REPORT of the PRESIDENT’S COMMISSION on BUDGET CONCEPTS
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on BUDGET
CONCEPTS
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**NOTE:** *Staff Papers and Other Materials Reviewed by the President's Commission* are published as a separate companion document to the present Report.
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General Notes

1. The figures for fiscal 1967 and 1968 in the tables throughout this report are consistent with the estimates in the President's budget for 1968 presented in January 1967.
2. The Commission's staff, rather than any official agency, is responsible for the estimates of the quantitative effects of the Commission's recommendations.
3. Details in tables may not add to totals due to rounding.
LETTER OF TRANSMITTAL

The President,
The White House,
Washington, D.C.

Mr. President: Your Commission on Budget Concepts presents here-with our recommendations on what we believe to be a truly modern and progressive budget presentation for the Federal Government.

The present Federal budget is in most essentials sound and useful. The Commission has gained new and deep respect for its quality and thoroughness and for the ability and devotion to duty of the civil servants involved in its preparation.

But we find that some improvements definitely are needed to make the budget presentation more responsive to the many purposes it serves. Most particularly, we believe there is a need for certain changes in concepts and in classification that will enhance public and congressional understanding of the budget and will increase its usefulness for purposes of decision making, public policy determination, and financial planning.

In making these recommendations, the Commission takes note of the broad authority granted to the President by the Budget and Accounting Act of 1921 to determine the precise form in which to present the budget to the Congress. We urge that work begin immediately to provide the necessary information and data so that those recommendations which meet with your approval can be introduced into the budget at the earliest practical moment. We hope that many of these changes can be made in the 1969 budget document which you will present to the Congress this coming January—although we realize that the fundamental nature of many of our recommendations, and the work required to carry them out, may preclude their adoption so rapidly.

This is not an interim or progress report. It is intended to be a full and complete report, which discharges the responsibilities you have placed upon us. Its preparation has been made possible through the outstanding cooperative efforts of many government agencies, private organizations, and individuals.

The Commission owes a special debt of gratitude to the unselfish cooperation and very real contributions of individual staff members of the Bureau of the Budget, the Treasury Department, the General Accounting Office, several committees of the Congress (most particularly, the Committee on Appropriations of the House of Representatives), the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, the
International Bank for Reconstruction and Development, the International Monetary Fund, the Council of Economic Advisers, the Department of Commerce, the Agency for International Development, the General Services Administration, and the Brookings Institution. The Commission is also deeply indebted to its own small but able staff, particularly Mr. Robert P. Mayo, Staff Director, and Mr. Wilfred Lewis, Jr., Director of Research.

In accordance with your initial letter to the Commission on March 17, 1967, we sought the views of many organizations and individuals with special competence or experience in the area of budget concepts and practices. We have received and carefully considered the views of several former Budget Directors and Secretaries of the Treasury, as well as many other government officials, members of the financial press, and scholars who are experts on the subject. We reviewed a large volume of material on budget practices, and considered budget concepts used in other nations as well as concepts recommended by various international organizations.

The degree of interest shown and the cooperation which the Commission has received from so many sources is indicative of the timeliness of your decision to have such a study made.

As might be expected in a group of men with such diverse backgrounds, philosophies, and responsibilities as the members of the Commission, there have been differing opinions regarding particulars of the many budgetary, fiscal, and economic questions considered. Thus, not every member of the Commission subscribes to each and every observation, premise, conclusion, or recommendation in the Report. Nevertheless, there is complete unanimity regarding the main objective of a unified budget system. Through free discussion and the process of give and take we have put together a general body of recommendations about which there is a very substantial consensus among the members. However, it should be pointed out that several members occupy dual official positions, as members of the Commission and as members of the legislative or executive branches. In their latter capacities, these members have continuing responsibilities in the areas being dealt with, a fact which in the nature of the situation requires that the right be reserved to them to take differing positions on individual issues and recommendations encompassed by this report.

Subject to the reservations expressed above, we believe that the steps which we are recommending for unifying the Federal budget and improving its presentation are substantive and timely, and that they will serve the Nation well for many years. We hope they will be helpful to you in making
the budget document an even more useful tool for decision-making in our democracy and a more readily understood instrument of government.

Respectfully,

DAVID M. KENNEDY,

Chairman

ROBERT B. ANDERSON
FRANK T. BOW
HENRY H. FOWLER
CARL HAYDEN
WINTHROP C. LENZ
GEORGE H. MAHON
PAUL W. MCCrackEN
CHARLES L. SCHULTZE
CARL S. SHOUP
LEONARD S. SILK
ELMER B. STAATS
ROBERT M. TRUEBLOOD
ROBERT C. TURNER
THEODORE O. YNTEMA
MILTON R. YOUNG

OCTOBER 10, 1967.
CHAPTER 1

INTRODUCTION AND SUMMARY

The President's Commission on Budget Concepts in this Report presents its recommendations designed to make the budget of the United States Government a more understandable and useful instrument of public policy and financial planning.

This has not been a simple task. Given the scope and variety of Federal Government activities, the Federal budget is inevitably complex. In most respects, the Federal budget document is already the finest in the world. Nevertheless, certain improvements in concepts and methods of presentation are appropriate to bring this document abreast of the times.

In reaching its recommendations, the Commission has been particularly mindful of the objective which the President set for it, namely, to recommend an approach to budgetary presentation which will advance both public and congressional understanding of this vital document. The substance of the budget is of great national importance. This substance can be weighed and dealt with more intelligently if understanding is not complicated and confused by definitions that only accountants or other specialists can understand. The Commission has sought to arrive at concepts and principles which will be of continuing value to the administration, the Congress, and the public. This is the first time that a Presidential Commission has reviewed the basic concepts underlying the budget since passage of the Budget and Accounting Act of 1921.

The need for such an overall review was pointed up by criticisms which have been made of the budget over a period of many years. The more important of these criticisms have dealt with (1) confusion arising from the number of competing concepts of budget totals currently used or stressed in the President's budget message and the relationships between them; (2) the appropriate accounting treatment of individual items or groups of items and the effect of such treatment on the budget totals; and (3) the search for better congressional and public understanding of the budget program and more up-to-date availability of budget information. Many of these criticisms touch not only on the matter of understanding but also upon the constancy, consistency, and completeness of budget concepts. The Commission has worked toward improvements in these directions.

The Commission made no attempt to appraise the substantive character or desirability of any specific spending or lending program, any specific type of taxes or other revenue, or any specific means of financing; this was not
part of its charter. Nor has the Commission undertaken an evaluation of the existing institutional arrangements for agency budget preparation and review within the executive branch of the Government, or the procedures followed by the Congress in the consideration of the President's budget requests. On the contrary, the Commission designed its recommendations on budget concepts, for the most part, with present institutional arrangements specifically in mind.

Generally, most of the Commission's recommendations can be put into effect without new legislation. However, the Commission has not been deterred by present law from making recommendations it thought desirable and appropriate; some of its recommendations may carry legislative implications.

**THE CONCEPT OF THE BUDGET**

What is the budget of the United States? Fundamentally, it presents the essential ingredients of the financial plan of the Federal Government for the coming year. This plan has many aspects and must serve many purposes:

- It sets forth the President's requests to Congress for new programs, appropriation of funds, and changes in revenue legislation;
- It proposes an allocation of resources to serve national objectives, between the private and the public sectors, and within the public sector;
- It embodies the fiscal policy of the Government for promoting high employment, price stability, healthy growth of the national economy, and equilibrium in the Nation's balance of payments;
- It provides the basis for executive and agency management of Federal Government programs;
- It gives the Treasury needed information for its management of cash resources and the public debt;
- It provides the public with information about the national economy essential for private business, labor, agriculture, and other groups, and for an informed assessment by citizens of governmental stewardship of the public's money and resources.

It is sometimes suggested that to meet these different objectives, particularly the first three purposes listed above, different budgets are required. Indeed, the emergence of competing budget concepts in recent years—the administrative budget, the consolidated cash budget, and the national income accounts budget, plus several alternative tabulations on appropriations and other spending authority—are taken as evidence of the fact that no one budget can do all the jobs involved in the budgetary process.

This argument, however, runs head-on into the opposite argument—that different and competing budgets confuse public and congressional understanding and impede governmental decision-making.
Is there a way out of this dilemma? It is the Commission's belief that there is, and that a unified concept of the budget as described in this Report, and developed at length in Chapter 2, can provide an integrated and comprehensive statement of governmental accounts which will serve usefully the several different purposes required of the budget, while improving its clarity, consistency, and intelligibility.

In deciding whether it is possible to develop a unified budget, one must distinguish between competing budget concepts, which cause confusion, and complementary budget concepts, which actually aid in understanding the scope and economic impact of the Government.

The administrative budget, the consolidated cash budget, and the national income accounts budget have often been used as competing measures of the total scope of Federal financial activity; they are not unified and can be used together only with a fairly elaborate reconciliation that tends to confuse more than it enlightens.

The Commission believes that there should be a unified budget—with complementary components—which will put an end to competing measures. A statement of Government receipts and expenditures other than loans, with a resulting expenditure account surplus or deficit, is complementary to a statement of net lending—i.e., loan disbursements less loan repayments. Net lending is then added to the expenditure account surplus or deficit to yield the figure on the total budget surplus or deficit. More directly, this is the difference between budget receipts and total budget expenditures, which cover the full range of Government programs requiring congressional appropriations.

There is no problem here of having to choose among competing budget concepts. These budget totals constitute a unified system. They produce in simple form the figures needed for:

1. an analysis of the economic impact of the budget, i.e., excluding loans, and
2. the aggregate figures, i.e., including net lending:
   
   a. as a summary of agency and program amounts used by the Congress and the executive in deciding the appropriate allocation of resources to be used by the Government, and
   
   b. to provide an accurate measurement of the scope of overall Government financial activity.

All of these elements of the budget should be set forth in the initial summary table in the President's budget message—starting first with budget appropriations, which are the key to the entire expenditure and lending process. The total budget, together with a statement of borrowing and other means of financing the budget deficit, make up the Government's financial plan, the structure of which may be set forth as follows:
RECOMMENDED SUMMARY OF THE PRESIDENT’S BUDGET AND FINANCIAL PLAN

I. Budget appropriations:
   Proposed for action by the Congress
   Not requiring action by the Congress
   Total appropriations

II. Budget receipts, expenditures, and lending:
   Receipt-expenditure account:
      Receipts
      Expenditures (excluding net lending)
      Expenditure account surplus or deficit
   Plus: Loan account:
      Loan disbursements
      Loan repayments
      Net lending
   Equals: Total budget:
      Receipts
      Expenditures and net lending
      Budget surplus or deficit

III. Means of financing:
      Borrowing from the public
      Reduction of cash balances, etc.
      Total budget financing

IV. Outstanding Federal securities and Federal loans, end of year:
   Federal securities:
      Gross amount outstanding
      Held by the public
   Federal credit programs:
      Direct loans outstanding
      Guaranteed and insured loans outstanding

Budget appropriations

The above structure of the budget provides a system that is integrated and comprehensive. It starts with a statement of the new appropriations the President is requesting of the current session of the Congress. It also presents figures on existing appropriations which will become available in the coming year without action by the current session of the Congress (because of action in prior years).

1 In any discussion of the economic impact of the budget where net lending is excluded from expenditures, the Commission cautions that the full heading “expenditure account” preceding the term “surplus or deficit” should be used to identify the item as a subtotal of section II of the table. Otherwise, the use of the term “surplus or deficit” would be confusing and misunderstood. Whenever the term “budget surplus or deficit” is used, it refers to the total budget, including net lending.
Budget receipts, expenditures, and net lending

The financial plan secondly lays out the receipts, expenditures, and direct lending activity proposed for the coming year. It is divided between a receipt-expenditure account (excluding net lending), and a loan account.

The first of these, the receipt-expenditure account, should include as receipts all tax revenues, fees, trust fund receipts, and other current receipts. It should include as outlays all nonloan expenditures, including payments out of the trust funds, all foreign loans on noncommercial terms, and all nonrecourse domestic loans. The subsidy element in all other loan programs should be included here rather than in the loan budget. The difference between these receipts and expenditures—the expenditure account surplus or deficit—is a measurement of the economic impact of the budget.

The purpose of this innovation which the Commission is recommending is to provide the executive branch, the Congress, and the public with a useful measure of economic impact for fiscal policy purposes; it excludes Federal lending programs because they are essentially exchanges of financial assets rather than direct income payments and therefore flow through the economy in a way different from other expenditures.

The loan account of the budget shows net lending (except for those elements of lending explicitly included as expenditures). In deriving the figures on net lending, this section shows gross loan disbursements during the year as a separate item, deducting loan repayments (and sales of loans) to arrive at “net lending.” Net lending, plus the expenditure account deficit, equals the total budget deficit.

To summarize, the total budget consists of two complementary components, a receipt-expenditure account and a loan account. The total budget surplus or deficit is the sum of the expenditure account surplus or deficit and net lending. Whenever the term “budget surplus or deficit” is used, it refers to the total budget.

Means of financing

The financial plan thirdly involves the means of financing the total budget deficit (or disposition of the surplus). This shows how much of a budget deficit is to be financed by borrowing, and how much by other means. Treasury and Federal agency borrowing from the public are included as means of financing. The means of financing, of course, does not affect the size of the budget surplus or deficit significantly in the short run. On the contrary, it is the size of the total budget deficit that determines the amount of financing required. Alternatively, a total budget surplus gives rise to a statement, outside these budget totals, of a disposition of budget surplus.

Outstanding Federal securities and loans

The fourth and final element in the Government's financial plan presents an important group of data on the level of Federal borrowing and lending at the end of each year. It shows anticipated outstanding levels of gross
Federal securities, Federal securities held by the public, and Federal credit programs—both direct and guaranteed.

* * *

The Commission believes that this kind of summary of the budget and financial plan conveys the key elements of national budget policy. It highlights the figures associated with the two most important purposes of the budget: The efficient allocation of resources by government, and the formulation of fiscal policy to benefit the national economy.

The work of the Congress and the executive branch should be facilitated by budget concepts in which all the different major purposes come to focus in a comprehensive unified budget, and public understanding of the budget and usefulness of budget information should be furthered.

In studying the budget, the Commission has not limited itself to restructuring the principal components and concepts of the budget but has ventured to make whatever other recommendations thought appropriate to improve the budget and increase public understanding. A summary of the Commission's major recommendations follows, with the reasoning supporting these recommendations. These findings, and other recommendations, are further developed in succeeding chapters.

THE COMMISSION'S MAJOR RECOMMENDATIONS

1. The Commission's most important recommendation is that a unified summary budget statement be used to replace the present three or more competing concepts that are both confusing to the public and the Congress and deficient in certain essential characteristics.

The summary budget structure recommended in this report with its complementary concepts should be the primary tabulation in the President's January budget and in Treasury financial reports, and should be utilized in executive branch statements and congressional testimony on taxes, the budget, and the public debt. Reports on congressional action on the budget should also relate to it. The new concept will make terms such as administrative budget, consolidated cash budget, and national income accounts budget obsolete, and continued use of such terms should be discouraged.

While the budget document should continue to present all tabulations and analyses needed to fulfill the many purposes which it serves, the term budget should be reserved exclusively for the new concept. Aggregate figures on receipts or expenditures calculated on any basis other than the budget should be given a separable subordinate explanatory role and should not be considered interchangeable with the budget (Chapter 2).

2. The budget should be thought of as part of a broad financial plan, which includes—in addition to budget appropriations, receipts, expenditures, and net lending—the means of financing the budget deficit (or use of a surplus) and information about borrowing and loan programs of the Government and its agencies.
The Commission has specific and important recommendations affecting each of these components, and all of them should be highlighted in the President’s budget message.

The Commission’s recommendations, therefore, view the budget as a unified set of summary data. This approach is in contrast to the historic tendency to view the budget in terms of a single number—the surplus or deficit.

This overconcentration on the surplus or deficit figure is responsible for much of the present proliferation of budget concepts. In turn, it has been a root cause of public confusion and has been responsible for accusations of “gimmickry.” If the public is to view the budget more broadly, the executive branch, the Congress, and the press should exercise leadership and educational responsibilities. It is not possible for one number to portray the scope, character, and economic effects of the Government’s financial plan (Chapter 2).

3. More prominence should be given in the budget presentation to the actions requested of the Congress, including appropriations as well as revenue or other actions of a fiscal policy character.

The relationship between appropriations and expenditures should be spelled out very early in the budget message. The Commission also recommends redefining the term appropriations to cover all forms of congressional action which grant authority to obligate the Government to make expenditures.

It would thus cover not only what are now known as appropriations, but also authorizations to spend debt receipts and contract authorizations, less appropriations to liquidate contract authorizations. Reports and statements by both the Congress and the executive branch on congressional action with regard to the President’s budget should relate to and be consistent with the concepts used in the budget, and should strive to translate appropriation actions into their effect on budget expenditures on a fiscal year basis (Chapter 2).

4. Flowing from the definition of a budget as a basic part of a comprehensive financial plan, the budget should include all programs of the Federal Government and its agencies.

Accordingly, the recommended budget includes almost all of the receipt and expenditure items now covered by the consolidated cash budget, but stated on an accrual rather than on a cash basis of accounting. Receipts and expenditures should continue to exclude borrowing and repayment of borrowing, purchase and sale of Government securities, and money-creating activities of the Government. Loan activities are separately classified within the proposed budget to permit measurement of the economic impact of the budget (Chapter 3).

5. With respect to timing, the Commission recommends that budget expenditures and receipts be reported on an accrual basis instead of the present cash basis.
This is a logical use of the modern cost accounting systems which most Government agencies have adopted in recent years, and will result in budget totals which provide a better measure of the impact of Government activities on the economy. This change cannot be effected immediately, but apparently can be done for expenditures and for corporation income taxes and certain other receipts beginning with the presentation in January 1970 of the President's budget for the fiscal year 1971 (Chapter 4).

6. A distinction between loans and other expenditures within the budget (and the calculation of the expenditure account surplus or deficit which excludes loans) is significant because of the fiscal policy aspects of the budget through its direct impact on employment and incomes.

Public and congressional understanding of the economic effects of the budget is essential for the attainment of sound appropriation and tax decisions (Chapter 5).

7. Separate identification of the subsidies involved in Federal direct loan programs should be added to existing budget information to help promote the more efficient use of public resources.

Steps should be taken as soon as practicable to include these subsidies in the expenditure rather than the loan account of the budget (Chapter 5).

8. Federal insurance or guarantee of private loans should continue to be reflected outside the budget totals, since they initially represent neither Federal expenditures nor Federal borrowing.

Nevertheless, they can later have an important impact on expenditures (from defaults or requirements for secondary market support) and on receipts (as a result of losses of revenue from guarantees of tax-exempt securities). These loan guarantee programs are growing rapidly and are likely to become even more important in the overall Federal lending picture in the future. They should, therefore, be presented in summary form as a memorandum item in the financial plan contained in the budget message. Moreover serious consideration should also be given to new forms of coordinated surveillance of direct, insured, and guaranteed loans. Otherwise, an appropriate choice in terms of effective resource allocation may be difficult to achieve and the inclusion of direct loans in the budget may encourage an undue expansion of guaranteed and insured loans to avoid being counted in the budget (Chapter 5).

9. Sale by the Government of "participation certificates" in loans which it continues to own should be treated as a means of financing the deficit (or as an element in the disposition of the surplus) rather than as a deduction from expenditures in the derivation of the deficit (Chapter 5).1

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1 See Chapter 5, page 55, for a statement by Secretary Fowler and Director Schultze on this recommendation.
10. The budget summary should include a means of financing section based on the budget deficit or surplus.

Supporting tables should outline changes in cash balances, receivables, and payables—as well as borrowing—and also include a breakdown for past periods of borrowing, classified by major type of lender. The recommended definition of the budget deficit logically leads to a new measurement of Federal debt. This would change the present concept of Federal debt by adding to the public debt securities issued by Federal Government agencies and subtracting public debt and agency securities held by such agencies and by the trust funds. Accordingly, the executive branch may wish to ask the Congress to reexamine the statutory limit on the public debt (Chapter 6).

11. Those receipts of the Government other than taxes which are enterprise or market-oriented should be treated as offsets to expenditures to which they are related. This should be done even if such receipts are not available by law to finance related expenditures. Many such receipts are already so treated, but present practices result in inconsistent treatment of some transactions which are similar in character. Although only the net surpluses or deficits of Government enterprises (such as the Post Office) would continue to be included in summary budget totals, their gross receipts and expenditures should receive prominent treatment in the budget document (Chapter 7).

12. Communication of budget information to the Congress and the public should be (1) more frequent by providing within-year revisions of January estimates, (2) more detailed in terms of breaking down aggregate budget figures into quarterly or semi-annual units, and (3) more comprehensive by making estimates which extend further into the future. This last objective might best be served by encouraging private research organizations or a commission to make long-term studies from time to time which would facilitate public and congressional decision-making on the activities of Government and the private economy. A review of the budget Appendix is also suggested in order to ensure that all essential materials be retained and that materials which have outlived their usefulness be eliminated (Chapter 8).

13. The Commission strongly recommends against a “capital budget” which would provide separate financing of capital or investment expenditures on the one hand and current or operating expenditures on the other. Such a budget would seriously distort the budget as a decision-making tool. Nevertheless, the Commission sees considerable merit in the continued publication and improvement of useful tabulations of capital items in special analyses subordinate to the budget itself (Chapter 3).
In addition to the major recommendations listed above, the various chapters of this report also include a number of recommendations on other more specific issues.

