

# Federal budgets and fiscal policy

The impact of the government's fiscal operation upon the national economy commonly has been determined by an examination of the net budgetary position of the government, i.e., whether it ends a period in surplus or deficit. However, current discussions by both government finance students and policy makers have indicated that the statement of the net budget position may vary significantly, depending upon which of three alternative budgetary procedures actually is used. By contrasting these three alternative budgeting techniques, this article will attempt to evaluate their relative significance as indicators of the total economic impact of the government's fiscal operations.

## Three budget forms

The Federal government currently summarizes its fiscal operations in three different budget forms: 1) the administrative or conventional budget, which records the receipts and expenditures of the Federal government as authorized by legislative enactments, 2) the cash budget, or consolidated cash statement, which is designed for the purpose of showing the flow of funds between the Federal government and the public, and 3) the national income and product accounts budget, which sorts out federal receipts and expenditures in conformity with Department of Commerce calculations of the national income and gross national product.

The administrative budget includes only the receipts and expenditures of funds wholly owned by the Federal government, and it records them on a cash basis, except for interest expense, which is recorded as it accrues. The cash budget can be derived from conventional budget figures by making three adjustments: 1) by adding receipts and expenditures of federal trust funds and government sponsored enterprises, 2) by eliminating intra-governmental transactions (transactions within the

accounts of the budget, trust funds, and government sponsored enterprises), and 3) by converting transactions recorded on an accrual basis, to a cash basis. Like the consolidated cash statement, the national income budget is more comprehensive than the administrative budget in that it includes the operations of government trust funds. Unlike the cash budget, however, it excludes "transactions involving loans, mortgages, other claims, and previously existing assets" on the premise that these transactions do not directly affect current production and incomes. In contrast both to the administrative budget and to the consolidated cash statement, the national income budget records business taxes as receipts when they are accrued as liabilities, rather than when they actually are paid. Similarly, on the expenditure side, government purchases of goods and services are recorded at the time of delivery rather than at the time of payment. With respect to coverage, the national income budget differs from the administrative budget and the consolidated cash statement, in that it does not include the receipts and payments of the District of Columbia.

Relationships among the three budget forms can be best appreciated from an actual reconciliation of their respective debit and credit totals. This is done in Table 1.

## Accounting and conceptual differences

Each of the three budget forms has been developed for a special purpose. The administrative budget, for example, is primarily a tool of legislative control over government taxing and spending activities, while the cash and national income budget are useful chiefly as tools for the analysis of fiscal policy. Specifically, the cash budget shows the effect of Federal government fiscal operations on the liquidity of the private sector, whereas the national income and product accounts budget is intended to measure the direct impact of the Fed-

eral government on national income and production.

Because of the differences in accounting concepts, the various budgets show considerably different results of government fiscal operations. This is evident in Table 2, which presents the surpluses and deficits for the fiscal years 1950 through 1961, as recorded in the respective budgets. The table shows that, in ten out of the twelve years listed, the administrative budget noted either a larger deficit or a smaller surplus than did the cash budget or the national income budget. Only in 1959, did the cash deficit exceed the conventional budget deficit, while in 1960, the cash surplus was somewhat smaller than the conventional budget surplus.

The national account budget deficits exceeded conventional budget deficits in 1954, and again in 1958.

The scope of the effect of the differences in budgetary accounting is brought out most strikingly by the disparities in the respective cumulative deficits. Thus, while the administrative budget deficit for the period as a whole is \$35 billion, the cash deficit, at \$12.3 billion, is only little more than one-third as large; and the national income budget actually shows a small surplus. Although the relationship among the respective cumulative deficits may vary depending on the period selected, the tendency toward larger deficits in the administrative budget is consistent.

TABLE 1—RELATION OF THE NATIONAL INCOME BUDGET TO THE ADMINISTRATIVE BUDGET AND THE CONSOLIDATED CASH STATEMENT, FISCAL YEAR 1961.

