FEDERAL RESERVE BANK OF RICHMOND

MONTHLY REVIEW

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

APRIL 1968

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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

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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	58.7	69.9	73.1
Deductions for interfund and intragovernmental transactions and applicable receipts	−11.5	−11.8	−12.9
Total, budget authority	182.6	186.5	201.7
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.

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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.

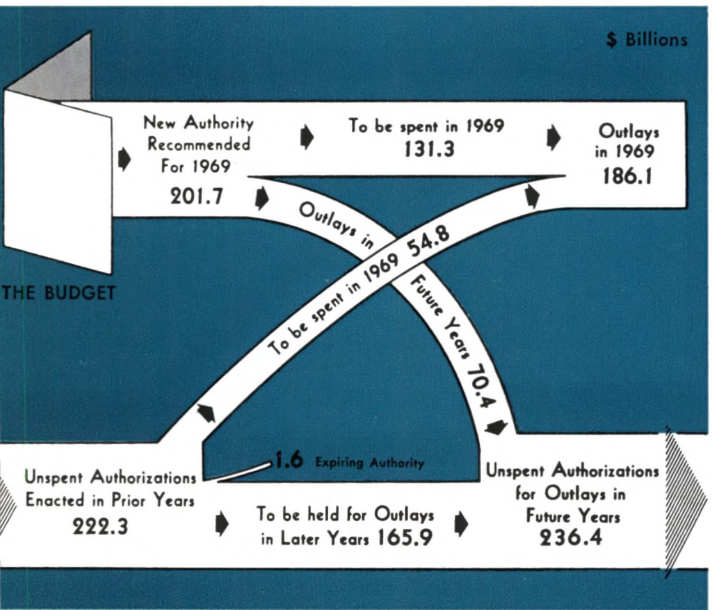
Receipts, Expenditures, and Net Lending A prime concern of the Commission was to insure that the budget would present the President's fiscal policy recommendations in such a way as to measure the economic impact of the Federal Government as accurately as possible. While the Commission recognized that 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.