The budget changes constantly in substance, in response to changing requirements for new and improved public programs and activities. But this does not mean that budget concepts and definitions also must change constantly. On the contrary, they should have a basic consistency and constancy about them, and should be clearly set forth and adhered to. The recommendations which the Commission is making in the improvement of such standards are intended to help make the budget a more useful and understandable instrument for public policy for years to come.
PURPOSES OF THE BUDGET OF THE UNITED STATES

The budget is the key instrument in national policymaking. It is through the budget that the Nation chooses what areas it wishes to leave to private choice and what services it wants to provide through government. When enacted, the budget expresses the decisions of the Nation's elected representatives as to which government services should be provided at the Federal rather than the State or local level; through what programs and instruments; and at what level of activity and cost. And the budget serves as the principal instrument of fiscal policy for ensuring the prosperity, stable growth, and high employment of the American economy.

Budget formulation is a highly political exercise in the American democratic system, and it should not be otherwise. It is therefore essential that the budget be understandable, at least in broad outline, to as many of the public and their elected representatives as possible. Wise fiscal policy and wise choices for individual Federal programs depend, in the final analysis, on public and congressional understanding of the budget. Public understanding of the budget, and closely related topics of specialized information on Government plans are, in the Commission's view, of sufficient importance that one whole chapter of this Report—Chapter 8—is devoted to these matters.

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.

To meet these major objectives of public policy, and to provide the most effective instrument for managing these vital national affairs, the Commission believes that the Federal budget can and should be presented within the framework of a unified budget system and that the Government accounts should provide support readily for the budget.

The Commission recommends—and this is its most significant recommendation—that a unified budget concept, such as described in this Report, with complementary rather than competing concepts, be adopted;
that this unified concept henceforth be referred to as the Budget of the United States; and that it be consistently adhered to in:

—The President's January budget;
—Publications revising the budget estimates or reporting results at year-end;
—Monthly financial reports from the Treasury on actual budget results;
—Estimates of overall budget results offered by the executive branch in congressional testimony and public statements on the need for tax or public debt legislation; and
—Reports on congressional action on the budget.

The Commission recognizes that no single budget summary can adequately serve all the different purposes of the various users of Federal Government financial data, including the Government itself. Specialized tabulations of Federal receipts, expenditures, and appropriations are required for many purposes. Indeed, some of these are suitable for inclusion in the budget document itself or as special analyses. Other specialized tabulations may be developed and presented by outside experts or by Federal statistical agencies. But such alternative tabulations for special purposes, whether or not included in the budget document or other executive branch financial reports and statements on the Federal budget, should be treated as subordinate or explanatory tabulations. They should not be regarded as "budgets" competing in prominence and attention with the basic Budget of the United States.

TWO MAJOR PURPOSES

Of the various purposes for which the President's budget is prepared, two closely related purposes outweigh the rest. The budget is intended primarily to present the President's proposals for the coming fiscal year for congressional action on (1) new legislation and appropriations and (2) overall fiscal policy. These purposes are well described in the President's initial words in his budget message for fiscal year 1968 transmitted to the Congress on January 24, 1967:

"A Federal budget lays out a two-part plan of action:

• It proposes particular programs, military and civilian, designed to promote national security, international cooperation, and domestic progress.
• It proposes total expenditures and revenues designed to help maintain stable economic prosperity and growth."

In short, the budget must serve simultaneously as an aid in decisions about both the efficient allocation of resources among competing claims and economic stabilization and growth.
Essentials of a good budget

Both the particular program proposals and the overall fiscal policy aspects of the budget require congressional attention and action. In both respects, the President’s proposals are required by law to be laid before the Congress every January. The budget message is, therefore, addressed “To the Congress of the United States.”

These two aspects of the budget are vitally related to one another, and they should not be separated. The receipts and expenditures which make up the total fiscal policy of the budget flow from a multitude of individual revenue, appropriation, and legislative decisions. Each appropriation and tax law decision, therefore, has an economic impact as well as an allocative aspect.

In the Commission’s view, a budget which is suitable for these interrelated major purposes should have the following characteristics:

• Summary measures of the budget should lend themselves readily to meaningful and significant measurement of the economic impact of the budget;
• Appropriations should relate clearly to expenditures, as well as being set out in a form that clearly indicates the congressional action requested for individual programs;
• The agencies and officials of the executive branch, who execute the budget after it is approved by Congress, must manage their programs effectively and efficiently, and be accountable for their stewardship of public funds. It is therefore necessary that the Treasury and agency accounts of actual financial transactions be directly related to the managerial and accountability requirements of Government agencies and officials. These accounts should also be verifiably related to the concepts used in the President’s budget.

Present shortcomings

The Commission has been struck by the extent to which congressional and public attention to fiscal policy on the one hand, and program decisions on the other, have drifted apart, with alternative tabulations of the budget to suit these two purposes allowed to develop independently.

In recent years, many economists—including those who advise the President—have measured the fiscal impact of the Government’s activities in terms of the national income accounts (NIA) budget, although this is not a budget in the sense of serving as an instrument of decision and control over individual agency programs.

At the same time, the Committees on Appropriations of the Congress, insofar as they have concerned themselves with receipt and expenditure totals at all, have tended to do so within the context of the administrative budget—a group of funds which is incomplete and inadequate as a measure of what the Government does and its economic impact.
The Commission has devoted a great proportion of its effort to finding a budget concept that could serve the basic purposes of both resource allocation and economic stabilization. It has sought a structure for the budget which would ensure that the interdependencies between these two functions of the budget receive due attention and appreciation by the executive, the Congress, outside specialists, and the general public.

**NEED FOR A UNIFIED BUDGET**

The Commission has been seriously concerned by the evolution of three different budget concepts. It believes that the existence of several budgets has led to public confusion about the budget, as has been made clear to it by informed representatives of the press, members and staff of congressional committees, and other experts.

Some major newspapers last January headlined the $169 billion expenditure total in the national income accounts. Some chose the $172 billion cash budget expenditure total. Others headlined the administrative budget at $135 billion. In one case, a lead story spoke of a “$169.2 billion national spending program wrapped around a record $135 billion administrative budget.” Members of the press have pointed out to the Commission that they must follow one budget concept in their news stories at budget release time in January, but that different concepts are stressed at other times during the year. This confusion of concepts makes it difficult for the ordinary citizen to keep abreast of what his Government is doing.

The Commission has examined at length the various major purposes for which summary receipt and expenditure totals are required as part of the budget presentation. These purposes are to a considerable extent overlapping rather than in direct conflict with one another. The Commission believes that the principal purposes of the budget will be furthered through the unified and comprehensive approach recommended in this report. Other tabulations made for specific uses would assume the role of subsidiary, supporting, or explanatory statements. They would not be referred to as budgets. The terms administrative budget, consolidated cash budget, and national income accounts budget should all disappear. Of course, the Federal sector of the national income accounts would still be developed and published by the Department of Commerce and could be included in Special Analyses or tabulations in the budget document.

**Need for better integration of expenditure and appropriation information**

The details of the budget, and especially the large budget Appendix, focus predominantly on appropriations, obligations, and program costs, as required for review of the President's budget requests for particular programs by the Committees on Appropriations. However, the early and prominent portions of the budget message of the President—and the more widely read Budget in Brief—focus primarily on expenditures. Expenditures
rather than appropriations best indicate, for a given year or period, the current size of the budget and, in relation to receipts, the immediate economic impact of the budget. Appropriations, however, best indicate the choices being made between alternative programs and are a prerequisite to expenditures. It is through the appropriations process that the priorities for program emphasis are determined in the first instance.

Congress does not vote expenditures as such; it votes authorizing legislation and appropriations. Expenditures are a consequence of these actions. This fact is too little appreciated by much of the public—and perhaps even by individual Congressmen who are not close to the appropriations process. There is often confusion when the press reports that Congress has reduced the budget (meaning appropriations) by some amount and reports shortly later that the budget (meaning expenditures) has increased by some other amount.

The Commission recommends, therefore, a number of steps aimed at recognizing the key importance of new authorizing legislation and appropriations and at improving understanding of the relationship between appropriations and expenditures.

_The Commission recommends that the President’s budget message give more prominence to the new legislation and appropriations being requested of the Congress._

A summary presentation of appropriations should be provided early in the President’s budget message and should be given a prominent place in the initial summary table of budget amounts. This presentation should show clearly the total amount of appropriations requiring current action by the Congress, as well as the total amount which will become available without further congressional action, including comparisons with the current and latest actual years. In addition, tabulations and statements on appropriations should, insofar as possible, follow the same concepts, definitions, and scope as the tabulations and statements on budget expenditures.

Both the Congress and the executive have an important responsibility to aid understanding of the budget by de-emphasizing alternative tabulations of authorizations that have been used from time to time to explain both the President’s budget and the actions of the Congress on it. Specifically, in dealing with spending authorizations, the Commission believes that the concept presently embraced by the term _new obligational authority_ is more meaningful than the present concept of _appropriations_ in its narrow definition.*

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*See Glossary, beginning page 95, for definitions of these and other special terms used in this Report and in the Commission staff papers and supporting materials published separately.
The Commission recommends the use of the broad concept currently referred to as "new obligational authority" by both the executive branch and the Congress. However, the Commission finds it desirable to rename this broader concept "appropriations," which is simpler to use and to understand, and is not technically inaccurate.

The term appropriations in its new sense would, therefore, include contract authorizations and authorizations to spend debt receipts, but would exclude appropriations to liquidate contract authorizations.

The committees of the Congress can help promote understanding of the budget by making all of their tabulations conform to this broader concept of appropriations. They can also promote understanding by reporting congressional action in terms of appropriations for specific fiscal years in addition to any reporting in terms of appropriations in a particular congressional session. Public understanding of the up-to-date status of the President's budget would be improved by frequent reports (monthly, or perhaps even more often) on the status of the President's total appropriation requests for the coming fiscal year during the period when the Congress is in session and the status of appropriations is changing. Public understanding would also be improved by being able to see, as an integral part of congressional reports on each appropriation bill, the cumulative effect of congressional actions on total appropriations for the fiscal year on the same basis as the President's January budget.

Finally, in view of the importance of revenues and expenditures in measuring the economic impact and the current status of the budget, the Commission urges increased congressional attention to the effect of its appropriation and legislative actions on estimated expenditure and receipt totals for the current and subsequent fiscal years. It is recognized that the Congress may have difficulty providing such information on a routine basis with the resources presently at its disposal. Eventually, however, it would seem desirable for periodic reports on progress through the Congress of the President's budget and legislative requests to include estimates of the effects of congressional action on revenues and expenditures, as well as on appropriations.

Resources allocation and the Planning-Programming-Budgeting system

As has been stated in explaining the Commission's recommendations for bringing appropriations and expenditures into closer relationship with one another in the budget presentation, one of the two major purposes of the budget is to provide the integrated framework for information and analyses from which the best possible choices can be made in allocating the public's money among competing claims. This means setting priorities and making choices among alternative government programs, both new and old, and deciding what public goals should be pursued through government programs and what should be left to private choice.
The Commission endorses the general approach which has been followed for many years in the President's budget of explaining the broad allocation of government resources in terms of a functional and subfunctional classification of budget expenditures cutting across agency lines.

The Commission has no specific suggestions to make about the particular functional classification now in use, although it recognizes that as the nature and character of government programs evolve in response to emerging public needs, changes in the functional classification become appropriate from time to time. Such changes should be made at the discretion of the President, after appropriate study, and should not require advance statutory action; statutory prescriptions make it difficult to keep the classification current in response to changed needs.

Within any one program, the application of resources among alternative means of production should be efficient, so that the greatest possible benefits will be obtained at least cost. This raises such questions as whether it would be better in a specific case to mechanize, at a large initial capital cost to achieve a lower labor and materials cost in later years, or to spend more now on maintenance of a building, or highway, in order to postpone the day when the building or highway will have to be replaced. It is often necessary to calculate whether it is more efficient to occupy a privately owned building under a lease than to occupy a Government-owned building. The answers to such questions of efficiency will differ from project to project.

The budget presentation should provide all of the information needed to provide the basis for sound program decisions. It should be understood, however, that the Commission does not have in mind that all the alternatives or the information needed to choose among them should be set out in the budget document. Rather, emphasis should be given to the decisions reached by the President and his subsequent recommendations to the Congress. In doing this, the budget document should provide the setting for a full presentation of the alternatives considered and their evaluation as the agencies appear before the appropriations and legislative committees in their hearings on appropriation requests and proposed legislation.

The Commission wishes to endorse the trend which is very noticeable over the last decade or so, towards more understandable and analytical business-type financial statements in the budget Appendix, especially in the case of Government corporations and various credit programs.

The making of individual appropriations is, and will continue to be, the actual point of basic choice in allocating resources among government programs. The Commission believes it cannot overemphasize the importance of having the budget (including its Appendix and Special Analyses, and the justifications and testimony of the Government agencies) lay before the Committees on Appropriations a related body of information which will assist the Committees and the Congress in making the best possible alloca-
tion of resources in their action on individual appropriations. Therefore, the Commission endorses the growing use in recent years of the important Planning-Programming-Budgeting system (PPBS) approach to budget preparation and review, which is specifically designed to improve the mechanics of choice among alternative programs and approaches to meeting public needs and purposes. On the other hand, PPBS concerns itself with total costs and benefits to the entire Nation, not merely the revenues and expenditures of the U.S. Treasury. Since the incidence of many social costs and benefits is on the private sector, rather than the Treasury, such costs are not candidates for inclusion in the overall budget totals. Thus, while the PPBS analyses should be used to aid in the allocative process, the budget necessarily represents a financial plan for the Government, and the budget totals can hardly reflect total social costs and benefits.

**ECONOMIC IMPACT OF THE BUDGET**

The budget totals must be readily useful for analysis of the impact of the Federal budget on the economy. This is because the budget contains the President's fiscal policy recommendations, upon which the Congress must take action as surely as in the case of individual appropriation requests.

Every January for at least the past 10 years, the President's budget has included requests for either increases or decreases in tax rates requiring legislation by the Congress. These requests for changes in tax rates in turn have been increasingly based on the executive branch's analysis of the needs of the economy for either stimulative or restraining fiscal policy changes. It is thus apparent that the economic impact of the overall budget is an integral and highly important aspect of the President's January budget policy requests.

There have been substantial gains in recent years in general understanding of the relationship between the budget and the national economy. Not only are Presidential requests for tax rate changes now based on needs of the economy, but they are now typically received by the Congress with an attitude of "show us what these will do to the economy." Congressional hearings and congressional actions on tax legislation in recent years have been addressed primarily to the economic impact of the actual or proposed changes. Therefore, it is increasingly appropriate for the President's budget to include a meaningful presentation of the economic impact of the budget, and an understandable description and explanation of the President's fiscal policy recommendations.

To be able to do this in the simplest possible fashion, rules for calculating budget receipts and expenditures should lead to a measure of surplus and deficit which is useful for analyzing the economic impact of the budget. This objective has helped shape many of the Commission's individual
recommendations, but has been particularly important in developing the Commission's recommendations on the treatment of Federal lending.

Role of lending

In order to have the greatest possible access to expert views on fiscal impact and related economic aspects of the budget, the Commission sponsored jointly with the Brookings Institution a seminar on budget concepts for economic analysis involving leading economists from throughout the country. Papers and other documents relating to that meeting are being published in a separate volume of staff papers and other materials prepared for the Commission.

It is clear that different expenditure categories of the Federal budget—such as transfer payments (i.e., benefit payments or grants-in-aid), purchases of goods and services, and loan transactions—have varying impacts on the economy. As the Brookings seminar proceedings indicate, there is not complete consensus among economists on the precise effects of the various transactions on the economy, and on the best way to measure the overall impact of the budget. There is little doubt that individual analysts and students will continue to desire and search out a vast array of information for this purpose.

However, in measuring the economic impact of government receipts and expenditures, many economists, including most of those consulted by the Commission, think that the budget should be analyzed with reference to a measure of surplus or deficit from which loan transactions have been excluded. The Commission agrees with the arguments for special consideration of loans and other categories of expenditures. Although a government loan, like other expenditures, puts purchasing power into the other sectors of the economy, the borrower also assumes liability for ultimate repayment. The impact on the economy of this loan transaction is enough different from that of ordinary expenditures to warrant separate treatment of loans within the budget.

The Commission has concluded that a separate identification of loan transactions within the framework of a unified budget best accomplishes the dual requirements of a budget summary which is useful in analyzing economic impact, but one which also provides a comprehensive setting for the review of government programs and Presidential requests for congressional action. The proposed presentation in line with the Commission's thinking on this subject has been illustrated in Chapter 1. It is important to note, however, that net lending must be combined with other expenditures in order to present the full scope of government financial activity.

Making the budget document a more useful fiscal policy statement

To judge the effect of proposed budget changes on the economy, it is also necessary that budget totals be consistent, from one year to the next.
Even with the best definitions of receipts and expenditures, it is impossible to judge whether a particular level of budget surplus or deficit is by itself expansive, restraining, or neutral in economic impact—and the budget surplus or deficit for a particular year should not be used in that oversimplified way. The expansionary or restraining influence of a budget surplus or deficit of a given absolute size depends on many factors, such as the composition of receipts and expenditures, changes in tax rates and spending totals, and private spending reactions to government fiscal actions.

However, even though little significance can be attached to the size of a budget surplus or deficit per se, it is generally possible to say that an increase in a budget deficit is expansionary; that a decrease in surplus is expansionary; that an increase in a surplus is restrictive; and that a decrease in a deficit is restrictive. Thus, by dealing with changes in surpluses or deficits rather than absolute levels for a single year, it is usually possible to judge with some accuracy the overall impact of fiscal policy changes upon the national economy.

In using budget data for fiscal policy purposes, it must be borne in mind that the economy influences the budget as well as the other way around. A revenue increase or decrease can come about either through a discretionary change in tax rates or, without any change in tax rates, simply in response to increases or decreases in taxable private incomes. For purposes of judging the impact of Federal fiscal policy, therefore, it is necessary to deal not merely with changes in the budget surplus or deficit but to distinguish for a particular budget year between the effects of deliberate changes in tax rates or expenditures and the effects on tax yields or transfer payments induced by changes in the level of income or employment. In order to aid the ready evaluation of these effects, the high employment budget surplus concept was developed a few years ago, and has been referred to from time to time in explaining the President's fiscal policy recommendations to the public and the Congress.

The high employment budget surplus is calculated by comparing actual expenditures with hypothetical tax revenues and transfer payments at assumed high employment. A given budget—i.e., an expenditure program and a set of tax rates—may show an actual deficit in a year of depression, while under conditions of high employment the same budget would yield a large surplus. A second budget, in effect in a year of moderate recovery, might show a slight surplus just because it was a year of recovery, but the second budget might show a smaller high employment surplus than the first. The first budget would probably be more restrictive on the economy than the second, although a superficial comparison of their actual surplus or deficit would suggest the opposite conclusion.

The Commission believes that the high employment surplus is a budget concept which has served a useful role in increasing understanding of the essentials of budget policies for full employment, and it favors steps to keep the basic ideas embodied in this measure before the Congress and the public.
The Commission points out, however, that if the *high employment surplus* is to be used as a measure of budget impact in a period when demand is strong and prices rising more than normally, some allowance for the effect of rising prices on budget revenues should be made to avoid understating the stimulative impact of the budget.

The Commission understands that the high employment surplus calculation is only an approximate indicator of fiscal impact, and can be, at best, only part of the information taken into account in determining fiscal policy requirements for stable growth. In considering the total economic impact of the budget a separation of direct loans from other expenditures is important. It is also necessary to take into account many factors which cannot be fully reflected in any measure of budget surplus or deficit. One of these factors is changes in the amounts of Government guaranteed and insured loans outstanding. There is an increasing trend toward providing such incentives to private credit, instead of making direct loans, to further public programs. Another important factor is how much, in total, the Government plans to borrow and how this borrowing is to be accomplished. All in all, the analysis of the economic impact of the budget is not a simple matter and it should not be made to appear so by giving undue emphasis to a single number or set of numbers in the primary budget summary.

The Commission does not wish to try to specify in detail how the executive branch should go about analyzing the impact of the budget, how it should explain and justify its fiscal policy recommendation to the public, or the exact division of responsibility between the *Budget* and the *Economic Report of the President*. However, the Commission does believe strongly that the economic impact of the budget is so important that it should receive prominent attention in the budget document. One alternative is a relatively brief tabular statement in a section of the budget devoted to a discussion of the total economic impact of the President’s proposals in as definite and commonly understood terms as possible. This discussion would, of course, be supported as necessary by more detailed treatment in the *Economic Report*.

**SIZE OF GOVERNMENT IN THE TOTAL ECONOMY**

While less important than the two primary purposes of the budget, the Commission has also been influenced in its recommendations by the fact that the budget totals are commonly used to measure the relative size of government in the national economy. The budget totals should, therefore, lend themselves logically to this use. This is particularly relevant in connection with proposed rules for offsetting receipts against expenditures, which are discussed in Chapter 7. To state the Commission’s recommendations in this regard only briefly at this point, the budget totals will be a more appropriate index of the relative size of government in the national economy if loan repayments and receipts which resemble business-type enterprise earnings, or returns on government property, are offset against the expenditures to which
they relate or for which they are earmarked, while taxes and other revenues representing the exercise of sovereign or regulatory powers unique to government are treated as budget receipts.

OTHER PURPOSES OF BUDGET TOTALS

The Commission believes that the recommendation in this report for tabulating budget totals within a unified concept of the budget will sharpen understanding of many policy decisions confronting the administration, the Congress, and citizens generally. To promote this understanding, the Commission hopes that the concepts recommended here will be maintained for a sufficiently long period that references to the budget will again become unambiguous.

At the same time the Commission reiterates that no single summary array of budget data can serve all purposes. Alternative tabulations of Federal receipts and expenditures are required for at least the following major purposes:

- To assist the Treasury in the management of its cash balances and in scheduling its debt management activities;
- To promote national income analysis in a social accounting system in which data for the Federal sector of the economy are consistent with and complementary to data for the other sectors;
- To assist in the Federal Reserve Board’s flow-of-funds analysis, which in turn is important in the formulation of monetary policy;
- To promote analysis of the impact of Federal activity on the financial and credit markets;
- To provide insight into the effects of government activity on the balance of international trade and payments;
- To facilitate international comparisons of the role of government in different countries;
- To provide statistics for the Federal Government which are comparable to available information on State and local government activities in the United States in studying the role of total government activity in the country;
- To provide figures on government investment, since total fixed capital, public and private, is important in analyzing economic growth.