Receipts		(billions of dollars)		Expenditures	
Administrative budget receipts	77.7	Administrative budget expenditures	81.5		
Less: Intragovernmental transactions	4.2	Less: Intragovernmental transactions	4.2		
Receipts from exercise of monetary authority	.1	Accrued interest and other non-cash expenditures	.8		
Plus: Trust fund receipts	23.8	Plus: Trust fund expenditures	23.2		
Equals: Federal receipts from the public	97.2	Government sponsored enterprise expenditures (net)	— .2		
		Equals: Federal payments to the public	99.5		
Adjustment for agency coverage:		Adjustment for agency coverage:			
Less: District of Columbia revenues	.3	Less: District of Columbia expenditures	.3		
Adjustment for netting and consolidation:		Adjustment for netting and consolidation:			
Less: Interest and other earnings	1.1	Less: Interest received and proceeds of government sales	.6		
Plus: Contributions to Federal employees' retirement funds, etc.	1.7	Plus: Contributions to Federal employees' retirement fund, etc.	1.7		
Adjustment for timing:		Adjustment for timing:			
Plus: Excess of corporate tax accrual over collections, personal taxes, etc.	— 1.3	Plus: Excess interest accruals over payments, excess of deliveries over expenditures and other items	.5		
		Less: Commodity Credit Corporation foreign currency exchanges	1.0		
Adjustments for capital transactions:		Adjustments for capital transactions:			
Less: Realization upon loans and investments sale of Government property, etc.	1.5	Less: Loans—FNMA secondary market mortgage purchases, redemption of IMF notes, etc.	1.3		
Equals: Receipts—national income accounts	94.8	Trust and deposit fund, land, and other	1.8		
		Equals: Expenditures—national income accounts	97.0		

TABLE 2—FEDERAL GOVERNMENT SURPLUSES (+) AND DEFICITS (—), FISCAL YEARS 1950-61

Year	(billions of dollars)					
	Administrative Budget		Cash Budget		National Income Budget	
	Current	Cumulative	Current	Cumulative	Current	Cumulative
1950	— 3.1		— 2.2		— .2	
1951	3.5	.4	7.6	5.4	16.3	16.1
1952	— 4.0	— 3.6	—		— 1.1	15.0
1953	— 9.4	—13.0	— 5.3	.1	— 6.3	8.7
1954	— 3.1	—16.1	— .2	— .1	— 8.6	.1
1955	— 4.2	—20.3	— 2.7	— 2.8	— 1.1	— 1.0
1956	1.6	—18.7	4.5	1.7	6.8	5.8
1957	1.6	—17.1	2.1	3.8	4.4	10.2
1958	— 2.8	—19.9	— 1.5	2.3	— 4.9	5.3
1959	—12.4	—32.3	—13.1	—10.8	— 4.8	.5
1960	1.2	—31.1	.8	—10.0	2.2	2.7
1961	— 3.9	—35.0	— 2.3	—12.3	— 2.2	.5

The general public, of course, has not reached the stage of sophistication that would enable it to interpret each type of budget objectively in terms of its respective purpose. Instead, the public tends to accept the administrative budget—which is the most widely used form in which government finances are reported—as a yardstick by which it judges all aspects of government fiscal operations. Consequently, it is sometimes contended that the public view of government finance is unnecessarily unfavorable, with the result that political constraints on Federal government fiscal flexibility also are unnecessarily great. This, in essence, is the issue in the current discussion.

Defenders of the conventional budget generally reject the contention that it contains any built-in tendency toward deficits. Instead, they argue, the other budgetary accounting devices, particularly the national income budget (or any other form of a capital budget), tend to understate deficits and to overstate surpluses. Hence, they contend, any effort to shift emphasis to the new budgetary forms can be desired only to create a smokescreen for more government spending. In support of their position, they point out that only the deficits and

surpluses as shown by the administrative budget can explain changes in government debt (see Table 3), a fact which is assumed to reflect the greater realism of the administrative budget.