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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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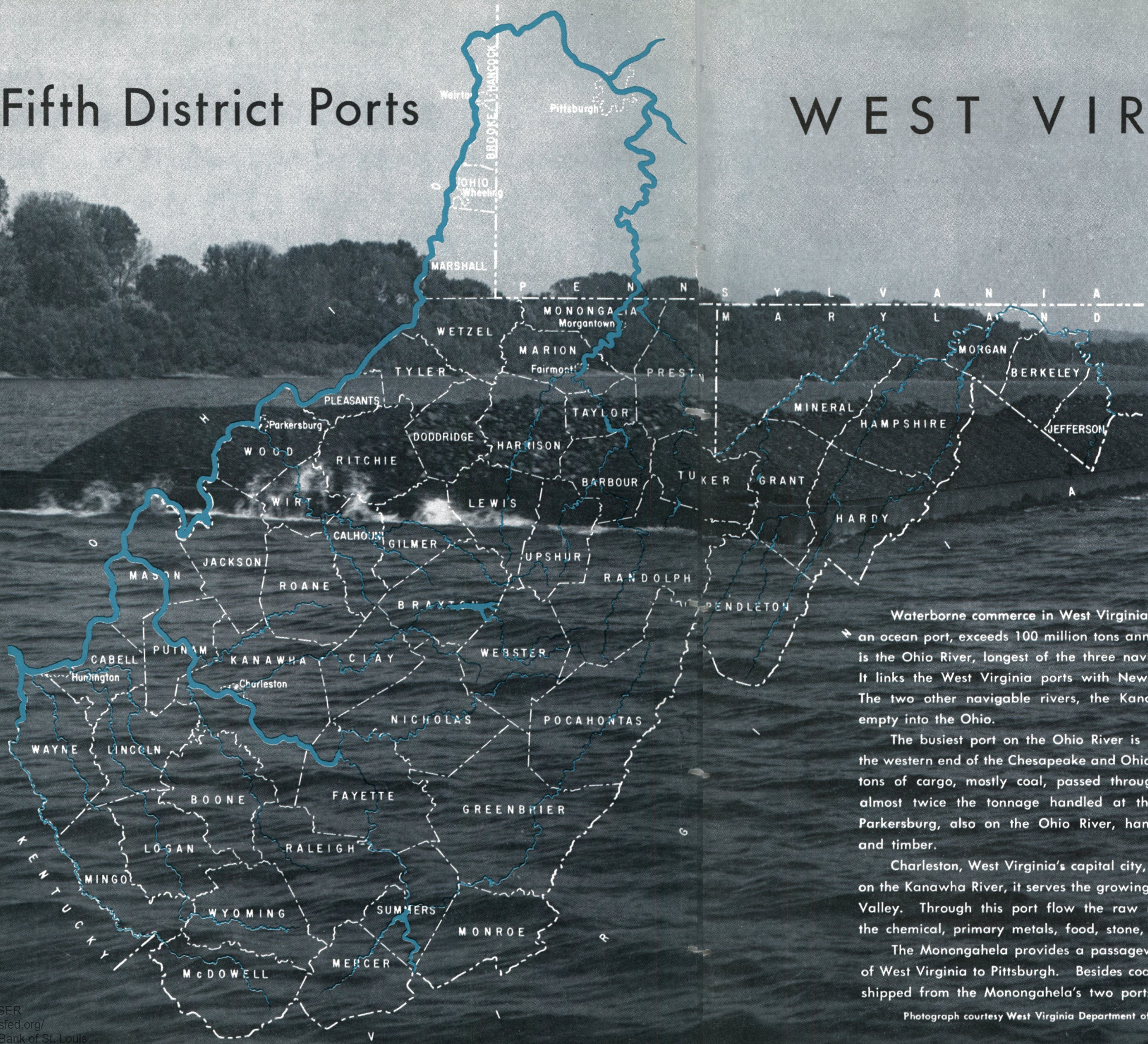
Fifth District Ports

WEST VIRGINIA



Waterborne commerce in West Virginia, the only Fifth District state without an ocean port, exceeds 100 million tons annually. The center of this commerce is the Ohio River, longest of the three navigable waterways in West Virginia. It links the West Virginia ports with New Orleans via the Mississippi River. The two other navigable rivers, the Kanawha and the Monongahela, both empty into the Ohio.

The busiest port on the Ohio River is Huntington, which at one time was the western end of the Chesapeake and Ohio Railroad. An estimated 17 million tons of cargo, mostly coal, passed through Huntington in 1966. This was almost twice the tonnage handled at the next busiest port on the Ohio. Parkersburg, also on the Ohio River, handles natural resources such as oil and timber.

Charleston, West Virginia's capital city, is also a major river port. Located on the Kanawha River, it serves the growing industrial complex of the Kanawha Valley. Through this port flow the raw materials and finished products of the chemical, primary metals, food, stone, and glass industries.

The Monongahela provides a passageway for coal from the northern part of West Virginia to Pittsburgh. Besides coal, other products including glass are shipped from the Monongahela's two ports, Morgantown and Fairmont.

Photograph courtesy West Virginia Department of Commerce and U. S. Army Corps of Engineers

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Disintermediation

The process of disintermediation is older and less abstruse than the term used to describe it. Coined in 1966, the word disintermediation refers to the bypassing of financial intermediaries such as savings and loan associations, mutual savings banks, and commercial banks, by savers who are able to realize a higher return by investing directly in the money and capital markets. This is a phenomenon of high and rising interest rates. Rates paid to savers by intermediaries tend to lag behind a general increase in market rates, and the widening differential may lead to disintermediation. Another aspect of high and rising rates is the movement of funds from one intermediary to another, as savers seek to benefit from significant discrepancies among rates paid by the various institutions.