However, the requirement for special receipt and expenditure tabulations does not mean that all of them must be available in the budget and its supporting documents. To the extent they are concerned solely with data on actual performance after the fact, as distinct from plans and proposals for the future, they should ordinarily be provided by the Government’s reporting system rather than the budget documents.

The Commission wholly supports the provision in budget documents of such supplementary information as is needed to evaluate more fully the
economic effects and costs of budget program and fiscal policy proposals, and the numerous questions which arise in an orderly and rational budget process. In fact, this is vital if we are to employ our limited resources wisely and effectively to meet public needs, and if we are to keep our national economy fully employed, stable, and growing. However, the Commission emphatically recommends—as was stated previously—that alternative, as opposed to complementary, tabulations of Federal Government, receipts and expenditures, whether or not suitable for inclusion in the budget document itself, should be treated as subordinate explanatory special analyses and not as budgets competing in prominence and attention with the basic Budget of the United States.
COVERAGE OF THE BUDGET

In the private sector of the economy, the efficient allocation of resources is best performed in a decentralized fashion by the disciplines of the marketplace. In the public sector, however, it is the budget process which performs the resource allocation function.

To work well, the governmental budget process should encompass the full scope of programs and transactions that are within the Federal sector and not subject to the economic disciplines of the marketplace. This, however, poses practical questions as to precisely what outlays and receipts should be in the budget of the Federal Government. The answer to this question is not always as obvious as it may seem: the boundaries of the Federal establishment are sometimes difficult to draw.

Providing for national security or collecting census data are obviously activities of the Federal Government which should clearly be in "the budget." It is equally clear that the housewife's purchase of groceries or a private corporation's borrowing from a commercial bank represent transactions outside the Federal sector. Between these obvious extremes, however, are a wide variety of activities ranging from those clearly within the Federal domain to those clearly outside the Federal establishment. Should the activities of enterprises owned jointly by the Government and the private sector of the economy be included in the budget? What about clearly Government agencies, such as the Federal Reserve System, which are not by law (or by logic) subject to the standard annual congressional and executive branch budgetary disciplines? What about privately owned agencies which were established by the Federal Government in pursuit of public policy objectives but from which all government capital has now been withdrawn, such as the Federal home loan banks or Federal land banks? It is difficult to draw a boundary line in some of these cases without having programs included in the budget that do not seem greatly different from other excluded items.

Even for programs clearly within the scope of government, questions remain about how to include their transactions in the budget. For instance, are seigniorage revenues (coinage profits) a receipt, or a means of financing a deficit? Should the budget itself concentrate on current account transactions, with outlays for durable assets or recoverable loans handled in a separate capital budget? A number of difficult-to-classify transactions are discussed in this chapter, and others in chapters which follow.
The Commission’s major recommendations with respect to coverage of the budget are:

• **The budget should, as a general rule, be comprehensive of the full range of Federal activities.** Borderline agencies and transactions should be included in the budget unless there are exceptionally persuasive reasons for exclusion. Specifically, the budget should include the transactions of the Federal trust funds which are now outside the administrative budget (although the Commission believes that the identity and integrity of trust funds should be maintained);

• **Most agencies and transactions now included in the consolidated cash budget should continue to be reflected in the budget.** However, the Commission recommends exclusion from the budget of those Government-sponsored activities which are now completely privately owned, and local receipts and expenditures of the District of Columbia Government;

• **The purchase of physical assets should not be set up as a separate capital budget, but should be included in the unified budget.**

**THE FEDERAL GOVERNMENT’S BOUNDARY LINES**

A full discussion of issues involved in delineating the outer boundaries of the Federal Government could easily carry into quite esoteric matters of philosophy and political theory. However, it quickly became clear to the Commission that the problem of defining the Federal Government’s scope, for the purposes of this report, centered on whether a few key agencies and programs should be included or excluded.

In making the decisions about whether or not to include programs in the budget, the Commission has asked several questions: Who owns the agency? Who supplies its capital? Who selects its managers? Do the Congress and the President have control over the agency’s program and budget, or are the agency’s policies the responsibility of the Congress or the President only in some broad ultimate sense? The answer to no one of these questions is conclusive, and at the margin, where boundary questions arise, decisions have been made on the basis of a net weighing of as many relevant considerations as possible. In general, the Commission recommends a comprehensive budget, with very few exclusions. The following sections of this chapter put forth the reasoning underlying the conclusions of the Commission with respect to coverage.

**Trust funds**

The inclusion or exclusion of trust funds represents one of the most important budget boundary questions. The exclusion of the trust funds from the present administrative budget is the largest single difference between that measure and either the consolidated cash budget or the Federal sector of the national income accounts, and has been the major reason for increasing dissatisfaction with the administrative budget. For a variety of reasons,
discussed more fully below, and after careful deliberation, the Commission recommends that:

The budget should include the receipts and expenditures of trust funds. This recommendation fully recognizes that individual trust funds must be accounted for separately, and that their activities must be reported on in a way which allows the identity and integrity of trust fund transactions and balances to be preserved.

The trust fund programs have grown rapidly since the 1930’s when most of the large funds were established. The exclusion of this large and growing volume of Federal activity from the administrative budget was an important reason for the development of the consolidated cash budget concept. In recent decades, considerable significance has been attached to the difference between the Federally owned funds included in the administrative budget, and the trust funds which were excluded. In theory, trust funds do not belong to the Federal Government; the Federal Government acts only as trustee for them. Old-age and survivors insurance, unemployment insurance, Federally aided highway construction, medicare, and civil service retirement represent some of the important and sizable programs handled through trust funds, rather than through Federally owned funds.

There has never been a question of the Federal Government’s responsibility for determining the size and shape of the major trust fund programs, or for altering or redirecting these programs by appropriate changes in legislation. In fact, legislation changing contribution formulas or tax rates affecting trust fund revenues, or changing benefit and grant formulas affecting trust fund expenditures, has come to be expected with increasing frequency. Legislative changes affecting one or another of the major trust funds occur almost every year. Rather than removing funds from the influence of the administration or the Congress, the trust fund technique, in the case of major trust funds, earmarks certain expenditure programs for financing by specific taxes or other revenue sources. This couples the benefits and costs of these programs more closely, and it also lends a degree of assurance to beneficiaries and grantees that trust fund benefit or grant schedules once established will be protected.

The partial isolation from the budget and appropriations processes that results from financing programs through trust funds has its warm defenders and severe critics. The major criticism comes from those who want the budget process to embrace more fully and flexibly the relative costs and effectiveness of alternative approaches to program objectives and social needs.

With the passage of time, trust fund activities have loomed larger in both absolute and relative magnitude in the total picture of Federal Government receipts and expenditures. Receipts, expenditures, and the surplus or deficit in Federally owned funds, therefore, have correspondingly less significance.
Coverage of the Budget

It is clear to the Commission that the current surpluses of trust funds must be considered in calculating the effect of Federal Government activities on the level of income and employment, in managing Treasury cash balances, in deciding on Treasury cash borrowing needs, and in program evaluation.

The Commission does not recommend eliminating the concept of separate trust fund accounting. In many instances, in fact, it sees merit in earmarking specific revenue sources for well-defined programs of a long-run character. The need to respect the integrity of trust funds, and the requirements of control and accountability, in turn require the continued availability of trust fund receipt and expenditure figures separate from those of other funds. However, the Commission believes that the principal significance of trust funds for program decisions lies in an analysis of receipts and expenditures (cost and benefits) of the individual funds rather than in the totals for all trust funds combined, or the totals for Federally owned funds excluding trust funds.

The Commission feels it is important to emphasize budget totals which are inclusive of trust fund transactions. It does not object to the provision in the budget document of separate summary figures for the Federally owned funds, particularly during the period of transition to the new budget concepts, for the use of those whose main attention in the past has been to the administrative totals. However, in order to further the concept of a unified budget,

**The Commission recommends strongly that the President's budget presentation give no attention to a surplus or deficit calculated on the basis of the administrative budget.**

The Commission has carefully considered the administrative, accounting and other consequences of eliminating any separate, independent prominence to figures for the Federally owned funds taken as a group—the administrative budget—and it finds no serious obstacles in the way of fully implementing its recommendation within a relatively short period of time.

The surplus or deficit in the administrative budget is a misleading guide for measuring the fiscal impact of the budget on the economy. The administrative budget does not portray or price out the President's full program, nor does the administrative budget alone accurately measure congressional action on the President's requests. Congressional responsibility for trust fund receipts and expenditures is just as great as for Federally owned funds, since it can and does enact trust fund legislation with considerable frequency, although there is less flexibility available to the Congress to reduce trust fund expenditures.

One implication of the Commission's recommendation on trust funds is that some redefinition of appropriations for the trust funds would be desirable. As pointed out in Chapter 2, the Commission recommends that the tabulation of the Congressional appropriations in the President's budg-
et be as consistent as possible, in terms of scope and definition, with the tabulation of budget expenditures. If the budget is to include trust funds, therefore, two changes in the tabulation of appropriations requested and enacted would be desirable:

First, indefinite trust fund appropriations should be related to obligations expected to be incurred by the trust funds during the fiscal year, rather than being mechanically tied to trust revenues as they now are. If legislation is thought to be required to accomplish this change, the Commission would strongly endorse such legislation;

Second, an adjustment in arriving at overall appropriations totals should be made to eliminate interfund and intragovernmental transactions, comparable to the adjustments which are now made in tabulating overall budget expenditures.

The Commission has no specific recommendations to make for changes in the coverage of the trust funds, although it recognizes that a study of these funds may be appropriate, for other than budget concept purposes, because of the way the various funds have developed over the years. But since the activities involved would, under the Commission's recommendations, be included in the budget whether or not financed through trust funds, any such re-examination would not affect the budget totals.

**Federal Reserve System**

The Federal Reserve System is a government instrumentality which Congress has established principally to execute its responsibilities with regard to the Nation's money supply.

The Federal Reserve System is responsible to the Congress, and reports annually to the Congress on the results of its operations. Discussions about the independence of the Federal Reserve System are concerned with its position within the Federal Government—not whether it is independent of the Federal Government. The System is clearly a Federal Government operation.

Each of the three present budget concepts includes as a receipt the payment to the Treasury of excess Federal Reserve profits. Apart from this receipt, none of the three budgets includes receipts and expenditures of the Federal Reserve System arising from its lending and other activities. Inclusion of the Federal Reserve banks in the Federal budget might jeopardize the vital flexibility and independence of the monetary authorities. Moreover, projections of System operations for a forward period—as would be required if included in the budget—do not appear feasible at the present time. The nature and economic significance of Federal Reserve bank "receipts" and "expenditures" are different from those of most other government programs and activities.

For the above reasons the Commission recommends:
The payment of excess Federal Reserve profits to the Treasury should continue to be treated as a Federal budget receipt. But other receipts and expenditures of the Federal Reserve banks should continue to be excluded from the budget.

As indicated in Chapter 6, however, the Commission does propose certain modest steps in recognition of the interrelated nature of the budget and monetary policy. Since changes in Federal Reserve holdings of Treasury securities are a primary reflection of the operation of monetary policy, the Commission recommends that in presenting summary tabulations of means of financing for past years these changes in System holdings of Federal obligations be shown as a separate item. Federal Reserve loans outstanding (discounts, advances, and acceptances) would be shown for past years in Special Analysis E, as at present.

Government-sponsored enterprises

Another coverage issue concerning the boundaries of the Federal Government has to do with the five so-called Government-sponsored enterprises—the Federal home loan banks, the Federal land banks, the banks for cooperatives, the Federal intermediate credit banks, and the Federal Deposit Insurance Corporation. The Commission recommends:

- The operations of the Federal land banks and the Federal home loan banks, which no longer have any Federal Government ownership, should be excluded from budget receipts and expenditures;
- At such time as all of the banks for cooperatives and the Federal intermediate credit banks are completely privately owned, they too should be excluded from budget receipts and expenditures;
- However, the budget document should contain, in a prominent place, memorandum items on the volume of outstanding loans of the excluded Government enterprises. Moreover, the Commission favors whatever steps are necessary so that the budget Appendix can contain as “annexed budgets” information about the financial transactions and position of the excluded Government-sponsored agencies.

All five Government-sponsored enterprises clearly represent Federal Government lending or insurance programs. They are regarded by the financial community as Federal agencies rather than private institutions, and they are not subject to Federal income taxes. On the other hand, they are not subject to the annual budgetary review provisions of the Government Corporation Control Act, which does cover most other Federal corporations.

In the Commission's view, the fact of 100% private ownership argues for excluding the Federal land banks and Federal home loan banks from the budget. The transactions of these agencies are now included on a net basis, at least conceptually, in the consolidated cash budget totals. However, the
absence of budgetary review means that only rough estimates can be entered in the budget document for forward periods, and the difference between estimated and actual results, particularly for the Federal home loan banks, has introduced significant estimating errors in budget totals due to factors largely beyond the control of the Congress or the executive branch.

The Federal intermediate credit banks and banks for cooperatives are also not subject to the annual budgetary review provisions of the Government Corporation Control Act and are also designed ultimately for 100% private ownership. The Commission recommends keeping each of these enterprises in the budget until such time as it is completely privately owned, at which time it should be eliminated from the budget totals.

The Federal Deposit Insurance Corporation should continue to be included in the budget; FDIC, while not subject to the budgetary review provisions of the Government Corporation Control Act, represents an insurance rather than a lending program and, in addition, cannot be said to be privately owned since it no longer has any equity capital. It performs the same function with regard to commercial bank deposits as the Federal Savings and Loan Insurance Corporation (which is subject to the budgetary provisions of the Government Corporation Control Act) performs with regard to savings and loan association share accounts.

The criterion recommended by the Commission therefore is basically that Government-sponsored enterprises be omitted from the budget when such enterprises are completely privately owned. This criterion does not suggest that the transactions of these enterprises are to be sheltered from public scrutiny. In fact, as indicated above, the Commission specifically recommends that the total volume of loans outstanding and borrowing of these enterprises at the end of each year be included at a prominent place in the budget document as a memorandum item, and that steps be taken to secure complete financial statements in the form of "annexed budgets" to be included in the Appendix to the budget.

District of Columbia Government

The Commission recommends that the local receipts and expenditures of the District of Columbia be excluded from the Federal budget.

The District of Columbia is regarded by most observers as a local government comparable to other State or city governments. It is so treated in most Government statistics and Federal grant-in-aid formulas. If local receipts and expenditures of the District of Columbia are excluded, the budget must, of course, include Federal payments to the District (which are now excluded from the consolidated cash budget as intragovernmental transactions). The recommended treatment coincides with the present treatment of the District of Columbia in both the administrative budget and the Federal sector of the national income accounts.
International Monetary Fund

United States transactions with the International Monetary Fund require special attention. All other international financial organizations to which the United States subscribes capital are lending organizations. The International Monetary Fund is, however, more like a bank in which funds are deposited and from which funds in the form of needed foreign currencies may be withdrawn. The operations of the Fund are monetary in character; they help finance the international payments positions of the United States and other member countries. The transactions of the Fund are monetary exchanges through which the United States receives international reserve assets. The U.S. net position with the International Monetary Fund is in reality a foreign exchange asset comparable to gold or convertible foreign currencies owned by the Treasury. Therefore, in the Commission’s view:

Subscriptions, drawings, and other transactions reflecting net changes in the U.S. position with the International Monetary Fund should be excluded from budget receipts and expenditures.

This change is in keeping with the character of these transactions and will make budget totals better indicators of the impact of the budget on both the domestic economy and the balance of international payments.

Deposit funds

The present consolidated cash budget includes on a net basis the transactions of a large number of deposit funds, most of which represent receipts or expenditures in transit, banking-type transactions of the Treasury, or suspense accounts. Examples include the funds into which amounts withheld from Federal salaries for the purchase of savings bonds or for the payment of State income taxes are temporarily deposited. Inclusion of such deposit fund transactions is appropriate for a budget which attempts to be on a cash income and outgo basis, but it is not appropriate if expenditures are to be measured on an accrual basis.

Actually there are some deposit funds serving slightly different purposes, and the Commission has not attempted a fund-by-fund review and analysis of these. The Commission understands, however, that the Treasury Department and the Bureau of the Budget are presently engaged in a thorough-going review of the nature of each of the deposit funds, some of which may more closely resemble trust funds than suspense account or banking-type deposit funds.

The Commission recommends that the Treasury Department and the Bureau of the Budget continue to review and analyze deposit funds, and to remove from the budget totals, those for which removal would be consistent with stating budget expenditures on an accrual basis. There are no doubt some deposit funds which should continue to be included in the
budget. For example, the receipts and expenditures of the Comptroller of the Currency could more logically be regarded as trust fund receipts and expenditures since they reflect clearly governmental functions. The Comptroller of the Currency receives assessments from national banks and uses those receipts specifically to examine and otherwise supervise the activities of those banks.

TRANSACTIONS TO BE INCLUDED IN THE BUDGET

With the outer limits of the Federal Government identified, questions remain about specific transactions to be included in the budget.

Payments to international lending organizations

The present administrative and consolidated cash budgets differ in their treatment of payments and subscriptions to various international lending organizations such as the International Bank for Reconstruction and Development, the Inter-American Development Bank, and the Asian Development Bank. The cash budget records only payments of cash to these organizations as expenditures, while the administrative budget also counts as expenditures the issuance of notes in lieu of checks (these notes are part of the public debt as presently defined). As with budget expenditures generally, neither budget includes the issuance of letters of credit, even irrevocable letters, as expenditures. In the case of subscriptions to international organizations, the exclusion of letters of credit from budget expenditures has given rise to certain anomalies on occasion, such as large negative expenditures in the administrative budget when letters of credit have been issued to replace noninterest-bearing notes held by these institutions.

After consideration of the nature of the transactions of the Government with these international organizations, it is the Commission’s view that:

The issuance of debt instruments to the international lending organizations should be eliminated, and the United States’ unpaid obligation to such organizations should be covered by open book balances, as in the case of other obligations, or by letters of credit; if these steps are taken, the budget will then record as an expenditure only the payments of cash to the organizations.

This treatment appears to best describe the economic character of transactions with international lending organizations and the best coincides with recommended treatment of like expenditures in the domestic economy. Moreover, it is consistent with the Commission’s recommendation on the definition of Federal borrowing discussed in Chapter 6. In effect, the Commission regards the present outstanding notes and letters of credit as only an unpaid obligation or contingent liability, rather than as a payment which has already been made and which in turn has increased the Government’s formal debt.
Nonrecurring or one-time receipts

Various administrations have been criticized for including in the budget without special identification nonrecurring receipts or expenditure reductions. Prime examples of items criticized are the one-time sale of assets and the speedup of tax collections.

The Commission is making a number of recommendations which will eliminate some of the problems relating to the treatment of one-time receipts or negative expenditures. Among these are its recommendations for stating receipts and expenditures on an accrual basis and for a more consistent method of treating receipts as offsets against expenditures.

The budget inevitably includes a large number of nonrecurring items, particularly on the expenditure side. These do have an economic impact and are part of the total scope of government activities in that year, even if nonrecurring. Therefore, the Commission recommends:

Nonrecurring receipts (or expenditure reductions) should continue to be included in the budget; however, the budget should continue to call attention to large unusual items of both receipts and expenditures in the budget presentation.

A CAPITAL BUDGET

One category of Federal expenditures which has sometimes been singled out as sufficiently distinctive in character to call for separate treatment is investment in physical assets, linking that investment directly to Government borrowing. A divided budget, with investment in physical assets excluded from calculations of the budget surplus or deficit, is often referred to as a capital budget. Much of the argument for the capital budget draws upon the logic of accounting for capital outlays in private enterprise. Capital outlays of a business are not charged against current sales to determine an estimate of a firm’s profit or loss. Why should the Government, in estimating its surplus or deficit, not also exclude capital outlays from the calculation? There is also the feeling that resistance to the construction of needed public facilities might be moderated if this investment could be eliminated from the surplus or deficit.

The Commission finds little merit in proposals to exclude outlays for capital goods from the total of budget expenditures that is used to compute the budget surplus or deficit. It strongly recommends against a capital budget in this sense.

Use of a capital budget would seriously understate the current draft by the Government on the economic resources of the private sector. The level of government borrowing should be conditioned, not by the amount of capital goods that the Government is creating or purchasing, but by much broader budget requirements. In periods of inflationary pressure the appearance of a balanced budget, with capital expenditures excluded, might pose a psychological barrier to adequate taxation. In any event, proponents of new
spending programs would be tempted to stretch the capital budget rules or inclusion, so that the immediate impact of the program in increasing the current deficit, or reducing the current surplus, would be less, and the program itself therefore less visible.

The Commission believes that a further very persuasive argument against a capital budget is that it is likely to distort decisions about the allocation of resources. It would tend to promote the priority of expenditures for "brick and mortar" projects relative to other Federal programs for which future benefits could not be capitalized (including health, education, manpower training, and other investment in human resources)—even when there is no clear evidence that such a shift in relative priorities would in fact be appropriate. The Commission notes that a number of foreign countries which previously used capital budgets have abandoned the practice, and that in other countries, where the semblance of a capital budget is maintained, the division of transactions between those which go "above the line" in the regular budget and those which go "below the line" in the capital budget has become so arbitrary as to make the result virtually meaningless. Even if a capital budget were otherwise desirable, there would be a formidable array of difficult accounting problems and issues, such as the definition of assets (inclusion of military hardware, for example) and the measurement of depreciation on Government property.