Although it is true that changes in Federal government debt can be reconciled with results of the administrative budget by the mere addition or subtraction of changes in government cash balances in the same period, the fact does not prove

TABLE 3—FEDERAL GOVERNMENT DEBT, FISCAL YEARS 1950-61

End of Year	Total Debt	(billions of dollars)	
		Change From Previous Year	Cumulative Change
1950	257,357	4,587	
1951	255,222	—2,135	2,452
1952	259,105	3,883	6,335
1953	266,071	6,966	13,301
1954	271,260	5,189	18,490
1955	274,374	3,114	21,604
1956	272,751	—1,623	19,981
1957	270,527	—2,224	17,757
1958	276,343	5,816	23,573
1959	284,706	8,363	31,936
1960	286,331	1,625	33,561
1961	288,971	2,640	36,201

any administrative budget superiority; rather it reflects the identity of accounting concepts in administrative budget accounting and in government debt accounting. The reconciliation of the results of the other two budgetary devices with changes in government debt, therefore, can be accomplished on the basis of a reconciliation of the differences in the accounting concepts of the various budget forms.

Specifically, a cash surplus or deficit can be reconciled with a given change in public debt as follows:

	Increase	Decrease*
Change in public debt	—	+
Change in the amount of U.S. securities held by:		
Trust funds	+	—
Public Enterprise Funds	+	—
Government Sponsored Enterprises	+	—
Change in obligations of government enterprises held by the public:		
Trust funds	—	+
Public Enterprise Funds	—	+
Government Sponsored Enterprises	—	+
Change in public debt from non-cash adjustments	+	—
Change in cash balances	+	—
Receipts from exercise of monetary authority	—	+
Cash deficit (—) or surplus (+).		

\*The two columns labeled "increase" and "decrease" refer to the direction of change of the listed items; thus the plus and minus signs in each column are the appropriate signs of each of the specific items in a reconciliation computation for each of the possible directions of change.

The reconciliation of a national income budget surplus or deficit would require, after this point, an additional adjustment for agency coverage, for timing and for capital transactions.

Thus, a comparison of the results of the respective budgetary devices with changes in the public debt cannot be of any help in resolving the issue of the debate. It seems more like a restatement of the differences in another form.

The problem (and the reason why a controversy exists at all) lies in conceptual differences, not ac-

counting ones. If the emphasis on the administrative budget tends in fact to restrain Federal government fiscal flexibility, then the question of whether it is indeed biased toward deficits, or whether the other budgetary devices tend to understate the deficits, is really only part of the issue. Another aspect — and the more basic one — questions whether it is prudent to do anything that would tend to lift some of the political restraint on government fiscal action. The answer is obviously very elusive and can be only of a speculative character. While in the short run, a more flexible fiscal policy would contribute more effectively to the achievement of various desirable national goals, such as a higher rate of economic growth and — depending also on the quality of economic forecasting — a greater economic stability, the consequence, in the longer run, would depend on the degrees of wisdom and restraint with which the policy makers and legislators would use their freedom of action.

### Value as economic documents

In regard to the value of the respective budgetary accounting devices as economic documents, various factions contend that the administrative budget is not a suitable tool for the analysis of fiscal policy, nor a meaningful measure of the economic impact of the government. It has become outdated in this respect, as a result of the growth of trust fund transactions, which it does not include. This practice inevitably produces larger deficits as long as the trust fund receipts tend to exceed expenditures. Correspondingly, it will create a tendency toward surpluses, once the expenditures begin to exceed the receipts. The approach is strictly legalistic, apparently based on the principle of separation of ownership, but without any economic justification. Since both receipts and expenditures are under legislative control, the fact that the funds are owned technically by the beneficiaries is considered insufficient reason to keep these transactions outside the budget.

