts--the major source of Federal revenue--and corporate income tax receipts would provide the bulk of the boost in total revenues. The sizable increase in total revenues projected for fiscal 1963 is not without precedent; it would be similar to the in-

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crease which occurred between fiscal years 1959 and 1960. Placing revenues and spending in juxtaposition, the administrative budget shows a surplus of about \$500 million for fiscal year 1963.

Cash Budget. Since Federal government cash flows to and from the public are larger than are shown in the administrative budget, it has been found that, on occasion, the administrative budget is a misleading measure of Federal spending and revenues. Moreover, there has been a need to evaluate more fully the implications of government activity in financial markets. The cash budget was developed some years ago to satisfy this need. In short, the cash budget cancels out certain intragovernmental transactions that do not get into the hands of the public and which appear on both the receipts and expenditures sides of the administrative budget; and perhaps more importantly, the cash budget includes the receipts and expenditures of the Federal trust funds. The magnitude of trust fund operations and their large contribution to financial flows in the economy have made the cash budget an important document for economic and financial analysts.

For fiscal year 1963, both payments to and receipts from the public in the cash budget are expected to increase appreciably from the current fiscal year. Mainly because of the trust funds, receipts and payments are expected to be roughly one-fourth larger than in the administrative budget. The estimated cash budget surplus is more than three times as much as that of the administrative budget.

Federal-Sector Account. Many close observers of budget activities have turned to the third way of measuring Federal spending and receipts. The Federal-sector account classifies receipts and expenditures as they appear in the national income accounts. By so doing, the effects of Federal spending and taxing on the current income and output of the economy can be measured.

The Federal-sector account is helpful in an analysis of fiscal policy, since it complements the data on the private sector of the economy. The Federal-sector account differs from the cash budget mainly in terms of inclusions and timing. With reference to timing, for example, the cash budget does not record business taxes until they are collected, while the Federal-sector account posts them at the time the liability is incurred, in other words, as they accrue.

With reference to inclusions, the cash budget differs from the Federal-sector account mainly in that financial transactions are excluded from the latter. The Federal-sector account records only outlays that enter directly into the income stream. Changes in economic activity tend to be reflected more promptly in the Federal-sector budget; relatively large differences may thus occur between this measure and the cash budget.

In the terms in which the Federal-sector budget is calculated, Federal receipts and expenditures for fiscal year 1963 would result in a surplus about two and a half times as large as that of the cash budget. This indicates that the Federal government sector of the economy, on balance, will be withdrawing more funds from the economy than it is putting in during fiscal year 1963. If that occurs, then the role of Federal finance as an over-all stimulator of business activity will be missing, but so will the risk of inflationary pressures from that source.

One other important highlight can be associated with all of the alternative budget documents. If a surplus is achieved, it will mean that the economy will be on very high ground, i.e., that which provides the revenues necessary for such a surplus. If the budget were to move into deficit status, it would indicate that the forecasted course of economic activity is not realized. At the same time, however, the appearance of a deficit would mean that the Federal government would be helping to support the level of economic activity when such a course of action is desirable.