While some disintermediation accompanied the period of moderate credit stringency in 1959, that which occurred in 1966 was more extensive and produced the most striking effects to date on the mortgage and bond markets.

The 1966 Experience As short- and long-term interest rates rose to near record levels during the first three quarters of 1966, thrift institutions and commercial banks experienced varying degrees of slowdown in time and savings account growth. For savings and loans and mutual savings banks the slowdown was severe; for commercial banks, only moderate. For the year, savings and loans suffered a 58% decline in savings inflows from 1965, and the total inflow was less than the amount of dividends credited to their customers' accounts. Deposit growth at mutual savings banks fell off 28% from the previous year. While the growth in total time deposits at commercial banks was 33% less than in 1965, the effects of this slowdown were less dramatic than those caused by the diversion of savings from thrift institutions.

Savings and loans and mutual savings banks are adversely affected by rapidly rising interest rates because about 75-85% of their assets consist of mortgages. When market rates of interest rise, savings institutions must raise rates on *all* deposits in order to compete effectively for savings. Because their income is tied to relatively long-term investments with fixed returns, and because higher rates of return can be obtained only on *new* investments, these institutions are caught in a squeeze between rapidly rising costs and slowly rising income. Commercial banks do not face this problem to such a great extent. Their assets are widely diversified and generally of short maturity, with mortgages accounting for only about 13% of the total. Therefore, when interest rates rise they usually can adjust their investment portfolios to compensate at least to some extent, for the higher rates they must pay on savings. Statutory limits on interest paid on time and savings deposits are set forth for member banks by the Board of Governors of the Federal Reserve System in Regulation Q, and for nonmembers by the Federal Deposit Insurance Corporation.

These statutory ceilings played an important role in the redistribution of funds among financial intermediaries in the first half of 1966. Following a change in Regulation Q in December 1965, commercial banks were allowed to pay up to 5½% on all time deposits. As the simultaneous discount rate hike was expected to lead market rates up, the Regulation Q change was designed to enable large certificates of deposit (usually referred to as CD's) to compete effectively in the money market. By March most of the deposits in banks were paying 5% on large 1 to 3 month CD's, and by midsummer the ceiling rate was widely available on 30-day maturities. In order to avoid direct competition for small savings presumably attracted by thrift institutions, the passbook rate had been left at 4% by Regulation Q. This precaution was circumvented to some extent, however, as banks designed so-called consumer-type CD's, usually small denomination non-negotiable, savings certificates and bonds, which competed directly with savings institutions. These tactics probably contributed largely to a second quarter rise in commercial bank time deposits at a seasonally adjusted annual rate of $20.1 billion, up from $15.1 billion the first quarter.

The commercial banks' success was gained, at least partially, at the expense of the thrift institutions, par-