Both the consolidated cash budget and the na-

tional income budget include, of course, the trust fund transactions. Their major difference is in respect to timing and to the treatment of capital transactions. Many experts feel that of the two, the cash budget is the simpler and more nearly complete measure of the total impact of the Federal government on the economy. They contend that the national income budget attempts to derive a more refined concept than the "excess of payments to over receipts from the public," but that the results are debatable. In its approach, the national income budget follows mechanistically, the concepts of national income and gross national product accounting, without reconciliation with economic theory. The resulting surplus or deficit, therefore, is felt to measure the effect of the Federal government on national income, rather than its total impact on the economy. By excluding government loans and purchases of existing assets, the

national income budget is thought to understate the effect of government operations on the liquidity of the private sector and hence, undoubtedly, also on production. In fact, considering the elements of subsidy in such loans, some understating of income may be involved as well. On the other hand, the inclusion of transfer payments, which, although fully reflected in income, need not be reflected fully in expenditures, is felt to lead to overstatement of the government's impact on production. Moreover, the practice of recording transactions on an accrued basis also is of doubtful value. Although in concept it would be an improvement over the cash flow approach if liquidity positions tended to conform to tax accruals and receivables, rather than to actual tax payments and cash receipts, respectively, in practice it might be an impossible task. The result each year would depend on classification of items.



## Current conditions . . .

**C**urrent economic trends in the Ninth district appear moderately optimistic. The most important factor lending confidence in the district's economic prospects has been a steadily improving agricultural situation. Crop prospects improved substan-

tially during the critical July and early August period, as generous rains occurred over the district. The small grain harvest now is estimated at near record proportions and much above last year's drouth stunted figures. The total wheat

crop, for example, is estimated up 50 percent from last year. A major exception to the favorable crop trends occurred over much of the winter wheat area in South Dakota, where a severe rust epidemic during July cut back production estimates by two-thirds or more. In general, crop prospects in the Dakotas and Montana are particularly good. Cold weather and excess rain have retarded corn and soybean development in Minnesota. Nevertheless, the total tonnage of grains produced will be large. And this, along with increased livestock marketings, is expected to boost district cash farm income flows in the last half of 1962, to levels substantially above the same period in 1961. A slightly higher current price level for many important farm products also will help boost farm incomes.

The favorable agricultural situation has been an important factor in improved district retail sales in recent weeks. New car registrations are up with a 21 percent increase noted in the Twin Cities metropolitan area during July. Also during July, employment increased moderately. Bank debits increased 9 percent from a year ago, and they were up 4.8 percent from June on a seasonally adjusted basis. July personal income registered a 0.6 percent gain from June and a 7 percent gain from July 1961.

The banking picture in July was highlighted by unseasonal demand deposit declines and a leveling out of loans at the city banks. The July deposit loss was due principally to heavy withdrawals of U. S. Government funds. At the country banks, both deposits and loans depicted the usual seasonal upward trends during July. Member bank borrowings and federal funds purchases continued minimal during the month.

Looking at the national scene, various statistical indications weigh against any view that a recession is developing. No evidence has appeared of heavy inventories that need correction; stock prices have been steady, employment has improved modestly, retail trade has expanded, government and consumer spending has increased,

and the new depreciation allowances may stimulate business spending on new plants and equipment.

*The following selected topics describe particular aspects of the district's current economic scene:*

## **MARKET RECEIPTS HIGHER**

Cash receipts from farm marketings during the first half of 1962, showed only slight improvement over the same period of 1961, in the Ninth district. While the income from the sale of livestock and livestock products was higher throughout the region, reduced receipts from crop marketings tended to dampen any gain. The sharpest reduction occurred in North Dakota, where crop sales were off 31 percent from the total crop sales during the first half of 1961. In South Dakota and Montana crop receipts were down 25 percent and 4 percent, respectively. Only in Minnesota did both crop and livestock receipts show an advance over the January to June period of 1961. The 0.8 percent increase in total receipts for the district compares with a 1.4 percent increase to all U. S. farmers.