The Commission's objections to a capital budget do not, however, constitute an injunction against special tabulations of Federal expenditures of an investment nature, such as is now done in Special Analysis D in the budget document. Indeed, the Commission commends the provision of this information.

Likewise, at the individual enterprise and program level, the Commission strongly encourages information necessary for more orderly and economic budgeting, not only to better relate the needs to be met by such outlays to other needs, but also to relate alternative means of meeting these needs as between capital investment and increased expenses. Better cost-benefit calculations are needed, and these usually require capital cost estimation. Indeed, an estimation of the rate of return on all projects should be a Government objective. If all capital outlays are expensed, then no depreciation is computed, and no interest cost of capital outlay is imputed, making it difficult to compare real costs over a long period under competing methods of operation. Use of capital budgeting, rate of return, and other decision techniques for Government enterprises promotes efficiency. Therefore, the Commission supports including in the financial statements of Government agencies the net gain or loss from the enterprise computed on a depreciation, imputed-interest basis. This is by no means the same thing as instituting a separate capital budget, separately financed, for the Government in the aggregate.

For the Government as a whole, estimates of the value of Government physical assets and the depreciation of these assets would be useful for study-
Coverage of the Budget

ing economic growth. Such calculations might well be made by the social accountants as part of regular periodic statistics on national income and wealth. And the Commission would endorse the publication of such estimates in a special tabulation released with the budget, once reliable and useful data were available.

EFFECT OF THE COMMISSION’S RECOMMENDATIONS

In summary, the Commission’s recommendations on coverage of the budget described in this chapter (and interpreted further in some respects in Chapters 5 and 6) will provide a useful, logical, and quite comprehensive definition of the budget. In general, the coverage of what in the future should be called the budget would be close to the coverage of the present consolidated cash budget although there are a few differences as indicated in Table 1. However, as described in the following chapter, the timing with which transactions will be recorded in the budget recommended by the Commission differs in several very important respects from the cash budget.

Table 1.—Effect on the budget of exclusions recommended by the Commission (compared to present consolidated cash budget)

[Fiscal years. In billions of dollars]

<table>
<thead>
<tr>
<th></th>
<th>1966 actual</th>
<th>1967 estimate</th>
<th>1968 estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RECEIPTS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>District of Columbia Government</td>
<td>-0.3</td>
<td>-0.3</td>
<td>-0.3</td>
</tr>
<tr>
<td><strong>Total effect on receipts</strong></td>
<td>-0.3</td>
<td>-0.3</td>
<td>-0.3</td>
</tr>
<tr>
<td><strong>EXPENDITURES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal land banks</td>
<td>-0.6</td>
<td>-0.6</td>
<td>-0.4</td>
</tr>
<tr>
<td>Federal home loan banks</td>
<td>-1.3</td>
<td>-1.0</td>
<td>0.6</td>
</tr>
<tr>
<td>District of Columbia Government</td>
<td>-0.3</td>
<td>-0.3</td>
<td>-0.4</td>
</tr>
<tr>
<td>Transactions with International Monetary Fund</td>
<td>-0.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposit funds, net (other than Comptroller of the Currency)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.5</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total effect on expenditures</strong></td>
<td>-1.8</td>
<td>-1.7</td>
<td>-0.1</td>
</tr>
<tr>
<td><em>Increase in budget surplus (+) or deficit (-)</em></td>
<td>+1.5</td>
<td>+1.4</td>
<td>-0.2</td>
</tr>
</tbody>
</table>

1 Amounts are approximate only; actual exclusions will be determined as the result of the recommended study by the Treasury and the Bureau of the Budget.

2 Includes minor amounts for excess of annexed budget net expenditures for 3 Government-sponsored enterprises over figures shown in present consolidated cash budget.
CHAPTER 4

ACCOUNTING FOR EXPENDITURES AND RECEIPTS

There are several timing concepts presently used for recording budget receipts and expenditures. On the expenditure side, the administrative budget is mostly on a checks-issued basis, recording an expenditure when a check is written. The consolidated cash budget uses a checks-paid basis for the overall total of expenditures, recording an expenditure when a check clears through the banking system. The Federal sector of the national income accounts records purchases mainly on a deliveries basis, i.e., when the Government physically receives goods or services.

The Commission has examined each of these bases of recording expenditures, and finds them basically deficient as indicators of the time when expenditures are actually made. Therefore, the Commission recommends:

*Expenditures should be reflected in the budget and Federal financial reporting when the Government incurs liabilities to pay for goods and services—in other words, on an accrual rather than a cash basis.*

Adoption of the accrued expenditures concept is possible at this time because of the progress made in recent years in developing and installing modern accrual accounting systems in Federal Government agencies, in compliance with legislation enacted more than ten years ago. A few important agencies are not ready to implement this recommendation immediately, and some further improvements in accounting systems are required in certain other agencies. However, the Commission believes it will be possible to fully implement this change beginning with the budget to be submitted in January 1970 for the fiscal year 1971, with preliminary internal data gathering and testing to begin by July 1, 1968.

Receipts are recorded at the time they are collected in both the administrative and cash budgets. The national income accounts, however, report receipts partly on a cash and partly on an accrual basis.

The Commission believes that major steps can be taken toward an accrual basis of reporting receipts. The Commission therefore recommends that:

*Corporation income taxes should be presented in the budget and reported by the Treasury on an accrual basis, also effective with the January 1970 budget presentation. In addition, the Commission recommends that other receipts be accounted for on an accrual basis as soon as feasible,*
Although it recommends further study in the case of individual income and employment taxes.

Under present timing practices, there are significant differences between cash expenditures and receipts and accrued expenditures and receipts—in some years totaling billions of dollars. The shift toward accrual accounting recommended by the Commission should make the budget totals a better index of the current impact of Federal financial activities on the economy, and should provide a better reflection of the financial condition of the Government than any of the present timing concepts.

**Accrual of Expenditures**

**A comprehensive accounting system**

There are a number of important steps in the Federal expenditure process and a comprehensive accounting system should record each of them: appropriations, obligations, accrued expenditures, program costs, checks issued, and checks paid.

*Appropriations and obligations* are important because they establish the control points in Federal expenditure programs. Appropriations represent the initial point of decision by the Congress as to the magnitude and direction of future government expenditures. Obligations record that part of the appropriation which has been legally committed by a Government agency. They represent the point at which the Government initiates the formal action with an outsider that will ultimately result in paying out Government funds. Careful records of obligations must be maintained to assure that authority granted by the Congress is not exceeded. Obligations are also an early indicator of the economic impact of Government expenditures.

From the standpoint of determining fiscal policy, *expenditures* on an accrual basis probably represent the best measure of the economic impact of the budget. This is the point in time at which the Government actually incurs a liability requiring immediate or eventual payment, including constructive delivery in the case of construction put in place and work performed by contractors on specific order.

*Program costs* are increasingly recognized as a significant instrument of agency management, budget formulation, and execution. They represent resources actually used for a program regardless of when such resources were acquired. For this reason, program costs are assuming increasing importance in the details of the budget *Appendix* in connection with the President's appropriation requests.

*Disbursements* (checks issued and checks paid) are necessary measures of Government outgo for Treasury cash management purposes and for analyzing Treasury borrowing requirements.
It is clear that, provided effective accounting systems are in use, it would be possible to enter the expenditure process at any point—or at several points—for purposes of preparing summary budget statements. The Commission, therefore, has had to decide which measure or measures are most appropriate for purposes of overall budget summary statements. The Commission concluded that accrued expenditures are that "best measure," since the accrual is the point of final commitment which has the largest and most direct economic impact on the private sector.

**Appropriations, obligations, and costs**

The interrelationships between appropriations and obligations, and between obligations and costs, are worthy of careful examination. Appropriations, as broadly defined by the Commission, are and will continue to be the important first step in the expenditure process. Appropriations usually are more significant indicators of expenditures at a detailed program level than in the aggregate. However, total appropriations do determine the future course of total expenditures, and in Chapter 2 the Commission has made recommendations to give overall appropriations greater prominence in the President's budget message than they now have.

Recording of obligations is essential for financial control and accountability of agency appropriations. Obligations are, however, increasingly recognized as generally inadequate for measurement of agency performance, and are being replaced by program costs for this purpose as rapidly as development of adequate accounting systems permits.

While obligations may become less important as a measure of performance at the program level than they once were (because of the growing dependence on costs), the Commission definitely feels a need for better information on the aggregate volume of Government contracts and obligations. This is desirable to permit better analysis, both inside and outside Government, of overall expenditure trends. Such information as is now readily available on obligations is either too broad or too detailed for many purposes, and does not relate easily to expenditures. It is encouraging to note, therefore, that the Treasury and the Bureau of the Budget have arranged for the early publication of monthly obligations in some detail and consistent conceptually with available summary expenditure information.

**The trend toward better accounting**

As indicated above, program costs are being increasingly used to measure agency performance. The accurate measurement of program costs requires an accrual accounting system, in which such items as accounts receivable, accounts payable, stocks on hand at the beginning and end of the period, and capital assets are recorded in addition to the normal appropriations, obligations, and cash disbursements. In measuring program costs, it is usually necessary to include estimates of the depreciation on plant and equipment "used" during the period. However, expenditures for the acquisition of new capital goods that are to be used in later periods are not included.
Recognition of the importance of information on program costs for the proper formulation and execution of budget programs led to the requirement—laid down in the 1956 amendments to the Budget and Accounting Procedures Act of 1950—that all agencies of the Federal Government develop and install accrual accounting systems under guidelines prescribed by the General Accounting Office. Under this legislation, there has been steady improvement in Government accounting and financial management. While practices vary somewhat from agency to agency all but a few agencies now use accrual systems. The General Accounting Office has approved a number of these systems. Others are currently before the General Accounting Office for approval, and still others are scheduled to be submitted for approval shortly.

The Commission heartily endorses the trend toward the use of accrual systems. Program costs are an important tool for program management and for agency budget formulation and execution. Moreover, the existence of modern accrual accounting systems makes it possible to adopt a much better method of measuring and reporting Government expenditures than was previously possible.

The concept of accrued expenditures

Accrued expenditures differ from cash disbursements because of net changes in Government liabilities (accounts payable and other accrued liabilities). In the case of goods and services acquired under contract, as in construction and defense hard goods procurement, the accrual basis will result in reporting expenditures at the time of constructive delivery; that is, as the work is actually performed to Government specifications. When the Government acquires mass-produced items, the liability occurs—and accrued expenditures are recorded—at the time of physical delivery.

The Commission considers this recommendation to be an extremely important and valuable contribution to improved budget presentation. It is a normal, natural, and straightforward concept of expenditures which should be easily understandable. The business community is already quite familiar with accrual of expenditures, revenues, and costs. Business practices are not always, or necessarily, correct practices for Government. But a large share of the Government's expenditures represents income to private business, and there are obvious advantages of having the two sides of the transaction recorded as consistently as possible on the books of both buyers and sellers. Accrued expenditures also represent a much better measure of the actual impact of Government purchasing activities on the economy than obligations or cash disbursements.

Relationship to present system

The proposed accrual concept cannot replace cash receipt and expenditure information for Treasury cash balance management and public debt management. Cash records are indispensable for the proper discharge of
the Treasury's role of "banker" for the Government, just as cash accounting in the private sector is a necessary supplement to regular business profit and loss accounting on an accrual basis. However, cash concepts need not be discussed in the January budget and no cash surplus or deficit should be presented in the budget summary. The Commission recommends that Treasury monthly reports on budget receipts and expenditures also be on an accrual rather than a cash basis; monthly and daily reports on cash deposits and withdrawals should not be called the budget or "another measure of the budget."

Reporting of expenditures on an accrual basis will not impinge in any way on the present appropriations process, or the need for accounting controls over obligations. Appropriations will continue to be the critical point of congressional control over the expenditure process, and indeed the Commission has recommended steps to highlight appropriations in the budget even more prominently than now. The Commission emphasizes that its intent is not to alter the basis of congressional expenditure authorization in any way.

Finally, accrued expenditures should not be confused with program costs. Accrued expenditures measure resources acquired, while program costs—important particularly at the program level—measure resources used.

**Importance of the accrued expenditure concept**

The Commission recognizes that in the vast majority of individual expenditure transactions, the Government's liability is liquidated soon after it arises. This is clear, for example, in employee pay or in benefit payments. In such cases there is typically little or no practical difference in timing between cash disbursements and accrued expenditures, although even in these cases there are occasional "humps" in monthly cash disbursements growing out of the Federal government's biweekly pay structure that would be recorded more accurately in an accrual system. The discrepancies between cash disbursements and accruals become particularly significant in periods where there is a rapid increase or decrease in outstanding Government orders for long leadtime procurement items, as in a defense build-up or demobilization period. Under the accrual approach, the difference between costs incurred by a contractor and progress payments made to him will be properly recorded as an accrued liability of the Government.

Progress payments should not be confused with advances and prepayments. Advances and prepayments are occasionally made to provide contractors with working capital. They will be reflected on the Government's books as assets like accounts receivable rather than as expenditures, in an accrual system.

The Commission believes that acceptance of its recommendation for accrued expenditures will make the Federal budget a more useful document for understanding the economic impact of the budget. For example, in a period of rapid defense build-up such as during fiscal year 1966, the
accrual basis would have provided more timely and accurate information for assessing the economic impact of the budget than either cash budget disbursements or deliveries as recorded in the national income accounts.

Furthermore, the Commission feels strongly that adoption of the accrued expenditure measure would represent a further significant advance in improved internal management of individual Federal agencies. As pointed out before, most agencies are now or will be using costs for program management and agency control. The accrual concept for budget purposes will foster the concept of cost control in all agencies, and especially in those not now on a cost system. For those agencies already using program costs, the information required for the budget should be a byproduct of their accounting system.

The Commission has considered the possibility that some users of the budget and Federal financial reports might be confused by the term accrued expenditures. The Commission believes, however, that once expenditures have been redefined, there is no need to use the term accrued expenditures, and the term expenditures will automatically apply to the figures developed on the accrual concept.

**Feasibility and implementation**

The Commission appreciates the fact that although substantial progress has been made in the improvement of agency accounting systems, it is not yet possible for several key agencies to provide immediately the information which would be required to comply with the Commission’s accrual recommendation. This change will also create increased burdens in terms of cost and time for the Bureau of Accounts of the Treasury Department which will have to process accrued expenditures data, as well as disbursement data.

In making its recommendation, the Commission has had the benefit of several interagency feasibility inquiries conducted under the leadership of the General Accounting Office. It believes that—with the cooperation of everyone concerned—it will be possible to begin internal review and testing and internal monthly reporting of accrued expenditures for most of the Government effective July 1, 1968. The Commission recognizes that the problem of conversion to accrual accounting is large in the Department of Defense, and that somewhat more time may be required by that agency. Accrued expenditure data should be available in time to make it possible for the President’s budget for fiscal 1971 (transmitted in January 1970) to be fully on an accrual basis. Monthly expenditure reporting to the public on the accrual basis then would begin July 1, 1970.

Some concern has been expressed to the Commission about possible delays in the monthly reporting of expenditures by the Treasury when the conversion to accrual accounting is made. Since the Treasury will continue to need the information it now has, reports on cash receipts and disbursements should be available with the same timing as at present. Until some experience is acquired under the accrual system, reports of accrued expenditures may take
somewhat longer to compile than those for cash expenditures. When fully
operative, however, the accrual and cash data will both come from the same co-
ordinated agency accounting systems. Therefore, by the time internal tests
of the new system are completed and public reporting begins in 1970, the
Commission believes that monthly accrual reports should be available on
the same schedule as monthly cash reports.

Pending the changeover to the new accrued expenditure basis, the
Commission recommends that estimates of changes in accounts payable,
and other accrued liabilities against various appropriations and funds,
be made available through the Treasury at least quarterly for analytical
purposes quite apart from regular financial reporting. These estimates
will aid those experts both inside and outside the Government who are
trying to measure the economic impact of the budget. Changes in accounts
payable and other accrued liabilities should be reported by the Treasury in
full for all agencies already having accrual accounting systems. This would
be supplemented on a selective basis for those agencies (notably the Depart-
ment of Defense) which do not yet record liabilities in their central accounts,
but who keep records of contractor performance on a contract-by-contract
basis. These Treasury estimates should provide an interim method of sub-
stantially correcting—for analytical purposes—basic shortcomings in existing
reports of budget expenditures.

Relation to the national income accounts

The Commission does not feel that it should make detailed recommenda-
tions on methods of recording statistical measures of Federal receipts and
expenditures in the national income and product accounts. In general,
these are matters best left to the economists and social accountants. More-
over, the Commission recognizes the need for a consistent treatment of the
Federal sector and the private sectors of the economy in the national income
accounts.

On the other hand, the Commission is aware that the different timing
basis for stating expenditures is one of the major differences between the
present consolidated cash budget and the Federal sector of the national in-
come accounts. It is also aware that there would continue to be a difference
if the Federal budget were on an accrued expenditure basis while the Federal
sector of the national income accounts remained on its present timing basis.

In order to tie more closely with the way various private transactions are
recorded, different categories of Federal expenditures are treated differently
in the national income and product accounts. Transfer payments, grants-in-
aid, and subsidies are on a checks-issued basis. Construction is recorded on a
put-in-place basis, which is equivalent to accrued expenditures. Federal in-
terest outlays are also recorded basically on an accrual basis. However, hard
goods procurement—including very long leadtime items such as shipbuild-
ing—is usually recorded on a physical deliveries basis. The method actually
used by the Office of Business Economics of the Department of Commerce has the effect of making the timing basis for hard goods procurement depend both on the form of contract used by the Government (a cost reimbursement contract is treated differently than a fixed price contract) and on the type of accounting system used by those private enterprises which supply part of the data used in calculating the national income accounts timing adjustment.

The Commission believes that if the Federal budget itself were on an accrued expenditure basis a similar basis for the Federal sector of the national income and product accounts would be highly desirable and advantageous— in spite of certain inconsistencies that might arise in the national income accounts treatment of private investment. A common basis would eliminate a confusing discrepancy between the national income accounts estimates of Federal expenditures and the Federal budget itself. Therefore, the Commission recommends that the Bureau of the Budget and the Office of Business Economics pursue this objective while the conversion of the budget to the accrued expenditure basis is being developed. In order to do this, the Office of Business Economics would need certain additional data not now available. The Commission also recommends, therefore, that the Department of Defense, the Bureau of the Census, and the Treasury Department lend all possible assistance to the Office of Business Economics in deriving the necessary information.

**ACCRUAL OF RECEIPTS**

To be consistent with expenditures, budget receipts should also be recorded on an accrual basis. Moreover, at least in the case of most business taxes, accruals of tax liability represent a significantly more important measure of the economic impact of the budget than do cash collections of taxes. For these reasons, the Commission believes that, in principle, receipts as well as expenditures should be accrued in the Federal budget.

The Commission recognizes that the problems are somewhat greater in implementing its accrual recommendations in the case of receipts than for expenditures. In the case of expenditures, the required information will come from the Government’s own accounting systems, which are required by law to be on an accrual basis. In the case of tax receipts, however, the Federal Government currently has no accounting system from which accurate measures of the accrued tax liabilities of the private sector may be extracted. At present, the Treasury only has this information when tax returns are compiled and the tax payments are actually made by the taxpayer. Thus, with present accounting, a precise measure of accrued taxes can be reported only some time after the close of any month or fiscal year.

The Commission recognizes that this problem makes it impossible to implement, at this time, accruing all tax revenues. The estimation problems of tax accrual are greatest for the individual income and employment taxes. However, for these taxes the difference between accruals and cash
payments is less significant from an economic impact point of view. The difficulties are smaller (and the Commission believes manageable) for the corporation income tax, for which it is particularly important to have taxes measured on an accrual basis.

**Corporation income taxes**

The Commission’s recommendation, therefore, is that the budget include corporation income tax receipts on an accrual basis by fiscal 1971, at the same time that accrued expenditures are included in the budget.

It is widely accepted that tax liabilities are a much more important determinant of corporate spending and financial behavior (and hence economic impact) than the cash payment of taxes. Since corporate profits (and tax liabilities) are exceptionally volatile, a time lag between accrual and payment of taxes of only a few months during an expansion or slump in the economy can produce sharp differences between the actual and apparent economic impact of corporation income taxes.

Legislation requiring more current reporting and payment of estimated taxes has substantially reduced time lags between accrual of corporation tax liabilities and the payment of corporation income taxes. Nevertheless, these time lags can still be quite significant. Furthermore, the same legislative and administrative changes which have brought corporation tax payments to a more nearly current payments basis actually operate to produce, during the period of speed-up, a sizable excess of cash payments over what otherwise would have been collected. Reporting corporation income taxes on an accrual basis during such periods will put the true yield of the corporation income tax in better perspective.

The Commission recommends that the Treasury undertake a study of possible ways to improve the basis for estimating corporation income tax accruals, with the expectation that the new system will produce data for internal review and testing beginning July 1, 1968. The Commission also recognizes that some further study by the Treasury Department is essential to work out the details of monthly reporting.

**Individual income taxes and other receipts**

In general, the Commission recommends reporting all receipts on an accrual basis as soon as possible. For instance, it should not be difficult to ascertain the amount of business liability for excise taxes (although there is only very slight economic significance to the minor lags between liabilities and collections for such taxes). As another example, reporting miscellaneous receipts on an accrual basis should pose no problem, since the required information should flow normally from each agency’s accrual accounting system once it is in operation.

Individual income (and employment) taxes, on the other hand, cannot easily be placed fully on an accrual basis. There is, of course, no question of
the existence of a tax liability at the end of an individual taxpayer's year. However, it would be difficult to estimate precisely at earlier dates the aggregate tax liability for all of the more than 60,000,000 individuals who file their final returns at a later date. As a result, it may be some time after the end of a fiscal year before the availability of final tax returns makes completely accurate revenue figures possible.