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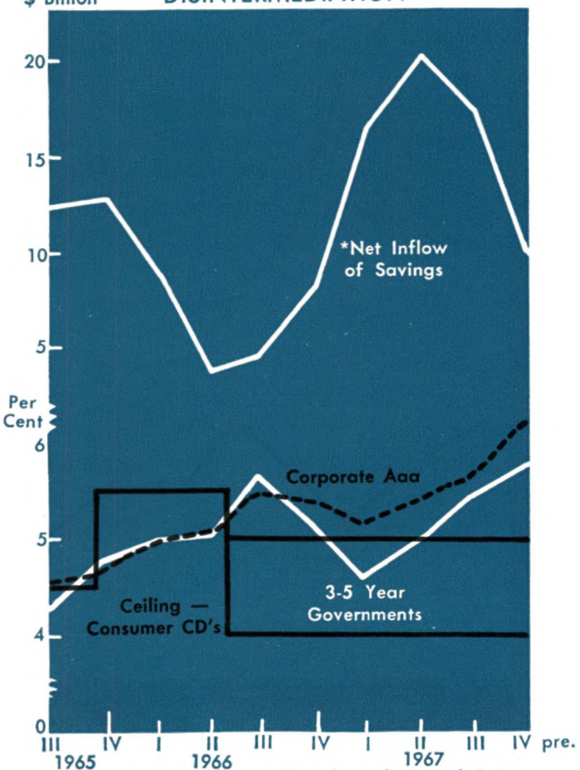
ticularly savings and loans. Between March and June, savings and loans were paying an average of 4.40% to savers, with California associations, usually the most aggressive, paying an average of 4.85% on passbook accounts. During this time the difference or spread between the average rate available on consumer-type CD's and the rate on savings and loan shares in California widened from 15 basis points to 65. By June, the spread favoring both 4-6 month commercial paper and 6-month Federal agency issues over California savings and loans had widened to at least 65 basis points. (A basis point is one-hundredth of one per cent.) Consequently, savings and loans were subjected to withdrawals by (1) smaller savers, who were attracted primarily by consumer-type CD's, and (2) larger savers whose highly interest-sensitive funds were shifted into large CD's and, later, other money market instruments. Withdrawals by small savers were probably heaviest in July following the dividend crediting date when the 5.50% ceiling rate was available on consumer-type CD's at many of the largest banks and before the ceilings on some types

SAVINGS AND LOAN ASSOCIATIONS AND MUTUAL SAVINGS BANKS AND DISINTERMEDIATION



*Quarterly Data Seasonally Adjusted Annual Rates.
Note: The Split CD Rate Reflects the Distinction Between Single and Multiple Maturity CD's.
Source: Board of Governors of the Federal Reserve System.

of these instruments were lowered by the Board of Governors of the Federal Reserve System on July 20. Nationwide, savings and loan associations experienced net losses of savings capital amounting to $1.5 billion in July and $800 million for the entire third quarter. It seems likely that during the last two months of this quarter, market instruments rather than the CD's of commercial banks became the chief competitors of the thrift institutions, and due to the large sums involved in money and capital market transactions, withdrawals were undoubtedly made by large savers. Spreads between most market instruments and savings and loan rates peaked in September, with 6-month bills and agency issues, 4-6 months paper, 1-year Treasury bills, and 3-year governments all yielding between 65 and 70 basis points more than the average California rate of 5.25%.

As the rate of savings growth declined, and borrowing from the Federal Home Loan Banks became more difficult and costly, savings and loans were forced to curtail their mortgage investments. This, in turn, contributed to the drop in housing starts to the lowest level since 1946.

The pressure extended to commercial banks in the second half of 1966. With their consumer-type CD's no longer more attractive than savings and loan shares and deposits at mutual savings banks due to the rate rollback, only money market CD's continued to compete effectively for new savings funds. These, however, were rapidly rendered noncompetitive by rising short-term market rates. By August rates on both commercial paper and bankers' acceptances exceeded the 5.50% CD ceiling, and by September, the 6-month bill was about 30 basis points higher. New 9-month Federal Intermediate Credit Bank issues brought a 5.87% yield in August, and by October their return exceeded that on CD's by 70 basis points. From a peak of $18.6 billion outstanding at commercial banks in leading cities the week of August 17, large CD's tumbled 17% to a low of $15.4 billion the week of December 21. On the other side of the coin, corporations' holdings of short-term open market paper posted a third quarter increase of $6 million compared to a $1 million decline in the second quarter.

Just as reduced inflows at thrift institutions were reflected in the drying up of mortgage funds, so the runoff of CD's at commercial banks had strong repercussions in the market for state and local government bonds (often called municipals), and in the market for nonguaranteed Federal agency issues and participation certificates. In recent years banks had accelerated their purchases of these higher yielding instruments as time deposits were sought more aggressively. In the first half of 1966, banks' pur-