In view of the excellent prospects for this year's crop output, the income situation for the second half of 1962, is considerably better for the district. A larger volume of crop and livestock marketings relative to last year should more than offset the price weaknesses expected to develop in some of the commodity lines this fall. In sum, the income from marketings during the last half of 1962, should push the district totals to a higher percentage increase over 1961, than was experienced during the January-June period.

The 1962 gross farm income also will be enhanced by a higher rate of direct government payments to farmers. Total government payments throughout the U.S. are expected to reach \$1.2 billion, mainly due to the provisions of the 1962 wheat and feed grain programs. Last year, total government payments under the various programs amounted to just over \$800 million.

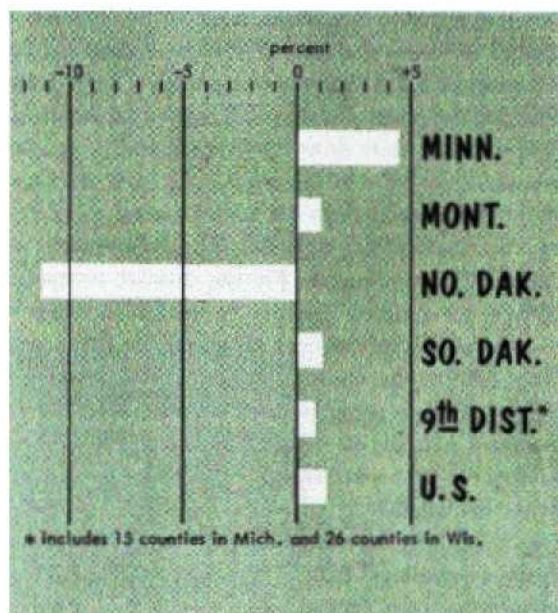


**CASH RECEIPTS FROM FARM MARKETINGS  
COMPARED, JANUARY TO JUNE, 1961 AND 1962**  
(millions of dollars)

	1961	1962	Percent change
Minnesota	\$ 701.1	\$ 731.7	+ 4.4
Montana	110.6	111.9	+ 1.0
North Dakota	204.4	181.6	- 11.2
South Dakota	287.9	291.1	+ 1.1
Ninth District <sup>1</sup>	1,442.6	1,454.3	+ 0.8
United States	14,501.3	14,698.8	+ 1.4

<sup>1</sup> Includes 15 counties in Michigan and 26 counties in Wisconsin.

**Percent change in cash receipts from farm  
marketings, first-half 1961 to first-half 1962.**



Unfortunately, a large part of the increase in gross farm income is likely to be offset by an increase in production expenses. Through June of this year production expenses were running at an annual rate of about \$27.5 billion for the U. S. or about \$600 million above the January-June rate of 1961. Prices of most production expense items, with the exception of feeder and replacement cattle, were generally higher. Interest rates and

taxes payable per acre were up about 6 percent, and farm wage rates were up about 3 percent from the first half of 1961.

**DISTRICT CROP PROSPECTS**

Prospects for the Ninth district grain crop improved during the month of July, according to the U. S. Department of Agriculture August crop forecasts. All grains, with the exception of winter wheat and rye, were predicted at higher levels than expected in early July. All wheat production was expected to be 50 percent greater than that of last year, rather than the 37 percent advance predicted earlier. The same kind of upward revisions occurred in oats, barley and flax. The durum output was forecast at 56.4 million bushels, up from the July forecast of 46.7 million bushels. This forecast contrasts with the 18.4 million bushel durum output of last year. Total corn output advanced slightly on the strength of the outlook in the Dakotas and Montana. In Minnesota, corn production prospects were set at a lower level, 270.3 million bushels, than the July forecast of 279.9 million bushels.