The national income and product accounts record individual income taxes essentially on a cash payment basis rather than on an accrual basis. Many economists appear to feel that, in the case of individuals, spending behavior is more strongly influenced by the cash payment of taxes than by the accrual of tax liabilities. In fact, many individuals may not be aware of the amount of their accrued tax liability prior to the preparation of their tax returns and the actual payment of tax.

Other considerations suggest that it may not be of major significance for economic impact analysis to record individual income taxes fully on an accrual basis. First, personal income and individual income taxes are not usually as volatile, relatively, as corporation profits (and tax accruals) during periods of economic expansion or contraction. Second, the larger portion of the individual income tax is withheld at the source, and comes into the Treasury with only a short time lag, especially under the new graduated withholding system.

It should be noted that if Federal receipts are only partially accrued, i.e., if individual income and employment tax receipts are not reported on an accrual basis, during periods of rapidly rising personal income—when collections lag behind accruals—total receipts would be lower and the deficit greater than would occur under a full accrual basis. Conversely, during periods of declining personal income, receipts would be higher and the deficit lower than under a full accrual basis. It is important therefore to reiterate that no one deficit figure can adequately portray the scope and impact of Federal activities. Use of such budget figures will have to be accompanied by meaningful interpretation.

In summary, the Commission believes that the question of accruing individual income taxes requires further study.

**EFFECT OF THE COMMISSION'S RECOMMENDATIONS**

At present, the effect on budget totals of the Commission's recommendations regarding accrued expenditures and receipts can only be estimated. Table 2 shows, for fiscal years 1966-68, the approximate effect on budget totals of the Commission's accrual recommendations; Chapter 9 presents estimates in more detail for a longer time period.

In implementing the proposed changes, the Commission recommends that budget totals for years in the recent past be adjusted to be on as nearly a consistent basis as possible with the new concepts, even though precise accounting support for such adjustments is lacking. Acceptably good esti-
mates can be made without much difficulty, as has been done in preparing the figures in Table 2 and in Chapter 9. The comparability of budget totals over a period of time is important. The Commission feels it is far better to use approximations than to have the past budget totals precise in terms of accounting support but seriously defective from the standpoint of comparisons of the budget totals for different years. More specifically, the Commission sees no objection to including, in reports of budget totals for prior years, adjustment lines below the present accounting figures and just above the budget total lines, representing estimated timing adjustments. Two timing adjustment lines would be appropriate on the receipts side, one for the excess of corporation income tax accruals over cash deposits and one for other revenues. Two timing adjustment lines would also be appropriate on the expenditure side, one for the Department of Defense and one for all the other agencies of the Government combined.

Table 2.—Effect on the budget of changes in timing recommended by the Commission (compared to present consolidated cash budget) ¹

[Fiscal years. In billions of dollars]

<table>
<thead>
<tr>
<th></th>
<th>1966 actual</th>
<th>1967 estimate</th>
<th>1968 estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RECEIPTS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess of tax accruals over cash deposits:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporation income taxes</td>
<td>−0.7</td>
<td>−3.9</td>
<td>−0.7</td>
</tr>
<tr>
<td>Other taxes</td>
<td>−0.2</td>
<td>.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Total effect on receipts</td>
<td>−.9</td>
<td>−3.9</td>
<td>+.4</td>
</tr>
<tr>
<td><strong>EXPENDITURES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in checks outstanding and accrued interest</td>
<td>−0.2</td>
<td>1.2</td>
<td>.7</td>
</tr>
<tr>
<td>Excess of accrued expenditures over checks issued:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defense</td>
<td>2.0</td>
<td>−0.6</td>
<td>−.1</td>
</tr>
<tr>
<td>Nondefense</td>
<td>1.7</td>
<td>+1.1</td>
<td>+1.1</td>
</tr>
<tr>
<td>Total effect on expenditures</td>
<td>+3.5</td>
<td>+1.7</td>
<td>+1.6</td>
</tr>
<tr>
<td>Increase in budget surplus (+) or deficit (−)</td>
<td>−4.4</td>
<td>−5.5</td>
<td>−1.2</td>
</tr>
</tbody>
</table>

¹ Figures in this table, to a greater extent than most other figures in this Report, are derived from statistical rather than accounting estimates, even for 1966.
² Represents average of available data for prior years.
CHAPTER 5

FEDERAL CREDIT PROGRAMS

One of the most difficult questions the Commission has faced is how Federal loan outlays should be reflected appropriately in the budget. The Commission has been impressed with the importance of presenting the budget on a truly comprehensive basis. It also has evaluated the need for separate substantive information on direct loan programs because of their differing economic characteristics and their unique relationship to loan insurance and guarantee programs. It believes that the objectives of separable treatment of loan programs can be met best within the framework of a comprehensive budget. The Commission recommends, therefore:

• A breakdown between loans and other expenditures within the budget is so important, particularly for analyzing the impact of the budget on incomes and employment, that the summary budget presentation should show most direct loans (on the basis of their unsubsidized value) separately from other expenditures.

• A surplus or deficit should therefore be presented in the budget, to be calculated by comparing expenditures other than loans with total budget receipts, for purposes of providing a measure of the economic impact of Federal programs.

• However, the subsidy elements in all such loans should be included and specifically disclosed in the expenditure rather than the loan account of the budget to the extent practicable since such subsidies are much more like grants than loans. This will make a meaningful separation of loans from other budget expenditures possible. Measurement of the subsidy in loans would reflect both the interest rate subsidy, capitalized at the time the loan is made, and the provision of adequate allowances for losses.

• Certain other types of loans should be reflected in the expenditure rather than the loan account of the budget, either because they are loans in name only (such as Commodity Credit Corporation nonrecourse loans) or because they are foreign loans made on noncommercial terms.

• The budget summary should show separately gross loan disbursements and loan repayments, in addition to net lending.

The Commission considers the sale of certificates of participation in pools of Federal agency loans as more like the sale of securities by the Treasury
or agencies such as the Federal National Mortgage Association) than loan repayments or sales of loans. Accordingly, the Commission recommends that:

- Participation certificates should be treated as a means of financing, not as an offset to expenditures which operates to reduce a budget deficit.¹

SEPARATE TREATMENT OF DIRECT LOANS WITHIN THE BUDGET

Federal direct loan programs have been expanding steadily in recent years. Quite apart from noncommercial foreign loans and nonrecourse loans of the Commodity Credit Corporation, these programs now exceed $30 billion in terms of total loans outstanding. The largest single programs are those of the Rural Electrification Administration, the Federal intermediate credit banks, and the Farmers Home Administration in the agricultural field; the Federal National Mortgage Association, the college housing program, and other important sectors of the housing field; direct loans to veterans; Export-Import Bank loans to foster exports; and loans to small businesses, in addition to several smaller but growing programs.

The executive branch reviews almost all direct loan programs and administers them with the same degree of scrutiny as it gives to expenditure programs other than loans. The Congress provides spending authority for loans no less than for other expenditures. It is clear that direct loan programs as a category should have just as much attention by the executive branch and the Congress—both from a financing and a management control point of view—as other programs. It is important, therefore, that the concept of a comprehensive budget fully reflect net lending of the Federal Government as well as other expenditure and receipt transactions.

Notwithstanding the great importance of including loans in any comprehensive statement of Federal Government activities, there also are important reasons why loans should be set forth separately from other expenditures within the budget totals. Loans, like other government expenditures, result in someone's acquiring cash, and the borrowed funds will presumably be spent. However, the borrower has assumed an obligation for subsequent repayment, plus interest, which distinguishes a loan transaction from other expenditures. There is substantial consensus among economists about the way in which taxes and expenditures other than loans affect private spending decisions. There is considerable consensus, furthermore, as to the effect of these spending decisions on the economy and how such impact should be roughly calculated. There is much less agreement, however, on the measurement of how loans and other financial transactions affect the economy.

It seems appropriate, therefore, that within the budget, transactions be structured so that nonloan receipts and expenditures are shown separately

¹ See page 55 for a statement by Secretary Fowler and Director Schultze on this recommendation.
and that lending receives special treatment. This provides an expenditure account surplus or deficit as a fiscal policy yardstick. Largely because of the need for such a measure to analyze economic effects, the national income accounts budget has gained increasing attention in the President's January policy statements—both the Budget and the Economic Report. The need for the President to explain and justify fiscal policy recommendations and requests for congressional legislation affecting the economy will continue to require the presentation and analysis of expenditure programs excluding loans. For budget purposes the Commission believes there is a great advantage in having a yardstick for economic impact analysis which—like the national income accounts—excludes loan programs, but—unlike the national income accounts (at the present time, at least)—ties directly and simply to the Government's budget and its regular accounting and financial reporting system. The expenditure account surplus or deficit is such a yardstick.

In line with the Commission's conviction that a unified budget system is essential and that a comprehensive definition of the budget is very important, the inclusion of net lending as well as other expenditures in the budget has particular significance. With both in the budget, there should be no pressure by special interests or program partisans to redesign other expenditure programs to give them the appearance of direct loans in order to get them out of the budget. This, when combined with the Commission's recommendation to count subsidies as expenditures rather than loans, helps to avoid artificial decisions in the allocation of financial as well as real resources.

At the same time, separate identification of direct loans helps to bring into better focus the definition of the relationship between direct and guaranteed Federal loans. Highlighting of direct loan programs—and strict control of almost all of them within the budget—could create incentives to redirect Federal loan programs to some extent into government guarantee or insurance of private loans. These may have much the same effect on resource allocation and on economic impact as direct loans, even though Federal funds are not directly involved, and even though such guarantee and insurance programs are not reflected in the budget except for administrative expenses and defaults, and occasional provision of secondary market support.

**LOAN GUARANTEES AND INSURANCE**

The Commission recognizes that inclusion of direct loans in the budget, particularly with separate identification and emphasis, may operate toward further expansion of guaranteed and insured loans not warranted by program considerations.

The volume of insured and guaranteed loans outstanding has grown rapidly in recent years, and is now about $100 billion (approximately three times the volume of the loans which the Commission proposes to include in the loan account of the budget). The most familiar of these programs are
the Federal Housing Administration insured loans and the Veterans Administration guaranteed housing loans; these two alone account for more than 75 percent of total guaranteed and insured loans. Urban renewal, the public housing program, and the Farmers Home Administration are also involved in important guarantee and insurance programs in the housing field. Apart from housing, the most significant guarantee and insurance programs are agricultural credit, export loans, ship mortgages, and small business loans.

It is not hard to visualize even more rapid expansion of loan guarantee and insurance programs in the years ahead as the Government seeks to urge the extension of private credit to finance the rebuilding of the Nation’s cities, mass transportation, water and air pollution control, and a myriad of yet undefined areas where policymakers may decide that some element of Federal encouragement is required even though the basic financing is done privately. The Commission is particularly understanding of the Treasury’s concern about proliferation of Federal guarantees of tax-exempt obligations, which involve subsidies by the government through reduction of tax receipts rather than by increasing expenditures. It is also concerned about expansion of loans which are 100% insured or guaranteed. Nevertheless, there are large areas of activity where it may be more appropriate to have partial Federal guarantees and insurance—in effect coinsurance with private creditors—than to have direct Federal loans.

Continued inclusion of direct loans in the budget means that there will continue to be close budget control over almost all direct loans. The Commission believes further study should be made of the need for greater coordination of guaranteed and insured loan programs. The executive branch and the Congress may wish to consider the desirability of establishing new procedures for reviewing the authorizations and ceilings on insured and guaranteed loan programs, in view of the growing importance of this type of program.

The Commission has not examined this phase of the loan problem in sufficient depth to make a specific recommendation, but it does wish to register its concern about the need for coordinated surveillance and direction of all Federal lending activity—direct and guaranteed. As a minimum, the budget summary should set forth the amounts of guaranteed and insured loans outstanding as well as direct loans outstanding.

**APPROPRIATE DEFINITION OF LOAN ACCOUNT IN THE BUDGET**

In determining the appropriate separation of loans from other expenditures in the budget, there are instances of loans which in the Commission’s judgment should be reflected in the expenditure rather than the loan account of the budget, at least for the time being. Certain foreign loans are
an example. The Agency for International Development, the Treasury and other Federal agencies have almost $12 billion in foreign loans outstanding made on noncommercial terms. These loans have a somewhat different status than domestic loans or other foreign loans made on commercial terms—such as Export-Import Bank loans—in part because experience is inadequate to determine an appropriate allowance for losses.

There are also certain cases where the entire loan is really more like a transfer payment or direct expenditure than it is a loan. The most obvious cases are the nonrecourse loans extended to farmers by the Commodity Credit Corporation where there is no obligation to repay either principal or interest if the farmer calculates that he would be better off forfeiting the commodities he has posted as collateral than repaying the loan. This type of “loan” is really an expenditure in the form of a deferred purchase of commodities by the Commodity Credit Corporation, and is so treated in the national income accounts.

Loan subsidies

Most Federal loan programs contain at least some element of subsidy. In fact, if this were not true, a serious question could be raised about the appropriateness of such activities being conducted by the Federal Government rather than by private financial institutions. To the extent that Federal loans include a subsidy element by lending at more favorable interest rates than the cost of money to the Government (or the even higher cost of money obtained through private sources) they are at least in part grants or transfer payments rather than loans.

It is not difficult to measure, at least conceptually, the extent to which “loans” are really transfer payments rather than pure loans from the standpoint of interest subsidy. If, for example, the Federal Government lends $100 for 40 years on an amortized basis at an interest rate of 2%, but would have to pay 5% to borrow the money from the public for the same term of years, that “loan” is worth only about $63—not $100. The smaller amount represents the amount which if lent for 40 years at 5% interest would require the same annual repayments as $100 lent at 2% interest over the same period of time. Thus, the borrower is receiving an asset worth $100 but the Government is getting an asset in return worth only about $63. The difference of about $37 represents a Federal payment to him comparable to an ordinary government expenditure rather than a loan. This calculation does not purport to measure the full value of the interest subsidy to the borrower, but rather the major element of the cost to the Treasury of the interest subsidy. That cost to the Treasury is now in effect included over the life of the loan in budget expenditures for interest on the public debt, but is not directly identified in the budget.

It is the Commission’s recommendation that the full amount of the interest subsidy on loans compared to Treasury borrowing costs be re-
flected and specifically disclosed in the expenditure account of the budget, and furthermore, that it be measured on a capitalized basis at the time the loans are made.

There are several alternative accounting procedures which could be followed in this capitalization of the subsidy and the best method should be prescribed only after careful consideration of the problems involved by the Bureau of the Budget and associated agencies. The problems connected with accounting for these subsidies, while difficult, do not appear insuperable, however.

Nor are the amounts large in relation to total loan programs as included in the loan account of the budget recommended by the Commission. For example, for the fiscal year 1966, a very rough and unofficial analysis revealed less than $1/2 billion in capitalized interest subsidy on new loan disbursements of close to $14 billion. The importance of spelling out the amount of loan interest subsidy is, however, not so much in revealing the dollar effect within the budget as in providing a better measuring stick to the government policymakers to help them decide on the relative merits of allocating resources among competing direct loan programs or between loans on the one hand and grants-in-aid or direct expenditures on the other.

The Commission also recommends that effective measures be developed to reflect (in the expenditure rather than the loan account of the budget) the further subsidy involved in the fact that Federal loans have a larger element of risk than Treasury borrowing. This should be done by creation of allowances for losses and making appropriate credits to those allowances and charges to expense as new loans are extended.

The loss experience on old established loan programs is one guide to the establishment of allowances for losses for those and similar programs. In fact the business-type accounting statements for many such programs, included in the detailed budget Appendix and in published Treasury reports, do include loss reserves now. On the other hand, there may be no experience from which to calculate the appropriate amount to be set aside as an allowance for losses in new loan programs where both the type of loan and the quality of the borrowers are unfamiliar to the lending agency. Nor would Government officials often wish to forecast through the medium of large allowances for losses projected in the budget, that a proposed new loan program is expected to result in heavy defaults, even if that were a reasonable expectation. It may be, therefore, that in some instances losses temporarily will have to be reflected in the budget only when they occur, rather than by trying to set up allowances in advance. The Commission is firm in its recommendations, however, that allowances for losses should be set up in all programs as soon as their feasibility is determined under Government-wide rules to be promulgated after further study and consultation among the principal Government agencies concerned.
Improve in Government accounting for loans

Present Treasury reports also do not contain current monthly information on Federal lending within the year on an overall summary basis. Statistics on the Federal sector of the national income accounts are available quarterly, but these differ from the cash budget totals for a variety of factors other than the exclusion of loans from the national income accounts and the inclusion of loans in the cash budget.

To carry through fully the Commission’s recommendation for a separate identification of loans in the budget totals it would be necessary to distinguish, preferably on a monthly basis, within the Government’s accounting system, between loan principal amounts which do in fact represent loans and those elements of loans which would continue to be classified as expenditures because they are subsidies.

It may not be practicable to expect Government agency accounting systems to produce fully refined unsubsidized loan values and subsidy expenditure amounts separately in time to place the Commission’s recommendation fully into effect in the 1969 budget to be transmitted by the President in January 1968 but the 1969 budget should nevertheless show a separation of loans on the basis of the best information available. It may also be possible for agency reports on a more fully refined basis to be made monthly to the Treasury beginning July 1, 1968 for purposes of internal testing as to data on subsidies vs. loan principal amounts. This might make it possible for the 1970 budget, to be transmitted in January 1969, to be presented on this basis, with Treasury reporting to the public to start July 1, 1969 on the new basis. In the meantime, a beginning could be made in the improvement and expansion of Special Analysis E, particularly in the direction of showing simply and clearly the relationship between the loan principal amounts presented there and the overall budget totals. The time schedule should be left to the discretion of the Bureau of the Budget and the associated agencies concerned, but the Commission urges action as soon as possible.

The Commission also wishes to emphasize that at the individual program level, the business-type accounting statements in the detailed budget Appendix provide a substantial amount of information on many of the subsidy elements discussed above. For example, most loan programs are funded as public enterprises, so that program costs for them reflect a difference between interest rates paid and received on an actual pay-as-you-go basis, whether the enterprise has been financed by loans from the Treasury or by borrowing from the public. However, several agencies borrow from the Treasury at subsidized interest rates below Treasury borrowing costs.

Both the Congress and the agencies are, of course, quite aware of the existence of loan subsidies and are quite willing to defend them as designed to further important national goals. The Commission’s interest is not to criticize the existence or extent of the subsidies, but rather to bring them out in the open as a matter of essential budget information needed for adequate policy formulation. It does not appear necessary for the Congress to appropriate separately for the subsidy elements on the one hand and the “pure
loan" amounts on the other. Such a separation can be done administratively—on a consistent basis for all loan programs and shown in the budget without requiring a new or more complicated structure of appropriations—with the understanding that, in this particular, the presentation would not coincide with the appropriated fund entities which have been established through the appropriation process.

PARTICIPATION CERTIFICATES

The Commission also has focused on another aspect of present budget treatment of loan programs—the handling of participation certificates. The device of selling certificates of participation in a pool of loans and treating them as a negative expenditure in budget accounting has been widely criticized. This is partly a reflection of the marketing difficulties encountered by the first of these securities issued under the Participation Sales Act of 1966 in reluctant acceptance by the financial markets during the tight money period in mid-1966—an area of inquiry beyond the scope of this Commission.

But there is substantial agreement among journalists, economists, investors, security analysts, Members of the Congress, and students of the budget generally that participation certificates are a means of financing very similar to direct borrowing by the Federal National Mortgage Association, for example, or by the Treasury itself. There has never been any question that receipts from the sales of assets—financial or physical—reduce the budget deficit, just as purchases of assets increase the deficit. When the transaction relates to a public enterprise fund, such receipts have properly been recorded as a negative expenditure. The present problem arose when assets were pooled, and shares in the pool were sold.

When the Reconstruction Finance Corporation went into liquidation in 1954—and again in 1962 for the Export-Import Bank and in 1964 for the Federal National Mortgage Association and the Veterans Administration—the sale of participation certificates in pools of loans was undertaken. This in turn led to the Participation Sales Act of 1966, which gave the Federal National Mortgage Association the responsibility for managing and coordinating the pooling of assets and sale of participation certificates in the capacity of trustee for a number of other agencies—the Farmers Home Administration, the Office of Education’s academic facilities loan program, the college housing and other programs of the Department of Housing and Urban Development, and the Small Business Administration. Under these enlarged programs, the volume of participation certificates outstanding will have risen from $1.3 billion in June 1965 to a projected total of $11.1 billion by June 1968. As a result, net expenditures of Federal loan programs shown in the current budget have been correspondingly reduced by several billion dollars in each year and anyone looking at recent budget presentations could have been left with an erroneous impression as to the extent of increase in direct loans outstanding.

The Participation Sales Act permitted a somewhat more direct participation by investors in the financing of lending programs. It has also helped in
tying borrowing costs to program costs, although it has proved more costly to taxpayers than financing directly by the Treasury. In the case of small credit programs, it also provided an effective alternative to inefficient direct small agency market borrowing or even more inefficient attempts by credit agencies to sell specific loans of small, odd amounts with widely varying characteristics.

The participation certificate has also permitted somewhat more flexibility in Treasury financing. First, it has permitted financing outside the oftentimes stringent public debt ceiling, since until the present fiscal year all participation certificates were outside the debt ceiling. In addition, longer-term securities in the form of participation certificates could be offered at times when direct longer-term Treasury borrowing was precluded by the 4⅞% interest ceiling on Treasury issues running five years (now seven) or more to maturity. Hence, charges have been made that congressional intentions were being thwarted on both the debt ceiling and the interest rate ceiling, as well as the even more basic criticism that the use of participation certificates effectively buried substantial expansion of an important form of Federal expenditures—namely Federal direct loan programs.