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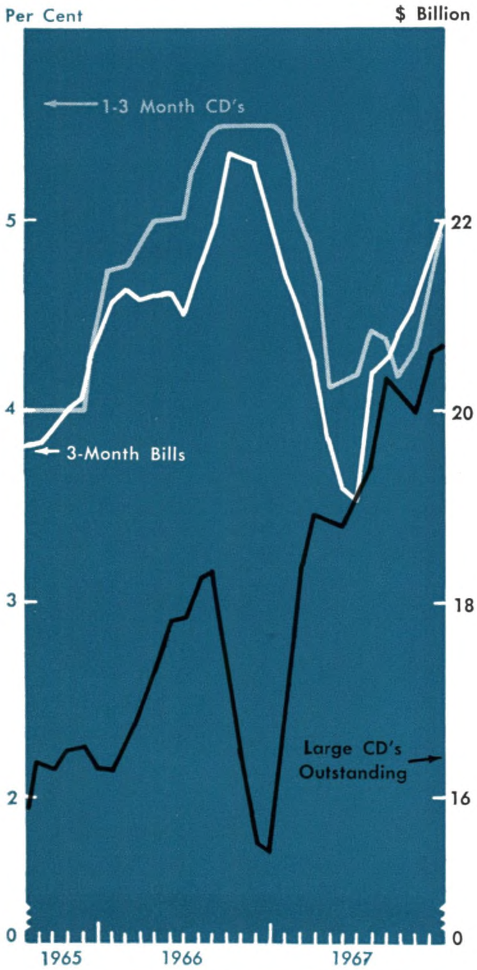
chases of municipals equaled 78% of the total new issue volume. Consequently, in the third quarter when banks became net sellers of municipals, bond dealers were faced with a sharp drop off in demand. Between early July and the end of September, municipal bond rates rose 33 basis points to 3.93% as measured by Moody's Aaa-rated bond average. Net sales of participation certificates by banks in the third quarter contributed to downward price pressures and to the temporary suspension of sales of participation certificates.

The 1967 Experience Most intermediaries received a steady and often increasing inflow of funds throughout the first three quarters of 1967. At savings and loans the net inflow was over three times greater than in 1966 despite some moderation in the fourth quarter. Mutual savings banks almost doubled their rate of savings inflow. Commercial banks in leading cities had recovered their 1966 losses of large

COMMERCIAL BANKS AND DISINTERMEDIATION



Source: Board of Governors of the Federal Reserve System, and the Federal Reserve Bank of New York.

CD's by the end of February and had pushed the total to about $21 billion by the year's end.

Perhaps the most unexpected financial development of 1967 was the resumption of upward pressure on bond rates. This produced large differentials between rates paid by intermediaries and those available on intermediate- and long-term market instruments. By June, Aaa corporates were yielding 72 basis points more than the average savings and loan dividend rate, long governments were 14 points higher, and 3-5 year governments, 24 points higher.

Why did these rates fail to pull funds from financial intermediaries? First, short-term rates declined in the first half, creating spreads favorable to savings institutions. The divergent movement of long and short rates was due to the easy posture of monetary policy and to strong demand from corporations and other institutions seeking to rebuild liquidity positions from the extremely low levels of 1966. Second, long-term investments seemed less desirable, due both to the general demand for liquidity and to fears of accelerating inflation. Third, officials of savings and loans and mutual savings banks have expressed the opinion with some supporting evidence, that the "hot" or interest sensitive money was withdrawn from their institutions in 1966, and has never returned.

Some signs of imminent disintermediation appeared in the fourth quarter of 1967. By September Aaa-rated corporate bonds were yielding 85 basis points more than the average dividend rate paid by savings and loans, and 40 basis points above the highest savings and loan ceiling rate of 5.25%. Yields on medium-term governments rose from 5.46% in September to 5.72% in December. In addition, short-term rates had turned around by July and a steep ascent followed. By December most short rates were still 30 to 40 basis points below their 1966 highs, but once again they compared favorably with rates paid by intermediaries. Preliminary data reveal a slowdown in the annual rate of growth of savings and loan shares from a seasonally adjusted average of $12.3 billion in the first three quarters, to $5.6 billion in the final quarter. In addition, growth in deposits at mutual savings banks began to taper off in the third quarter, increasing at an average annual rate of $4.4 billion in the last half compared to $5.8 billion in the first half. Commercial banks were able to retain their large CD's by increasing rates on new offerings to the 5½% ceiling, but according to preliminary data overall time deposit growth slowed to $10.4 billion at seasonally adjusted annual rates in the fourth quarter compared to a $27.6 billion average annual rate during the first three quarters.