The severest cutback in crop expectations occurred in winter wheat, with output predicted to be 7 percent greater than last year. In July, winter wheat was predicted at 30.8 percent over last year's output. Most of this recent change was due to the rust infestation in South Dakota. Winter wheat production in that state was expected to reach 17.2 million bushels early this summer, but the crop deteriorated during July to a predicted crop output of 5.6 million bushels. Total wheat production in South Dakota is expected now to fall 13.3 percent short of last year's output, while in July the crop was expected to exceed that of last year by 23.1 percent.

The district soybean crop is estimated at 52.6 million bushels, a drop of 14 percent from the 61.2 million bushel output of last year. This runs contra to expectations for the total U.S. crop, which is expected to reach 702.6 million bushels, up from



693 million bushels in 1961. Minnesota accounts for virtually all of the district decline. In that state the acres of soybeans for harvest declined from 2,341 thousand to 2,320 thousand, and the yield per acre is estimated now at 21.0 bushels compared to 24.0 bushels last year.

#### SOYBEAN PRODUCTION

	(millions of bushels)		
	1951-60	1961	Indicated 1962
Minnesota	39.9	56.2	48.7
North Dakota	1.7	2.8	1.5
South Dakota	2.2	2.2	2.4
3-state total	43.8	61.2	52.6
United States	416.8	693.0	702.6

#### RETAIL SALES STRONG

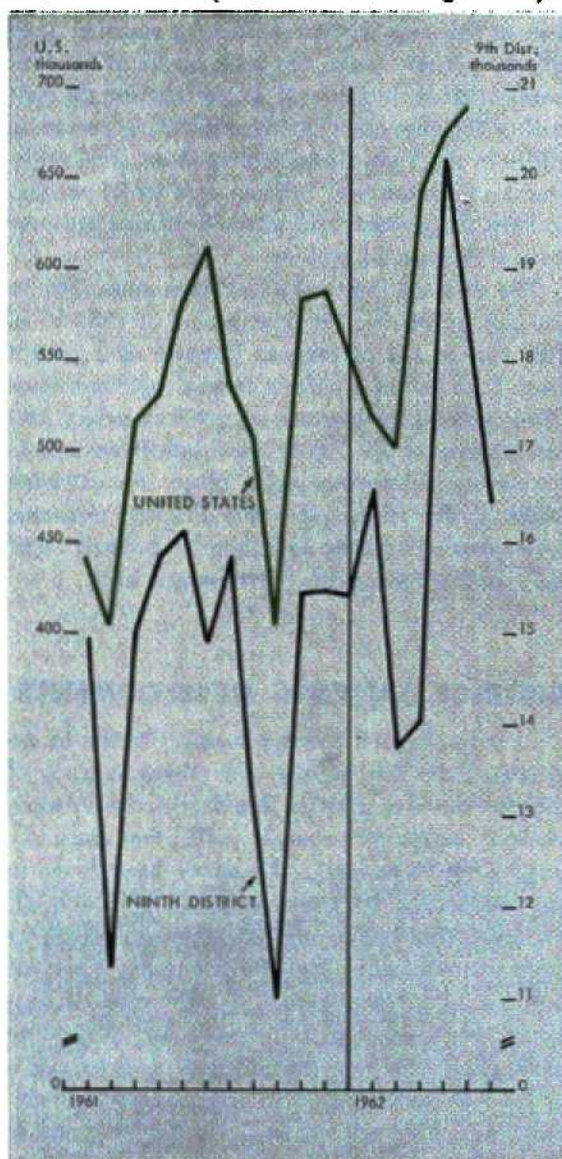
The rebound of retail sales during July in the U. S. and in the Ninth district provides some evidence that the effect of the shock of the stock market slump on consumer spending has weakened considerably. During the month, consumer buying of merchandise again rose to the springtime high. In this district, the harvesting of excellent crops of small grains, with the exception of a few areas infected by rust, also has led consumers to spend more freely.