In one sense, the sale of shares in a pool of loans is but a short, logical step beyond the sale of the asset itself; but this is a critical step. When an asset is sold, the Federal Government retains no equity in it although it usually guarantees the loans it sells. When it is pooled, however—and participation certificates sold in the pool—the ownership (though not the beneficial equity) is still retained by the Federal Government. Interest payments on the loan continue to flow to the Government and the Government continues not only to incur servicing costs but also to assume fully the risk of default on any individual loan as far as the investor in the participation certificate is concerned.

The Commission is firm in its conviction, therefore, that participation certificates, regardless of their advantages or disadvantages on other scores, represent a means of financing the budget deficit rather than an offset to expenditures in determining the amount of the deficit to be financed. Participation certificates are reflected in this manner in the figures presented in Chapter 6 and in Tables 6 and 6D in Chapter 9.1

1 Secretary Fowler and Director Schultze regard the proceeds of sales of participation certificates and sales of credit agency obligations—to the extent that these proceeds and other principal repayments do not exceed aggregate loan disbursements—as proper offsets to loan expenditures. They should be subtracted from gross loan disbursements in arriving at “net lending.” To the extent that its credit programs finance themselves through participations, agency issues, sales of individual assets, or loan repayments, the Federal Government does not call upon the revenues or general borrowing of the Treasury. It is the call upon the Treasury revenues or borrowing which the net lending figure should equal. For the self-financed portion of the loans, the Government is primarily acting as a financial intermediary with much the same impact as the insurance of private loans. Federal guarantees of participation certificates come into play only in the contingency that the underlying assets of the credit programs default. Professor Turner also joins in supporting this statement.
Chapter 6

FINANCING OF BUDGET DEFICITS

A major reason for calculating an overall excess of receipts or expenditures (i.e., total budget surplus or deficit) is to derive figures relating to Government borrowing requirements (or debt repayment possibilities). A budget deficit may be financed not only by Treasury (or agency) borrowing, but also by reducing Treasury cash balances, by allowing unpaid liabilities to increase, or certain equivalent transactions. Conversely, a budget surplus is likely to be used primarily to repay borrowing or to build up cash balances.

Given the importance of the relationship between budget totals and Treasury financing needs, the Commission believes this relationship should be given somewhat greater prominence than in the present budget presentation: Therefore, the Commission recommends:

The budget document should present, in a prominent place, a “means of financing” statement explaining the major ways in which a budget deficit is financed or a budget surplus used. The key figures from this statement should also be included in a “means of financing” section of the budget summary, along with appropriations, receipts, expenditures, and surplus or deficit.

The terms “public debt” and “Federal securities” at present have several alternative definitions, with various categories of obligations included or excluded. As a means of reducing confusion, primary attention should be given to a concept of Federal Government (public debt) and Federal agency obligations consistent with the recommended definitions of Federal budget receipts and expenditures. Therefore:

The Commission recommends, in the presentation of figures on Federal borrowing, a debt concept that is consistent with the definitions of budget receipts and expenditures spelled out elsewhere in this Report. Basically, added to the present concept of public debt would be securities issued by those Federal agencies whose receipts and expenditures are part of the recommended new budget—producing a concept of “gross debt outstanding.” From this total Treasury and agency securities held by those same Federal agencies and by Federal trust funds would be deducted. The new net concept may be referred to as “Federal securities held by the public,” with changes referred to as “net Federal borrowing from the public.” Figures on both these new concepts should appear in the budget summary.
The Commission does not wish to endorse a public debt ceiling as a means of controlling the budget. However:

*The Commission suggests that the executive branch may wish to recommend that statutory limits on Federal borrowing be re-examined with the above-mentioned debt concepts in mind.*

**Means of Financing Budget Deficits**

The different ways in which budget deficits are financed have considerable economic significance.

*Borrowing and changes in cash balances*

Over a span of history, the budget deficit of the U.S. Government has been financed almost entirely by borrowing. The cumulative administrative budget deficit since 1789 is approximately equal to the public debt outstanding today. For any given month or year, however, methods of financing other than borrowing can assume major importance. There have been some years when the Treasury was able to limit its borrowing activity by drawing down cash balances which were unusually large at the beginning of the year. There have been other years when the reverse was true, in which Treasury borrowing exceeded the administrative budget deficit, resulting in a sizable increase in cash balances. In the fiscal year 1946, for an extreme example, half of the administrative budget deficit of $20.7 billion was financed by drawing down Treasury cash balances. In the following year, an administrative budget surplus of $0.8 billion was accompanied by an $11.5 billion decline in public debt, as cash balances were reduced further. More recently, in the year ended June 30, 1967, the administrative budget deficit was financed less than two-thirds by borrowing and more than one-third by a cash balance reduction of $4.6 billion. In addition, although they are relatively much less significant than changes in Treasury cash balances, the means of financing also include changes in cash held outside the Treasury by those agencies included in the coverage of the budget.

*Seigniorage*

A budget deficit may also be financed to some extent by seigniorage. Seigniorage represents the Government’s “profits” on coinage operations, i.e., the monetary value of coins less what it costs the Government to acquire the raw materials. Seigniorage is treated as a revenue in the present administrative budget, since it increases cash balances without increasing liabilities. It is, however, excluded from the consolidated cash budget and the Federal sector of the national income accounts and in effect it is a means of financing the consolidated cash budget deficit. The Commission recommends treating seigniorage as a means of financing rather than as budget receipts. Seigniorage does not involve a transaction with the public, and
grows out of the exercise of the Federal Government's sovereign powers to create money, essentially equivalent in character to the issuance of bank notes (which happens to be a function of the central bank, rather than the Treasury, in the United States, but which could easily be done by the Treasury). Such profits, though small in dollar amount in most years, amounted to more than $800 million in the fiscal year 1967—primarily as a result of the recent substitution of less expensive metals for silver in the Government's coins and increased coin production to overcome shortages.

Changes in accounts payable and receivable

In the budget presentation recommended by the Commission, certain additional financing items become important. These relate to changes in accounts payable and accounts receivable arising from the accrual basis for stating expenditures and receipts. If the Government has unpaid liabilities to defense contractors, for example, these are a means of financing without borrowing or reducing cash balances. On the other hand, some individuals or firms may receive prepayments or advances from the Federal Government, and these "receivables" are appropriate offsets to accounts payable in computing that particular financing item.

Finally, when receipts (notably corporation income taxes) are recorded in the budget on an accrual rather than a collections basis, as recommended by the Commission, changes in taxes receivable can also become an important new financing item.

Knowing whether a deficit has been financed by borrowing outside the banking system (which has the effect of reducing cash in the hands of the public) or by seigniorage or by a decrease in Treasury cash (which have no such effect) is significant. It is at least as important in interpreting budget results as knowing, for example, whether an expenditure increase has been for purchases of goods and services rather than transfer payments or whether a revenue increase is due to the individual rather than the corporation income tax. The Commission considers the varying economic significance of these different types of financing sufficiently important to warrant more prominence in the budget than at present, although all of the data need not be in the initial budget summary table. They are now shown at a later point in the budget document, but not as fully as is here recommended.

In addition to its recommendation that a means of financing statement include data on net borrowing from the public, changes in cash balances, seigniorage, and changes in receivables and payables, the Commission also urges that a simple breakdown of net Federal borrowing from the public be published in the budget document for past years. The Commission recommends specifically that the means of financing statement show the year-to-year change in Federal securities held by the public as among (1) Federal Reserve banks, (2) commercial banks, and (3) nonbank investors. The economic consequences of these three types of borrowing are quite different.
Borrowing from nonbank investors is a direct diversion of private purchasing power from the public to the Treasury. On the other hand, increases in Federal securities held by the Federal Reserve banks may permit an expansion of the money supply rather than siphoning off existing money. Under certain circumstances commercial bank holdings of Government securities may also be a direct reflection of Federal Reserve control over member bank reserves.

In making its recommendation that a breakdown of borrowing be prepared for past years only, the Commission recognizes that it is not presently feasible for the budget to carry portfolio forecasts for Federal Reserve banks, commercial banks, or nonbank investors for future years.

DEFINITION OF FEDERAL SECURITIES

The Commission points out that a new definition of Federal securities follows naturally from its recommended calculation of the budget deficit or surplus. Compared to present concepts, the appropriate Federal securities concept would include all securities now classified in "Treasury public debt and guaranteed obligations outstanding," with two exceptions. First, the $20 million of stadium bonds issued by the District of Columbia Armory Board should be excluded. This exclusion follows logically from the Commission's recommendation that the District of Columbia be considered for budget purposes as a unit of State or local government rather than as a part of the Federal Government. Second, noninterest-bearing notes issued by the Treasury to international organizations in recognition of United States Government subscription commitments should be excluded ($3.8 billion as of June 30, 1966), by substituting a nondebt form of documenting the obligation. This is consistent with the Commission's recommendations in Chapter 3 that transactions with the International Monetary Fund not be included in budget receipts and expenditures and that subscriptions to other international organizations be included in the budget only when cash is actually paid.

On the other hand, the means of financing statement and debt outstanding should be expanded to encompass all securities issued by those Federal agencies which are reflected in the definition of budget receipts and expenditures in Chapter 3. The present concept of public debt and obligations guaranteed by the United States (which already includes Federal agency

1 This concept has achieved widespread usage under various other titles such as "Federal securities" (Treasury), "U.S. Government debt" or "U.S. Government obligations" (Council of Economic Advisers), and "U.S. Government securities" or "Direct and fully guaranteed securities" (Federal Reserve). This proliferation of different names for approximately the same concept is an example of unnecessary confusion of terms in Federal financial reporting.

2 These are securities issued by Government agencies and guaranteed by the Government fully as to payment of principal and interest, and are not to be confused with privately made loans guaranteed or insured under Government agency programs.
issues in the form of Federal Housing Administration debentures) should be expanded to include securities issued by the following Federal agencies: Tennessee Valley Authority, Commodity Credit Corporation, and Export-Import Bank, which are wholly-owned corporations or agencies; and Federal intermediate credit banks, banks for cooperatives, and Federal National Mortgage Association secondary market operations, which are mixed-ownership agencies. The Federal home loan banks and Federal land banks, which are excluded from the recommended new budget would also be excluded from the means of financing section but their security issues should be shown as memorandum items.

As discussed in Chapter 5, borrowing by Federal agencies should be defined to include the sale of participation certificates as well as regular agency bonds, notes, and debentures. None of these securities of agencies to be added is literally a direct obligation of the United States Treasury. The agencies vary slightly in the extent of their call upon the Treasury if they should need help. Nevertheless, inclusion of these issues in the means of financing section of the budget is appropriate under the definitions of total budget receipts and expenditures spelled out elsewhere in this report. Moreover, from the standpoint of the financial community and investors throughout the country there is very little practical difference observable in the market behavior of the securities of these various agencies—either with regard to the title which the security bears, the nature and extent of its collateral, or the extent of its implied Federal Government backing. On June 30, 1966, outstanding securities of these agencies totaled $11 billion and the total is expected to reach almost $23 billion by June 30, 1968.

Inclusion in a single concept of (1) direct public debt issued by the Treasury, (2) securities issued by certain Federal agencies and guaranteed by the United States Government, and (3) securities issued by other Federal agencies and not guaranteed by the United States Government, should not, of course, be interpreted as changing in any way the basic character, terms, or conditions of the underlying debt instruments.

The unified budget recommended by the Commission entails the elimination of all intragovernmental transactions among different funds and agencies included in that budget. Thus the Commission's recommendations point to the exclusion from the definition of Federal securities held by the public the holdings of all such securities by any Government account, trust fund, or agency whose receipts and expenditures are included in the budget. Although the majority of such securities represent special issues sold only to the trust fund or agency involved, the trust funds and agencies also hold about $15 billion of Treasury marketable and nonmarketable issues identical to those held by the general public.

The Commission wishes to reiterate the important point made in Chapter 3 that its decision to include the trust funds in the total budget—and there-
fore to exclude intragovernmental transactions such as changes in investments—in no way breaches the integrity or financial structure of individual trust funds or agencies. Each fund or agency would continue to show its full array of income and outgo, investments (including Federal securities held), other assets, and liabilities.

The Commission’s recommendations lead to figures on Federal Government and Federal agency securities held by the public (the Commission prefers shortening this term to Federal securities held by the public), as shown in Table 3, totaling $262.7 billion at the end of the fiscal year 1966, compared with the present total of public debt and guaranteed obligations as of that same date of $320.4 billion. Federal securities held by the public would grow to $275.6 billion as of June 30, 1968, under the budget estimates made in January 1967.

The budget summary should show a statement of Federal securities outstanding in the hands of the public at the end of each year. It would be useful if this information could be shown separately in the budget document for (1) public debt and (2) Federal agency borrowing (including participation certificates). This should be helpful to both the Congress and the public in their interpretation of the financing implications of the budget.

The Commission’s definition of debt excludes Federal loan insurance and guarantee programs. As outlined in Chapter 5, the extension of private credit, even though backed by a guarantee or insurance program, cannot be treated as either an expenditure or a borrowing by the Federal Government or its agencies. These are therefore outside the recommended concepts of the Federal budget and the Federal debt.

Data on guaranteed and insured loans outstanding are now spelled out in some detail in Special Analysis E released with the budget. These loans are now three times the volume of direct Federal loans outstanding in the loan account recommended by the Commission, and should be recognized in any comprehensive statement of Federal Government financial activities. The Commission recommends that the budget summary include figures on total outstanding guaranteed and insured loans, in addition to the figures on total direct loans, and on Federal securities held by the public.

THE PUBLIC DEBT LIMIT

Since the statutory public debt limit is likely to continue to be used by the Congress, the Commission suggests that the executive branch may wish to ask that consideration be given to changes that will make the debt limit consistent with the Federal budget concepts herein recommended.¹

¹ While they do not, of course, have any objection to the Commission’s suggestion that the executive branch may wish to recommend that the structure of the statutory public debt limit be re-examined in the light of the Commission’s proposed new budget and debt concepts, the congressional members of the Commission would not want to be understood as now subscribing to the thought of any change in the overall debt limit in advance of careful study by the appropriate committees of the Congress.
The Commission's recommendations revising the concept of the budget deficit and the parallel revision of debt concepts have a bearing on the structure of the debt limit. The Commission points out that a debt limit which is parallel in structure to the new concept of Federal securities held by the public will make it possible for the Secretary of the Treasury and the Budget Director to relate their Congressional debt limit testimony to the recommended concept of budget receipts, expenditures, and deficit much more understandably. The administrative budget has traditionally and necessarily dominated debt limit hearings, regardless of which budget concept the President has emphasized in January. This has been one of the more confusing aspects of budget presentation.

In reviewing the debt limit structure, the Commission is hopeful that the definition of the public debt subject to limit can be set up in a manner consistent with recommendations in this chapter and outlined in Table 3, which shows both gross debt outstanding and debt held by the public. There could be an advantage in separating the two basic types of Federal securities for debt limit purposes since they have a different legal basis of issuance and the degree of Treasury control varies. The public debt limit could be confined simply to direct borrowing by the U.S. Treasury, with another limit reflecting Federal agency borrowing. (The Commission has suggested, in Chapter 5, the closer surveillance of the Government guaranteed and insured loan programs, which do not directly affect the debt.)

The Commission notes that the concept of what the Congress has seen fit to include in the debt limit has undergone substantial revision over the years. It has moved from individual issues to classes of securities, from classes of securities to overall public debt, to inclusion of those Federal agency obligations guaranteed by the Government as to principal and interest, and to a redefinition of savings bonds from face to current redemption value. A further revision now seems logical in line with the Commission's recommendations on concepts of the budget and Federal securities held by the public.
TABLE 3.—Reconciliation of various major concepts of Federal borrowing
[In billions of dollars]

<table>
<thead>
<tr>
<th></th>
<th>As of June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1966 actual</td>
</tr>
<tr>
<td>1. Present debt concepts:</td>
<td></td>
</tr>
<tr>
<td>A. Public debt</td>
<td>319.9</td>
</tr>
<tr>
<td>Plus guaranteed obligations</td>
<td>.5</td>
</tr>
<tr>
<td>B. Federal securities (public debt and guaranteed obligations).</td>
<td>320.4</td>
</tr>
<tr>
<td>Less pre-1917 debt not subject to limit</td>
<td>.3</td>
</tr>
<tr>
<td>C. Debt subject to limit</td>
<td>320.1</td>
</tr>
<tr>
<td>2. Development of new debt concepts:</td>
<td></td>
</tr>
<tr>
<td>A. Public debt (1-A above)</td>
<td>319.9</td>
</tr>
<tr>
<td>Less noninterest bearing notes to international organizations.</td>
<td>3.8</td>
</tr>
<tr>
<td>Gross public debt (revised)</td>
<td>316.1</td>
</tr>
<tr>
<td>Less holdings by Federal agencies and trust funds.</td>
<td>64.3</td>
</tr>
<tr>
<td>Public debt held by the public</td>
<td>251.7</td>
</tr>
<tr>
<td>B. Plus: Federal agency securities:</td>
<td></td>
</tr>
<tr>
<td>Bonds, notes, and debentures</td>
<td>7.7</td>
</tr>
<tr>
<td>Participation certificates</td>
<td>3.5</td>
</tr>
<tr>
<td>Gross Federal agency debt</td>
<td>11.2</td>
</tr>
<tr>
<td>Less holdings by Federal agencies and trust funds.</td>
<td>.2</td>
</tr>
<tr>
<td>Federal agency debt held by public</td>
<td>11.0</td>
</tr>
<tr>
<td>C. Equals: Federal securities (recommended concept):</td>
<td></td>
</tr>
<tr>
<td>Gross Federal debt</td>
<td>327.2</td>
</tr>
<tr>
<td>Less holdings by Federal agencies and trust funds.</td>
<td>64.5</td>
</tr>
<tr>
<td>Federal securities held by the public</td>
<td>262.7</td>
</tr>
<tr>
<td><strong>Memorandum:</strong> Federal land bank and Federal home loan bank securities held by the public.</td>
<td>10.4</td>
</tr>
</tbody>
</table>
CHAPTER 7

OFFSETTING RECEIPTS AGAINST EXPENDITURES

The consolidated cash budget expenditures estimated for fiscal year 1968 include $2 1/2 billion of net expenditures for public enterprises, trust enterprises, and Government-sponsored enterprises—while in fact these entities had gross expenditures to the public of $35 1/2 billion. The difference represents $33 billion of receipts from the public which are treated as negative expenditures, rather than positive receipts, in the budget totals, because the grossing and netting rules are based on fund structures. This practice, of course, does not affect the budget surplus or deficit, since overall revenues and expenditures are reduced by equal amounts. It has been frequently suggested that these receipts should be included in the budget as positive receipts rather than as negative expenditures.

In addition to receipts of the entities referred to above, the budget for 1968 shows $9.8 billion of nontax miscellaneous receipts of budget and trust funds. Many of these miscellaneous receipts are similar in character to earmarked or enterprise receipts which are treated net in the budget. It has been argued that a number of these miscellaneous receipts should also be treated as negative expenditures.

Criticism of present netting and grossing practices has come from many different sources. One argument heard is that offsetting receipts against expenditures underestimates the total impact of Government on the economy. It is also argued that a net treatment conceals important information: that is, that a gross presentation would permit the user to gross or net as he sees fit, whereas it may be difficult to reconstruct gross receipts and expenditures if only the net is reported.

Others point out, however, that presenting overall Federal receipts and expenditures on a gross basis—including all transactions between the Government and the public—would give an exaggerated view of the Government’s role in the economy. For example, the Federal intermediate credit banks are scheduled in the 1968 budget to issue and redeem nearly $8 billion of relatively short-term credit within the year. Inclusion in budget receipts and expenditures of such amounts on a gross basis would clearly give an inflated picture of real Government activity. Further, it is argued that for enterprise-type activities, a net basis of reporting is more significant as a measure of the extent to which general taxpayers are contributing to operating deficits of the enterprises. A good example is the
Post Office, where the shortfall of postal receipts and the resulting call on
general revenues to finance the postal deficit are of interest to the public.

Finally, criticism has been leveled for many years, not so much at net-
ting or grossing per se, but at changes in practice over time and at incon-
sistencies at any one point in time—many of which stem from legislative
provisions.

The Commission finds merit in each of these points of view. After weigh-
ing several alternatives, the Commission recommends that:

• The main summary statement of budget receipts and expenditures
should be prepared on a consistent and on a fairly net basis, treating like
transactions alike and changing practices only when necessary.

• For purposes of summary budget totals, receipts from activities which
are essentially governmental in character, involving regulation or com-
pulsion, should be reported as receipts. But receipts associated with activi-
ties which are operated as business-type enterprises, or which are market-
oriented in character, should be included as offsets to the expenditures to
which they relate.

• Additional summary information on gross enterprise transactions
should also be included in the budget document—more prominently than
now, but not as a measure competing with the main summary budget
totals.

Rules recommended by the Commission

In the Commission’s view, the following categories of receipts which
come to the Federal Government are basically “governmental” in char-
acter, and should continue to be treated as budget receipts:

Income, excise, franchise, and employment taxes;
Customs;
Social insurance premiums;
Patent and copyright fees;
Immigration, passport, and consular fees;
Registration and filing fees associated with regulatory activities;
Judiciary fees;
Gifts and contributions; and
Payments of Federal Reserve System excess earnings to the Treasury.

On the other hand, the following categories of receipts are more logically
incorporated in budget totals as offsets to expenditures:

Receipts of Government enterprises and enterprise funds;
Permits and fees;
Hunting and grazing licenses and fees;
Interest, dividends, rents, and royalties;
Sales of products;
Fees and charges for services and benefits of a voluntary character; Sales of Government property; Repayments of loans and advances; and Recoveries and refunds of earlier expenditures.