Jane F. Nelson

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The Fifth District

State government finances generally involve many sources and uses of funds. Techniques for raising funds include various taxes, Federal Government grants and loans, and offerings of securities. The most important uses of state funds are for education and highways. This article will discuss briefly the sources and uses of funds in the five Fifth District states, excluding political subdivisions and using 1966 figures for reference.

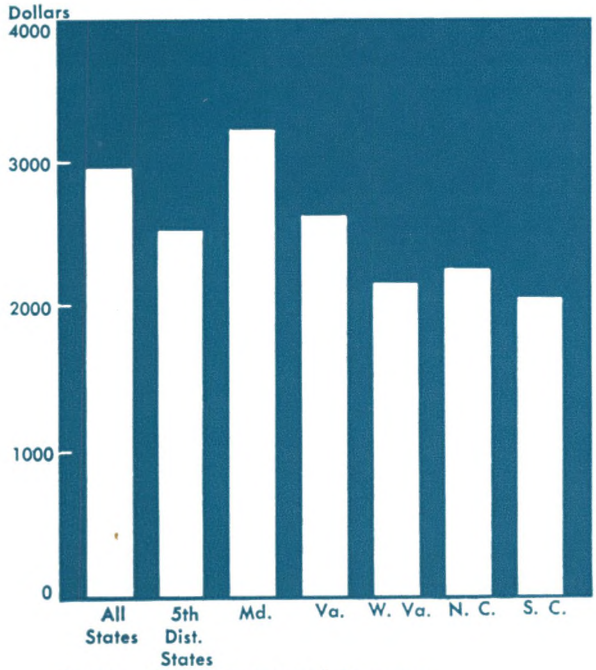
Sources of Revenue Fifth District states, like most other states in the Union, derive the largest part of their revenues from state taxes. Taxes in the five states combined are, as seen in the table on the next page, nearly three times as large as the next greatest source of revenue, United States Government funds. In Maryland, however, taxes are four times the size of Federal Government funds while in West Virginia they are less than twice as large and in Virginia slightly over twice as large.

Sales and gross receipts taxes accounted for well over half of the total taxes collected by all states in 1966. All Fifth District states except Virginia had a sales tax in 1966. The absence of a sales tax in Virginia at that time is, in part, reflected in the smallness of per capita total taxes in the state in 1966 relative to the other states shown in the second chart. Effective in September 1966, Virginia imposed a 3% sales tax which in subsequent years should increase the state's per capita total taxes.

The next largest sources of tax revenue for all states in 1966 were, in order, taxes on personal income, licenses, corporate income, property, and estates and gifts. Personal income taxes, the second leading source of state tax revenues in 1966, were only one-fourth as large as sales taxes. All Fifth District states had personal income taxes in 1966. Per capita personal income taxes ranged from 0.6% of per capita personal income in West Virginia to 1.5% in North Carolina. For all Fifth District states the ratio was 1.3%. This is considerably above the national average of 0.7% which is influenced by 14 states which had no personal income tax assessment in 1966. Excluding those states with no personal income taxes, the national average was 1.15%.