National retail sales, seasonally adjusted, rose in July to almost \$19.5 billion, which was 2 percent up from June, and up 8 percent from July 1961. Most of the rise took place in durable goods. The sale of new cars generally declines after the fourth of July, but the fall-off this year was less than usual. In fact, dealers sold over 500,000 domestically-built cars in July, an increase of nearly 22 percent from the total sold in July 1961. Sales of new cars in July exceeded most predictions, whereas sales in June fell below expectations. Department store sales in the nation were also strong in July. Sales, seasonally adjusted, were up 4 percent from June and 5 percent from a year ago.

A survey of consumer buying intentions made in July by the U. S. Bureau of the Census indicates

that retail sales may continue near current levels through the remainder of the summer. Intentions to buy new cars remained strong, and about the

Passenger car registrations for the United States and Ninth District (four states), 1961 and 1962. (U.S. includes foreign cars.)





same number of consumers reported plans to buy new cars as in April. Plans to buy household durable goods declined less during the late spring and early summer than in the corresponding period of other recent years.

In the Ninth district, the effect of the drop in the stock market was not as great as that reported in the industrial centers of the nation. The registration of new cars in the four district states in June was 10 percent above the year ago total as compared with an increase of 13 percent for the first half of the year from the corresponding period in 1961. In the Twin Cities metropolitan area, registrations from last year in June were up 19 percent, in July, 21 percent, and in the first nine business days of August, 14 percent.

The adjusted index of department store sales in the district on the new base period of 1957-59 in July rose to 111 percent, an increase of 8 percent from June and of 5 percent from a year ago. Most of the percentage increase occurred in urban centers outside of the Twin Cities, influenced by the harvesting of excellent grain crops. An extended strike at the Minneapolis Star-Tribune restricted newspaper advertising and, thereby, reduced retail sales in the Twin Cities metropolitan area.

## DISTRICT BANKING DEVELOPMENTS

At both city and country member banks in the district, loans fell in July after rising in each of the previous five months. The July declines, while modest, contrasted sharply with the unusually large addition to city and country bank loans in the first half of 1962, and in June.

Country bank loans fell \$1 million in July; this compares with a decline of \$18 million in July of last year and much smaller changes, plus and minus, in Julys of other recent years. At the city banks, July saw loans fall \$8 million. This was a larger July decline than in any postwar year except 1961. Although city bank loans fell \$6 million in July last year, gains were registered in most

postwar Julys. In the first two weeks of August, city bank loans rose \$2 million. This approximates the August experience of recent years.

## CHANGE OF MEMBER BANK TIME DEPOSITS

(millions of dollars)

	All		City		Country	
	1962	1961	1962	1961	1962	1961
January	+73	+10	+39	+1	+34	+9
February	+47	+27	+31	+20	+16	+7
March	+41	+16	+21	+5	+20	+11
April	+37	+6	+22	+6	+15	0
May	+49	+22	+35	+16	+14	+6
June	+31	+9	+16	+3	+15	+6
July	+29	+14	+11	+7	+18	+7

Total deposits of district member banks fell \$8 million in July, a month when gains usually are registered. Country bank deposits rose \$31 million, which is in keeping with the pattern of other years; but city bank deposits fell \$39 million — a larger decline for the month than in all but one of the previous fifteen years. Net withdrawals at the city banks were confined almost exclusively to U. S. government demand deposits, which were down \$61 million in contrast to an increase of \$32 million in July last year.

Each month in 1962, the gain of time deposits at district member banks has far exceeded increases registered in the comparable months of last year. But the spread from a year earlier narrowed considerably at the city banks in July, when time deposits rose \$11 million or only \$4 million more than last July's figure. Previously this year, the smallest gain over a year earlier was in February, when time deposits rose by \$31 million, \$11 million above the year earlier increase. At the country banks dollar time deposit growth in July continued well above the year earlier rate.



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