The rules recommended by the Commission for the budget totals involve slightly more netting than in the present administrative or consolidated cash budgets, coming somewhat closer in this respect to the treatment in the Federal sector of the national income accounts. The Commission points out that the details of gross receipts and expenditures are generally available already on an enterprise-by-enterprise basis in the budget Appendix, and that Special Analysis B in the budget document presents alternative budget totals on a very gross basis. Therefore, the Commission does not believe that disclosure itself is a compelling argument for preparing the main statement of overall budget receipts and expenditures on a gross rather than a net basis, so long as both the Appendix and Special Analysis B continue to be made available at the same time as the budget message. The Commission does recommend, however, other more prominent information on gross government enterprise activity, perhaps by the addition of a summary table to Part 2 of the budget document, or by gross figures on selected major enterprises such as the Post Office and Commodity Credit Corporation in the functional narratives in Part 4 of the budget document.

The Commission also strongly endorses the cost basis for describing government operations in the budget Appendix, and urges continued refinement of these accounts to record full costs, including imputed interest on capital invested in the activities and depreciation charges. Along the same lines, the Commission endorses and encourages the use of modern business decision-making and control techniques, now widely used in private industry, in the management of all Government agencies.

**REASONS FOR THE COMMISSION'S RECOMMENDATIONS**

The recommended rules have the advantage that receipt and expenditure totals so stated present a fair picture of the extent to which Federal financial activities can reasonably be interpreted as governmental in character. In addition to reasons indicated below, these procedures more logically express government expenditures as a rough measure of the proportion of total national production which is allocated and distributed through collective choice rather than private choice and the market mechanism.

**Role of government in the economy**

A principal difference between government activity and private enterprise is that the government supplies services free of charge, covering the cost of governmental services, for the most part, by exercise of its sovereign
powers to levy taxes, to borrow, and to create new money. The budget totals of expenditures or revenues tend to be interpreted, therefore, as a rough measure of the volume of economic activity allocated through collective political choice, rather than through the standard that the use of services requires payment of a price. The budget totals for this essentially government sector should, therefore, insofar as possible, reflect the size of this nonmarket, nonpricing allocative mechanism which can then be compared with the size of the market sector where consumers pay a price instead of a tax.

Governments do operate business-type enterprises. The Post Office is an example. But to mix in with tax revenue the receipts which are prices paid for a purchased service or product would blur analysis of the relative size of nonmarket economic activity. Services paid for by purchasing stamps are subject for the most part to the discipline of the marketplace. Of course, to the degree that the prices of a government enterprise are too low to cover costs completely, the Government is supplying a service free of charge. This part of the cost of the service should, then, be added to the cost of such things as fire protection or public health, to give a total of the free service supplied by government on a collective basis, and financed by use of its sovereign powers to obtain general revenues. This is why the Commission recommends that the net deficit of the Post Office, for example, be included in the budget totals.

The totals of government revenues and expenditures defined in this way will make it possible to express government expenditures as a proportion of total gross national product (GNP) with less inconsistency and double counting than otherwise. Consumer expenditure is one of the elements of GNP; services supplied by the Government are another. Purchase of postage stamps by consumers is included in GNP as a consumer expenditure. To include, in effect, the total cost of operating the postal service in government receipts would be double counting. While it is difficult to avoid all double counting, the Commission's recommendations will help to minimize the problem.

**Improvements over present treatment**

The Commission has also been influenced in reaching its recommendations by (1) the need for greater consistency in the degree of netting and grossing, and (2) the need for improving public understanding of, and confidence in, the budget totals.

At present, receipts from the public are netted against expenditures only if there is specific legislative authority which permits the receipts to be applied to the financing of the activities which give rise to those receipts. Receipts coming into the general fund which are not permitted by law to be used for the financing of specific expenditure activities are always treated gross. This gives rise to certain anomalies. For example, most interest receipts and loan repayments are credited to public enterprise funds, where
they become, in effect, negative expenditures. However, nearly $500 million of interest receipts and loan repayments from the public are counted as miscellaneous budget receipts rather than negative expenditures, even though some of these receipts are associated with continuing programs. Receipts from sales of surplus metals and materials from the stockpiles of strategic and critical materials are treated as budget receipts because no revolving (enterprise) fund was established for them. Yet sales of the same or similar commodities from Defense Production Act stockpiles are treated as negative expenditures. Receipts from the sale of power generated by government plants are also treated differently, depending on the law governing the agency involved.

The present rule of having activities enter the budget totals on a gross or net basis depending on whether or not there is a law authorizing an enterprise or revolving fund also means that, whenever the fund structure changes, a comparison of the level of expenditures from one year to the next is distorted. Legal funding and accounting requirements may sometimes be at variance with the underlying character of transactions for perfectly sound management and accounting reasons. For example, interest and repayments on loans to some borrowers may properly be taken into the general fund where there is no continuing program of extending new loans of the same kind. On the other hand, revolving funds are sometimes established for otherwise comparable but continuing loan programs for which the Congress has desired to make interest receipts and repayments available for financing new loan extensions. Then again, some Administration recommendations for revolving funds for continuing programs, such as Rural Electrification Administration loans, have not received legislative approval, for reasons quite apart from overall budget concepts. Obviously, these varying funding structures produce inconsistencies vis-a-vis other similar programs which are netted in the budget totals because they are funded through revolving funds.

The Commission believes that transactions of a similar character should be treated similarly in the preparation of budget totals, and consistently over a period of time. Changes in the accounting fund structure should continue to be undertaken solely on their merits as leading to improvements in program management or accountability, with the choice not influenced one way or another by resulting changes in budget totals. A relatively net basis for stating budget totals would have the additional advantage of eliminating further opportunities to net receipts against expenditures under proposed legislation, which, rightly or wrongly, has sometimes been criticized as "gimmickry."

For these reasons, the Commission attaches considerable importance to its recommendation that budget totals follow consistent rules based on the character of the transactions—as distinguished from the technical characteristics of the funding mechanism.
The Commission is not aware of any significant category of public enterprise receipts now netted against expenditures which should be treated gross according to its criterion. However, if closer study should reveal such circumstances, the Commission would recommend that such receipts be treated as receipts rather than negative expenditures in arriving at overall budget totals.

IMPLEMENTATION

To prepare budget totals consistently, based on the character of the transactions, it is necessary to depart from the present rule of offsetting receipts against related expenditures only where the receipts are legally available to finance those expenditures.

However, the Commission opposes making new ad hoc determinations of which receipts are governmental and which are market-oriented every year. On the contrary, its recommendation is for a one-time change in principle involving budget totals for past as well as current periods. Prospectively, the Commission recommends continued adherence to the new rules.

The Commission had little difficulty in preparing the lists of present miscellaneous receipts accounts which are governmental and those which are market-oriented, once it agreed on the criterion it wished to recommend. Thus, it does not foresee any difficulties or ambiguities in trying to implement its recommendation.

The question to be asked in any borderline case is whether the fee or levy or price charged has the primary purpose of channeling the private demand for, and use of, valuable resources or materials which happen to be owned by the Government. If the receipts are market-oriented or result from the operation of business-type enterprises, and are therefore not peculiarly governmental in character, such receipts should be netted against related expenditures—and should not be shown as receipts in summary budget totals.

By contrast, taxes designed to raise revenues for the Government, or fees which are only incidental to Government regulatory activities, are governmental in character and should be treated gross. Similarly, even though the Government may charge a fee or excise payment in certain cases in which the proceeds are earmarked for specific purposes, a gross treatment of such receipts in the budget summaries may nonetheless be appropriate if the Government retains total allocative authority over the expenditures made from the earmarked collections.

Some contrasting examples will explain the Commission's criteria more fully:

In the case of the Post Office Department, a price is charged for stamps. Each user of stamps determines how many he will buy and for what purposes. The taxpayer pays for the services on a product-by-product basis. It seems
clear that the selling price of the stamps should be offset against the Federal costs of providing the postal service. However, the net cost to the Government of postal services is an assessment of sorts on general taxpayers and the net expenditures of the Department are therefore properly classified as a cost of Government in budget totals.

A different treatment is indicated, however, in the exercise of the Government's sovereign tax powers for the collection of highway excise taxes. The proceeds of such tax collections are earmarked for highway construction. Even though the taxpayer may regard such excise taxes as a "price for services rendered," the individual taxpayer's contributions are not in any direct way related to the particular highway services provided by the Government. The Federal Government retains complete allocative authority over the collected taxes and the taxpayer may never use the resource constructed or provided by the Government out of the highway excise taxes earmarked for the general purposes of highway construction. Accordingly, the collection of highway excise taxes and the expenditures for highway construction should not be netted in the budget.

By contrast, landing fees at the National Capital airports (operated by the Federal Government) and occasional landing fees at defense installations are market-oriented; their function is to reimburse costs, rather than to accomplish the broader purposes of regulation.

There is no present legislative prohibition against the President making these recommended changes on his own initiative. To do so would be essentially comparable to the change in the budget treatment of refunds of taxes, which since 1948 have been presented as deductions from receipts (quite properly in the Commission's view) rather than as expenditures. In this case, there is no legislative requirement for one treatment or the other, in spite of the fact that such refunds are appropriated much as though they were expenditures.

To institute these changes on an agreed basis, it may be appropriate for the Treasury, the Bureau of the Budget, and the General Accounting Office to agree explicitly on the once-for-all changes to be made. The items proposed for differing treatments by the Commission are, and will continue to be, separate accounts with the same degree of accounting support as at present.

It is worth stressing that the Commission's recommendations do not in any way alter present funding or appropriation arrangements at the detailed program level. Nor does the Commission wish to prejudice future choices with respect to whether certain activities should be financed by earmarked receipts rather than appropriations from the general fund, or vice versa. In each case, the Congress should continue to make these decisions on the merits of the particular case.

It will be noted that, with one exception discussed below, changes which would be made under the Commission's criterion would reduce total receipts
and expenditures. Since the Commission specifically recommends that the changes be made retroactively in the budget totals of past years as well as for current and future years, there will be no confusion involved in such a one-time reduction in budget totals. In fact, year-to-year comparisons of budget totals on the revised basis would have a consistency and a significance they do not now have.

Finally, the Commission's recommendations do not in any way affect the manner in which transactions of the industrial, revolving, and stock funds are handled. The budget totals would continue to include the net transactions of these funds with the public, while intragovernmental transactions would be eliminated.

Employee retirement contributions

There is one significant category of receipts that is now excluded from both receipts and expenditures which the Commission recommends treating on a gross basis. This category represents deductions from the salaries of Government employees for contributions to employee retirement trust funds.

...While no cash actually changes hands, this type of transaction involves constructive receipts and payments and should be so treated in the budget. This proposed treatment is comparable to the present cash budget treatment of a number of similar transactions, such as veterans' life insurance premiums for Federal employees who are veterans, income tax withholding from Federal employees, and the social security withholding from certain classes of Federal employees.

EFFECT OF THE COMMISSION'S RECOMMENDATIONS

As pointed out previously, the issue of netting and grossing is not one which affects the budget surplus or deficit but only the level of both receipts and expenditures. The recommendations made above would reduce both receipts and expenditures by approximately $3 billion per year compared with the present consolidated cash budget, as indicated in Table 4. Approximately $4 billion would be deducted from receipts by netting stockpile sales and sales of other Government property, loan repayments, and other earnings which have a business-type enterprise or market orientation. These reductions would be partially offset by the proposed change in treating employee retirement contributions on a gross basis, which would add over $1 billion to estimated receipts and expenditures in each year shown.
Table 4.—Effect on the budget of netting and grossing changes recommended by the Commission (compared to present consolidated cash budget)

[Fiscal years. In billions of dollars]

<table>
<thead>
<tr>
<th>Administrative budget receipts which would be netted against expenditures:</th>
<th>1966 actual</th>
<th>1967 estimate</th>
<th>1968 estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of Government property (mostly stockpiles of strategic and critical materials)</td>
<td>-0.9</td>
<td>-0.9</td>
<td>-1.0</td>
</tr>
<tr>
<td>Other market-oriented receipts</td>
<td>-1.7</td>
<td>-1.9</td>
<td>-1.7</td>
</tr>
<tr>
<td>Trust fund receipts which would be netted against expenditures (military assistance advances)</td>
<td>-0.7</td>
<td>-1.1</td>
<td>-1.4</td>
</tr>
<tr>
<td>Employee retirement contributions which would be added to receipts and expenditures</td>
<td>+1.1</td>
<td>+1.1</td>
<td>+1.1</td>
</tr>
</tbody>
</table>

**Total effect on both receipts and expenditures**

<table>
<thead>
<tr>
<th>1966 actual</th>
<th>1967 estimate</th>
<th>1968 estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2.2</td>
<td>-2.8</td>
<td>-3.0</td>
</tr>
</tbody>
</table>
Chapter 8

Public Information about the Budget

The budget plays a vital role in the American democratic process. It is therefore essential that the public receive full and timely budget information, presented in a way that is readily comprehensible to all citizens who want to know what their Government is doing and proposing to do.

Serving the informational needs of the public is an extremely difficult task, given the enormous size and complexity of the Federal Government. Nevertheless, the Commission believes that the budget can be made the focus of a significantly improved information system between the Government and the public—not only at the time the President’s annual budget proposals are transmitted to the Congress, but throughout the year.

"The Nation needs a continuous picture of the changing activities and policies of the Federal Government, the largest single element in our national economy. The improvements needed are:

• A unified budget concept, as described in Chapter 1, to replace the three or more that presently receive prominence;
• Updating of the budget estimates while the budget is under consideration, and afterwards within the year, to reflect congressional action and other changing circumstances;
• Some part-yearly breakdown of the aggregate budget estimates for the current and coming year;
• More information on budget prospects beyond the immediate budget year; and
• Some streamlining and refinement of the budget Appendix.

Public understanding of the recommended budget concept

The Commission’s discussions with representatives of the press and other well-informed persons have convinced it that a unified budget concept is a cornerstone for public understanding.

There are several ways in which the executive branch can direct congressional and public attention to the new budget concept. It will be essential for the executive branch itself to adhere to the unified budget concept—not only at budget submission time in January but throughout the year. For example, the charts prepared and distributed to the press each January when the budget is released will naturally use the new concept rather than the administrative budget, as they presently do. Similarly, the discussion
of the budget program by function in Part 4 of the budget document has been expanded in recent years to include trust funds as well as the administrative budget funds, but these have been kept distinct and separate. Consistent with the new unified concept, Part 4 should now be more fully integrated to arrive at the functional totals on a consolidated basis. Likewise, there are passages at many points in the budget document referring to the budget meaning the administrative budget. This traditional method of presentation should also be recast now.

The frequent contacts with the financial community made by the Treasury Department as it prepares to offer new issues of Treasury securities should be conducted within the framework of the new budget concept, as should congressional testimony of administration officials on legislation relating to the public debt.

It is worth stressing that the publication, *The Budget in Brief*, plays a most important role in communicating the significant facts about the budget to the public. It is the document that many Members of Congress, under pressure of time, lean on heavily in gaining their first impressions about the new budget. And it is read by a far larger number of the general public than the budget document itself. Therefore, it is important that *The Budget in Brief* be consistent in concepts and emphasis with the budget itself and point up the aspects of the budget most worthy of public note.

By attention to such aspects of budget presentation, a very substantial improvement in public understanding can be brought about through executive branch leadership. The presentation of the next budget following the adoption of the Commission’s recommendations should start the process of public education to the new concepts and the executive branch should aim to clarify these concepts further both in its formal congressional presentation and in its January budget seminars and other dealings with the press. Press representatives have expressed their belief that Government agencies, in their individual press seminars or briefings, should use the same budget concepts as the Bureau of the Budget and the Treasury Department in their joint seminar, although the type of inquiry made by the press necessarily requires the use of agency accounting data which go into greater detail than the overall budget totals. The Commission favors a study by the executive branch of other methods of increasing public understanding of the budget.

*Keeping budget information current*

But the task of improving public understanding and informed use of budget information cannot be accomplished by a single seminar or set of seminars in January when the budget for the following fiscal year is first presented. The press and public (including such special groups within the public as economists, security analysts, business organizations, labor unions, taxpayer organizations, farm organizations, and financial institutions) require information throughout the year on how Government pro-
grams and financial activities are actually developing. It is particularly important that major changes in appropriations, expenditures, receipts, and government financial requirements be communicated in a timely way to the public. The efficient and sensitive functioning of a free economy depends significantly on public understanding of and responses to the activities of government.

The present budget information system can be improved in a number of ways:

• First, it would be highly useful if the executive branch would, in conjunction with the annual budget presentation, present estimates of aggregate budget expenditures and receipts, and surpluses or deficits, broken into quarterly or semi-annual units, to facilitate economic and financial analysis. As the year develops, these estimates should be revised in conjunction with the budget revisions described below. At the same time, the Congress and other users of this information should not expect unattainable precision in such estimates, since the short-run timing of many expenditure flows is most difficult to estimate. Partisan bickering over such estimates could destroy their usefulness. These changes need not involve a complete review of individual agency programs; periodic reviews should, however, be done in a way that will keep the Congress and the public informed on major changes in budget trends.

• Second, sometime after the initial presentation of the budget in January, while Congress is still in session, the executive branch should offer to the Congress and the public revised budget estimates. These need not come at a fixed date, but should come at a point where the cumulation of political and economic factors affecting the budget make it possible to give a substantially better-informed account of the status of the budget for the new fiscal year than was possible in January when the budget was first transmitted. In addition, still later estimates should be published after Congress has completed its work and adjourned. The Midyear Review was once a fairly well-established and widely appreciated institution. The lateness of congressional adjournment, and particularly of action on appropriation requests, has made it impractical to prepare the Midyear Review in most recent years. If the lateness of the congressional adjournment date makes the workload of preparing a full Review infeasible, the accuracy and thoroughness of the estimates could be sacrificed somewhat, or the form of release modified, in the interest of getting out at least a somewhat earlier picture than the public would otherwise have in the interim before the new budget is transmitted in January. The agreement made last spring between the Bureau of the Budget and the Joint
Economic Committee to provide revised estimates twice a year should go a substantial distance toward what is required in this area of keeping budget estimates current.

- Third, to clarify the changing status of the appropriations outlook while the Committees on Appropriations and other Committees are proceeding with their work, *it would be very helpful if the Congress could arrange for periodic reports summarizing the estimated effect of congressional action on the totals of appropriations, expenditures, and revenues as shown in the President's January budget.*

The need for longer-term budget projections

Not only does the public need more up-to-date information about how the budget is shaping up but it needs a further look ahead on the way Government expenditures and tax receipts are likely to develop in future years. Many individuals and groups have urged strongly upon the Commission the need for projections of Federal finances beyond the coming year. The Congress, the press, business and research organizations, economists, and others have pointed out that inability to see the broad future consequences of current budget policies and decisions is a major present weakness in budget presentations. Several organizations, including the Joint Economic Committee, have called for five-year budget projections. The U.S. Chamber of Commerce Committee for Improving the Federal Budget has stated that "*the public should know . . . the amount of cost related to the current year but not to be expended until future years, as well as the impact on future years of both existing programs and proposed new programs.*"

It is apparent that many Government programs have larger future than current expenditure consequences which should be taken into account when they are initiated. Clearly, decisions made currently to embark on a major new military weapon program, to pursue certain objectives in space, or to accept certain Federal responsibilities in the field of education, for example, involve a commitment of future resources—and often at levels far greater than those required at the time of decision. If major decisions of collective choice such as these are to be made wisely, the public and the Congress need to have forward estimates, not only of the benefits and costs of the particular programs in question, but of the total budget of which these proposals are intended to become a part.

There is no doubt that internal long-range projections are both feasible and useful for many if not most Federal agencies. At present, Federal agencies are required to prepare and submit to the Bureau of the Budget multi-year program and financial plans as part of their regular annual budget submissions. These plans cover at least four years beyond the budget year. They can obviously be of substantial value to agency officials, both in considering their long-run objectives and in their current program management. Similarly, consideration of such plans by the President and his
Executive Office staff improves the decision-making process and should be encouraged. This is true not only for new programs under consideration, but applies as well to programs established years ago which must be regularly reevaluated in terms of current conditions and the future outlook.

Although such projections and plans clearly make good sense for the internal management of the Government, certain questions arise when we consider external publication and use of official projections, particularly if they are set forth in the document which contains the President's official budget requests for the coming year.

Those who are skeptical about publishing long-range budget projections point out that:

- Such projections are almost sure to be inaccurate, since Federal programs and tax measures change from year to year, as part of the normal political process. Distant prospects for agency programs are inevitably highly tentative. The public might not understand or accept the high degree of variability inevitable in such long-range projections, especially if they are produced by the Government itself.

- Projections made for individual programs and agencies cannot simply be added together in arriving at meaningful totals for the Government as a whole. In fact, one of the most important goals of the budget process is trying to achieve a proper balance between the most desirable total level and the always greater sum of the separate demands for funds for specific programs.

- The President should not be made to appear to commit himself years ahead to program levels on which decisions need not, and indeed should not, be irrevocably made now. It may be politically impossible to make desirable changes later, particularly to retreat to lower program levels once a higher level has been projected. Flexibility in planning is both necessary and desirable.

- Looking far ahead might reduce the desirable emphasis on current legislative issues, and unduly shift attention to debates about more distant consequences of immediately urgent matters.

- The existing workload of the Bureau of the Budget for the annual budget presentation is already staggering, and it might not be possible, even with additional manpower resources, to compile and present in a meaningful manner a well-conceived and considered projection as part of the January budget presentation in the time available after the annual budget decisions are finally made.

On balance, however, the Commission finds the case for making and publishing longer-term budget projections very persuasive. First, it recognizes that estimates for some programs are already available. Current law requires that drafts of new legislative proposals of the executive branch estimated to cost more than a million dollars a year be accompanied, when submitted to Congress, by estimated appropriation, expenditure, and per-
sonnel requirements for each of the first five years under the legislation if it were enacted. Some agencies occasionally furnish longer-run estimates of established programs also. But estimates presently available are scattered and incomplete, and outside parties, who can frequently estimate long-run revenues with tolerable accuracy, have an enormously difficult job trying to assemble a coherent forecast of expenditures for the whole Government.