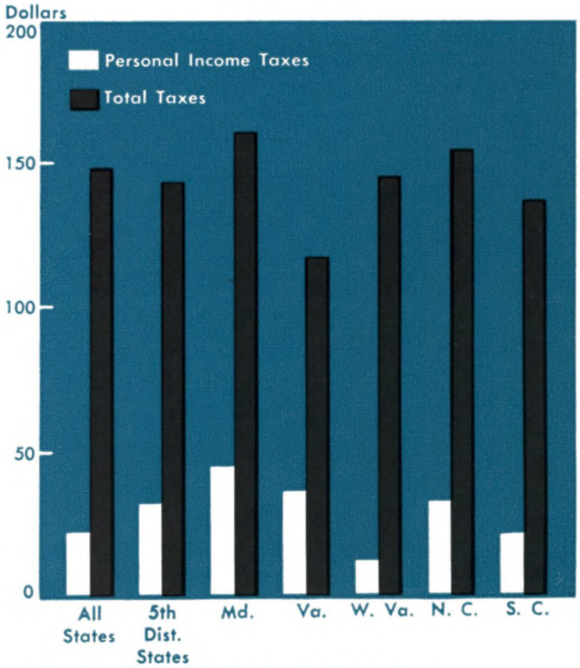
Federal Government funds received by state governments are almost all grants-in-aid. The grants are primarily allocated to highways, public welfare,

PER CAPITA PERSONAL INCOME
1966



Source: U. S. Department of Commerce.

PER CAPITA STATE TAXES
FISCAL 1966



Source: U. S. Department of Commerce.

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and education. Fifth District states in 1966 received about $351 million of Federal funds for highways, nearly $242 million for education, and $229 million for public welfare. For all states combined in 1966, a total of nearly $4.0 billion of Federal Government funds was earmarked for highways, and almost $3.6 billion for public welfare. Federal funds for education totaled about $2.6 billion. Other areas receiving Federal funds included employment security administration, health and hospitals, natural resources, and airports.

Included in the total state revenue figures is the income of state insurance trusts. These include retirement, unemployment, and other insurance activities. Their principal sources of revenue are employee and employer contributions and earnings on investments. Total insurance trusts revenue in 1966 was $7.1 billion, of which $5.8 billion came from contributions. In the Fifth District, insurance trusts revenue totaled $371 million.

STATE GOVERNMENT FINANCE
Fiscal 1966
(millions of dollars)

	Revenues				Expenditures
	Total	From Taxes	From U. S. Gov't	From Other Sources	Total
All States	55,246	29,380	11,743	14,123	51,043
Fifth District States	4,438	2,517	931	990	4,135
Maryland	941	588	147	206	887
Virginia	1,085	529	242	314	1,037
West Virginia	563	264	163	136	556
North Carolina	1,255	777	253	225	1,127
South Carolina	595	359	126	110	528

Source: U. S. Department of Commerce.

Debt Aside from the types of state revenues previously mentioned, states and state agencies can raise funds through borrowing. The form of the debt varies. Some debt is incurred by offering securities which represent a general obligation of the state with the full faith and backing of all the state's resources. Another type of debt financing uses revenue bonds. These bonds are serviced only by revenue arising from the facility for which the debt money is used. The dollar volume of securities issued by a state in a given year varies, depending, among other things, on the state's needs and the conditions in financial markets at the time.

Expenditures Total expenditures by Fifth District state governments in 1966, excluding debt financing, were about $4.1 billion, or 8.1% of the aggregate spending of all states. Education and highways were the largest recipients of state expenditures in 1966, both in the Fifth District and the nation. State spending for education in the District was 8.7% of the national total of $17.8 billion, and District highways received an even higher 9.5% of the national total of $10.3 billion. Only in Virginia did the state government spend more on highways, $334 million, than on education, $307. North Carolina accounted for more than a third, $556 million, of total state spending for education in the District.

The area receiving the third largest amount of state funds in 1966 was public welfare. Over $6 billion was allocated by all states to various welfare programs in 1966. About $314 million, or a relatively small 5.2% of the total, was spent in this District. Other categories receiving state funds include hospitals, correctional institutions, agriculture, forestry and parks, and various judicial and legislative functions.

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