Sensible decisions on tax increases and decreases depend importantly upon the relationship of the budget outlook to projected trends in the economy and on some general public and congressional understanding of what levels of total expenditure have already been committed by past decisions. Looking ahead several years should facilitate wise planning for fiscal policy to promote economic growth, and may help avoid waves of pessimism and optimism about the state of the Nation's finances that sometimes seem to plague us when there are only general feelings and no quantitative estimates of the amount of "elbow room" in the Federal budget.

The Commission recognizes that the task of making and publishing official long-range projections cannot be accomplished overnight. Yet, with time, it believes that the public will understand that longer-term projections are useful but necessarily tentative, and that the President is not, through these numerical projections, committed to supporting particular programs or acts of legislation. To be most useful, such longer-range projections should not incorporate mere guesses about decisions yet to be made, but should concentrate on (1) estimates of the future costs of present decisions, and (2) the revenues which would be forthcoming from a specified set (or sets) of economic assumptions. The difference between expenditures and revenues so calculated would indicate the magnitude of resources available for future decisions about tax reductions, expenditure increases, or debt reduction.

The Commission believes that public understanding of the longer-term outlook for Federal finances can be encouraged in various ways. This may lead up to the time—which we hope will not be far off—when official Government projections may be possible. We feel confident that these will receive public acceptance with the understandable limitations that such projections inevitably contain. Accordingly, the Commission recommends:

- **Starting in 1968, one or more respected and established private research organizations should be asked to prepare five-year projections, consistent with the President's 1969 budget recommendations and containing the income and tax revenues which would be yielded by a high employment economy.** Staff of the Bureau of the Budget should assist informally in this project if requested and as time permits. Since the research organization or organizations would take responsibility for these projections, they would involve no commitment by the President to a particular set of programs or forecasts. The projections should emphasize those future expenditure changes which flow from current decisions or projected workloads so as
to promote understanding of remaining available options for public choice. Furthermore, the projections could be made on varying assumptions. On the basis of such projections, the Joint Economic Committee might well decide to hold hearings to consider the background of the projections and their implications for the future.

- **It would also be useful if the Bureau of the Budget should itself issue at some future date, as a staff rather than a Presidential report, a special multi-year projection using ranges based on explicit assumptions and again designed to focus attention on available options.** Such a publication can be prepared without the time pressures attendant on preparation of the budget document, and periodic updateings should be planned for similar publication.

- **Meantime, there should be encouragement and extension of the practice, now followed by various Federal agencies, of preparing and publishing multi-year projections of ranges of objectives and accompanying costs.** Indeed, the preparation of such projections by agencies is an integral part of the Planning-Programming-Budgeting system. Although forward estimates may not be possible for all agencies at this time, an increase in the number for which these were available would be very helpful. Firmer Executive Office guidance should be furnished the agencies in their projection work so that their various economic assumptions will be more uniform, and the respective products more comparable. Also, future costs of new legislative proposals should be presented to the Congress in connection with hearings on such legislation as required by law.

- **As soon as is practicable, it would be highly desirable for the President to appoint a study group or commission to examine and report on long-term trends in Federal Government programs and finances.** Such a study should be regarded, not as an academic exercise, but as a guide to various alternatives facing the Nation—and as an aid and stimulus to wise decisions and timely actions. If this type of study in fact proves valuable to decision-makers and to the public, it should be repeated periodically—perhaps every five years.

We are confident that such measures will contribute significantly to greater congressional understanding of the Federal financial picture, better understanding by the public of their Government, and better public policymaking.

**Detailed information in the budget Appendix**

Although the Commission's primary assignment was to try to unify and improve the set of concepts underlying the budget, its deliberations and discussions with many users of the budget document produced a continual awareness of the mass of detailed financial information presented in the budget document and the Appendix. The preparation of this information requires an enormous amount of staff time and effort in the Executive Office.
of the President crammed into a few hectic weeks before the appearance of the budget in January. With the growing size and complexity of the budget commensurate with the growth and evolution of the Federal Government itself in the modern world, the sheer burden of producing the budget document, the *Budget in Brief*, the budget *Appendix* in all its present detail, and the variety of *Special Analyses* and supporting tables and information, all of which now appear simultaneously in January, has become a matter of serious concern. In fact, the Commission has been given to understand that it may soon become impossible to prepare the budget *Appendix* in its present form for release at the same time as the budget itself.

Most of the present *Appendix* detail owes its inclusion to needs expressed in the past by the Committees on Appropriations. Indeed, under the Budget and Accounting Procedures Act of 1950, some parts of the *Appendix* detail may not be deleted or changed without prior joint approval of these committees. In the last 17 years since this law was enacted, however, the Committees have appeared to rely more and more, in their consideration of appropriation requests, on agency justification materials which contain detailed information custom-fitted to the Committees’ specifications for the particular agency and programs under consideration. As this information has proved better suited to the Committees’ needs, they have approved changes in the material provided in the *Appendix*. In the light of recent study by the Bureau of the Budget, it seems quite possible that some of the material now contained in the *Appendix* may no longer be needed by the Committees, or could now be made available to them in some better way.

Bearing in mind, then, all these considerations, and, in addition, the fact that some of its recommendations in this report would add to the amount of work in producing the budget document and supporting material, at least temporarily, the Commission therefore urges that:

*The Director of the Bureau of the Budget should make a critical review, consulting with the Committees on Appropriations of the Congress, of the material in the budget *Appendix*, with the objectives of eliminating material which is no longer useful and minimizing the burden of producing the *Appendix* simultaneously with the budget.*

There is no doubt that failure to produce a useful and meaningful budget *Appendix* for release at approximately the time of release of the budget document would be regarded as a serious loss by Members of Congress and many outside the Government. So far as the Committees on Appropriations are concerned, their loss might be lessened to some degree by their access to detailed justification materials prepared especially for the Committees in connection with agency budget hearings. However, without the *Appendix*, other Members of Congress would have difficulty locating the details of the budget. The press, the business and financial communities, private researchers, and many interested private parties who are especially concerned
with particular portions or aspects of the budget, find the Appendix most useful. Members of the financial press have entered ardent pleas for continuation of the budget Appendix as part of the material released at the same time as the budget document.

It is the Commission's hope that the review by the Bureau of the Budget, and the cooperation of the Appropriations Committees, will result in sufficient streamlining of the information in the Appendix so that it will be possible to continue releasing it with the budget or with only minimal delay. Piecemeal appearance of the vast store of budget information contained in the Appendix, over an extended period after release of the budget document, would be a poor substitute.
Chapter 9

ILLUSTRATIVE TABLES AND RESULTS OF RECOMMENDATIONS

This Chapter presents the results of the Commission's recommendations in tabular form and compares the recommended new budget concept with the three major budget concepts currently used. The figures showing the results of the Commission's recommendations are based on the best data available and can be considered reasonable "within the ballpark" estimates. However, they cannot be considered precise. Particularly in adjusting receipts and expenditures to an accrual basis, both currently and for past years, rough estimates had to be made which will require later refinement. Moreover, as was noted in Chapter 5, further study of the data for loans and the measurement of loan subsidies will be needed. More accurate data for these and other recommendations of the Commission will require considerable work and appropriate testing before they are ready for publication as official Government figures.

Table 5

The receipts and expenditures and surplus or deficit for the three present budget concepts are shown in Table 5 as they were presented in the budget in January 1967. Principal features of these concepts are set forth below.

The administrative budget consists of receipts and expenditures of funds owned by the Federal Government. For many years, the administrative budget served as the principal financial plan for conducting the affairs of the Government (although the concept of the budget in the 1920's also included trust funds). Net loans are treated the same as other expenditures in the administrative budget. It excludes, however, the transactions of trust funds, such as social security, Federal employee retirement, unemployment insurance, and the highway trust fund. Therefore, the scope is considerably less comprehensive than the consolidated cash budget or the Federal sector of the national income accounts. For the most part, expenditures are reported on a checks-issued basis, although interest on the public debt is reported largely on an accrual basis. Expenditures for subscriptions to international lending and financial institutions include debt issued in lieu of checks.

The consolidated cash budget includes trust funds as well as the Federally owned funds included in the administrative budget. It also includes the transactions of five so-called Government-sponsored enterprises which are
not counted in the administrative budget, two of which are owned wholly by the private sector. It does not, however, include seigniorage as a receipt nor does it include debt issued in lieu of checks and accrued interest on savings bonds as expenditures, both of which are in the administrative budget. Expenditures in the cash budget are reported on the basis of checks paid rather than checks issued and, like the administrative budget, the consolidated cash budget includes loans.

The Federal sector of the national income accounts, like the consolidated cash budget, is comprehensive with respect to transactions of the trust funds. On the other hand—and this is its principal difference from the cash budget—the national income accounts (NIA) budget excludes loans and repayments of loans and other minor amounts of transactions in existing assets.

The two Government-sponsored enterprises which are now completely privately owned, the Federal land banks and the Federal home loan banks, which are included in the cash budget, are excluded from the NIA budget. The timing basis for recording receipts and expenditures is another important difference between the NIA and consolidated cash budgets. The NIA budget reports taxes (except for nonwithheld individual taxes) on an accrual basis. The NIA budget reports purchases of goods and services on either a deliveries or accrual basis and includes accrued interest on savings bonds. Compared to the consolidated cash budget, the NIA budget excludes

**Table 5.—The three present major budget concepts**

[Fiscal years. In billions of dollars]

<table>
<thead>
<tr>
<th></th>
<th>1966 actual</th>
<th>1967 estimate</th>
<th>1968 estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Administrative budget:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts</td>
<td>104.7</td>
<td>117.0</td>
<td>126.9</td>
</tr>
<tr>
<td>Expenditures</td>
<td>107.0</td>
<td>126.7</td>
<td>135.0</td>
</tr>
<tr>
<td>Surplus (+) or deficit (−)</td>
<td>−2.3</td>
<td>−9.7</td>
<td>−8.1</td>
</tr>
<tr>
<td><strong>Receipts from and payments to the public</strong>&lt;br&gt;(consolidated cash budget):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts</td>
<td>134.5</td>
<td>154.7</td>
<td>168.1</td>
</tr>
<tr>
<td>Expenditures</td>
<td>137.8</td>
<td>160.9</td>
<td>172.4</td>
</tr>
<tr>
<td>Surplus (+) or deficit (−)</td>
<td>−3.3</td>
<td>−6.2</td>
<td>−4.3</td>
</tr>
<tr>
<td><strong>Federal sector of national income accounts</strong>&lt;br&gt;(NIA budget):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts</td>
<td>132.6</td>
<td>149.8</td>
<td>167.1</td>
</tr>
<tr>
<td>Expenditures</td>
<td>132.3</td>
<td>153.6</td>
<td>169.2</td>
</tr>
<tr>
<td>Surplus (+) or deficit (−)</td>
<td>+0.3</td>
<td>−3.8</td>
<td>−2.1</td>
</tr>
</tbody>
</table>
the local receipts and expenditures of the District of Columbia, and treats both employer and employee contributions to retirement funds on a gross basis.

Table 6

The main features of the new budget as recommended by the Commission have been explained in Chapter 1. Table 6 presents in summary form how the new budget might be presented at the beginning of the President's annual budget message. Supplemental Tables 6A through 6D present supporting material which should appear prominently in the budget document. Table 6 uses the President's requests and recommendations of last January for fiscal 1968 as a point of departure, adjusting them only for the various changes in budget concepts recommended by the Commission.

The recommended structure of the President's budget and financial plan consists of four parts:

First—**Budget appropriations**, divided between appropriations requiring action by the Congress and appropriations available as a result of past congressional action. This highlighting of appropriations is in keeping with the Commission's recommendation for greater attention to appropriations in the President's budget presentation than in recent years. As indicated in Chapter 2, the Commission is recommending that the term *appropriations* be redefined to include all forms of authority to obligate the Government to make expenditures, i.e., to replace the current term *new obligational authority*. Accordingly, *appropriations* would henceforth include contract authorizations and authorizations to spend debt receipts and would exclude appropriations to liquidate contract authorizations.

Second—**Budget receipts, expenditures, and net lending.** By distinguishing between loans and other expenditures, the recommended budget is intended to combine the best features of the present cash and NIA budgets. The surplus or deficit in the receipt-expenditure account—not including loans—has primary significance as a measure of the economic impact of the budget, while the overall budget totals, including the total of expenditures and net lending, reflects the whole range of Government activities on which the President is making requests and recommendations to the Congress and the total surplus or deficit shows the amount which has to be financed.

Third—**Means of financing the budget deficit,** or, conversely, disposition of the budget surplus.

Fourth—In addition, information would be shown as to *outstanding amounts of gross and net Federal borrowing and loans* under both direct and guaranteed or insured loan programs.

Each of the major categories summarized in Table 6 is expanded in Tables 6A through 6D. It would be desirable if the information in these tables were presented either in the President's budget message, or in the numbered summary tables immediately following the budget message itself.
### Table 6.—Recommended summary of the President’s budget and financial plan

[Fiscal years. In billions of dollars]

<table>
<thead>
<tr>
<th></th>
<th>1966 actual</th>
<th>1967 estimate</th>
<th>1968 estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Appropriations</strong> (tables 6A and 6B):**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proposed for action by the Congress</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not requiring action by the Congress</td>
<td>161.1</td>
<td>173.4</td>
<td>59.6</td>
</tr>
<tr>
<td><strong>Total appropriations</strong></td>
<td>161.1</td>
<td>187.7</td>
<td>192.8</td>
</tr>
<tr>
<td><strong>II. Receipts, expenditures, and lending:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipt-expenditure account:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts</td>
<td>131.1</td>
<td>147.7</td>
<td>165.2</td>
</tr>
<tr>
<td>Expenditures (excl. net lending)</td>
<td>135.7</td>
<td>155.5</td>
<td>171.1</td>
</tr>
<tr>
<td><strong>Expenditure account surplus</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(+) or deficit (-)</td>
<td>-4.6</td>
<td>-7.8</td>
<td>-5.9</td>
</tr>
<tr>
<td><strong>Plus: Loan account:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan disbursements</td>
<td>14.6</td>
<td>18.3</td>
<td>19.0</td>
</tr>
<tr>
<td>Loan repayments</td>
<td>10.8</td>
<td>13.1</td>
<td>14.6</td>
</tr>
<tr>
<td><strong>Net lending</strong></td>
<td>3.8</td>
<td>5.2</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>Equals: Total budget:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts (table 6C)</td>
<td>131.1</td>
<td>147.7</td>
<td>165.2</td>
</tr>
<tr>
<td>Expenditures and net lending (table 6B)</td>
<td>139.5</td>
<td>160.6</td>
<td>175.5</td>
</tr>
<tr>
<td><strong>Budget surplus (+) or deficit (-)</strong></td>
<td>-8.4</td>
<td>-12.9</td>
<td>-10.3</td>
</tr>
<tr>
<td><strong>III. Means of financing</strong> (table 6D):**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowing from the public</td>
<td>3.1</td>
<td>3.8</td>
<td>9.1</td>
</tr>
<tr>
<td>Reduction of cash balances, etc.</td>
<td>5.2</td>
<td>9.2</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Total budget financing</strong></td>
<td>8.4</td>
<td>12.9</td>
<td>10.3</td>
</tr>
<tr>
<td><strong>IV. Outstanding Federal securities and Federal loans, end of year</strong> (table 6D):**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal securities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross amount outstanding</td>
<td>327.2</td>
<td>340.1</td>
<td>354.3</td>
</tr>
<tr>
<td>Held by the public</td>
<td>262.7</td>
<td>266.5</td>
<td>275.6</td>
</tr>
<tr>
<td>Federal credit programs:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct loans outstanding</td>
<td>28.8</td>
<td>34.1</td>
<td>38.5</td>
</tr>
<tr>
<td>Guaranteed and insured loans outstanding</td>
<td>95.7</td>
<td>99.0</td>
<td>104.1</td>
</tr>
</tbody>
</table>

1 See footnote No. 1, page 4.

2 In loan account.
### Table 6A—Budget appropriations and resulting expenditures

[Fiscal years. In billions of dollars]

<table>
<thead>
<tr>
<th>Description</th>
<th>1966 actual</th>
<th>1967 estimate</th>
<th>1968 estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. New appropriations for the year:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Requiring action by the Congress:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Requested in this budget</td>
<td></td>
<td></td>
<td>132.4</td>
</tr>
<tr>
<td>(2) To be requested later:</td>
<td></td>
<td>(*)</td>
<td>(*)</td>
</tr>
<tr>
<td>(a) On the enactment of proposed legislation</td>
<td></td>
<td>(*)</td>
<td>(*)</td>
</tr>
<tr>
<td>(b) Other specific supplementals</td>
<td></td>
<td>14.1</td>
<td></td>
</tr>
<tr>
<td>(3) Allowance for contingencies</td>
<td></td>
<td>.2</td>
<td>.8</td>
</tr>
<tr>
<td>Total requiring action by the Congress</td>
<td></td>
<td>14.3</td>
<td>133.2</td>
</tr>
<tr>
<td>b. Available without further action by the Congress:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Current authorizations</td>
<td>114.0</td>
<td>118.2</td>
<td></td>
</tr>
<tr>
<td>(2) Permanent authorizations:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Trust funds</td>
<td>36.2</td>
<td>45.8</td>
<td>48.6</td>
</tr>
<tr>
<td>(b) Other</td>
<td>15.5</td>
<td>15.7</td>
<td>17.5</td>
</tr>
<tr>
<td>c. Less interfund and intragovernmental transactions</td>
<td>4.6</td>
<td>6.3</td>
<td>6.5</td>
</tr>
<tr>
<td>Total new appropriations for year</td>
<td>161.1</td>
<td>187.7</td>
<td>192.8</td>
</tr>
<tr>
<td>2. Unexpended balances of appropriations carried over from prior years</td>
<td>174.0</td>
<td>190.8</td>
<td>213.2</td>
</tr>
<tr>
<td>3. Total appropriations available for expenditure</td>
<td>335.1</td>
<td>378.5</td>
<td>406.0</td>
</tr>
<tr>
<td>4. Less:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Balances unspent at end of year</td>
<td>192.3</td>
<td>214.0</td>
<td>226.4</td>
</tr>
<tr>
<td>b. Receipts offset against expenditures</td>
<td>3.3</td>
<td>3.9</td>
<td>4.1</td>
</tr>
<tr>
<td>5. Equals total expenditures and net lending</td>
<td>139.5</td>
<td>160.6</td>
<td>175.5</td>
</tr>
<tr>
<td>a. From appropriations requiring action by the Congress:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Under proposed legislation and supplementals</td>
<td></td>
<td>6.7</td>
<td>4.6</td>
</tr>
<tr>
<td>(2) Other</td>
<td></td>
<td>.1</td>
<td>70.2</td>
</tr>
<tr>
<td>b. From appropriations not requiring action by the Congress</td>
<td>139.5</td>
<td>153.8</td>
<td>100.7</td>
</tr>
</tbody>
</table>

*Less than $50 million.

1 To cover specific requests which might be made later.

2 Including contract authorizations which require further action before expenditures can take place.
<table>
<thead>
<tr>
<th>Function</th>
<th>Expenditures and net lending</th>
<th>Appropriations recommended for 1968</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1966 actual</td>
<td>1967 estimate</td>
</tr>
<tr>
<td>National defense</td>
<td>59.7</td>
<td>69.6</td>
</tr>
<tr>
<td>International affairs and finance</td>
<td>4.7</td>
<td>5.6</td>
</tr>
<tr>
<td>Space research and technology</td>
<td>5.9</td>
<td>5.6</td>
</tr>
<tr>
<td>Agriculture and agricultural resources</td>
<td>3.5</td>
<td>4.1</td>
</tr>
<tr>
<td>Natural resources</td>
<td>3.2</td>
<td>3.2</td>
</tr>
<tr>
<td>Commerce and transportation</td>
<td>7.1</td>
<td>7.7</td>
</tr>
<tr>
<td>Housing and community development</td>
<td>2.4</td>
<td>3.1</td>
</tr>
<tr>
<td>Health, labor, and welfare</td>
<td>33.2</td>
<td>39.5</td>
</tr>
<tr>
<td>Education</td>
<td>2.8</td>
<td>3.9</td>
</tr>
<tr>
<td>Veterans benefits and services</td>
<td>6.4</td>
<td>7.2</td>
</tr>
<tr>
<td>Interest</td>
<td>10.0</td>
<td>11.0</td>
</tr>
<tr>
<td>General government</td>
<td>2.4</td>
<td>2.7</td>
</tr>
<tr>
<td>Undistributed adjustments ³</td>
<td>-2.0</td>
<td>-2.8</td>
</tr>
<tr>
<td>Total</td>
<td>139.5</td>
<td>160.6</td>
</tr>
</tbody>
</table>

¹ Excludes interest paid to trust funds in the amounts of $1.9 billion for 1966, $2.3 billion for 1967, and $2.7 billion for 1968.

² Includes administrative budget receipts becoming negative expenditures, employer contributions to retirement funds, and change in nondefense accounts payable.
TABLE 6C.—Summary of budget receipts by major source

[Fiscal years. In billions of dollars]

<table>
<thead>
<tr>
<th>Source</th>
<th>1966 actual</th>
<th>1967 estimate</th>
<th>1968 estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual income taxes</td>
<td>55.4</td>
<td>62.2</td>
<td>73.2</td>
</tr>
<tr>
<td>Corporation income taxes (accrued)</td>
<td>29.4</td>
<td>30.5</td>
<td>33.2</td>
</tr>
<tr>
<td>Excise taxes</td>
<td>13.1</td>
<td>13.8</td>
<td>18.7</td>
</tr>
<tr>
<td>Employment taxes</td>
<td>20.0</td>
<td>26.4</td>
<td>28.4</td>
</tr>
<tr>
<td>Estate and gift taxes</td>
<td>3.1</td>
<td>3.1</td>
<td>3.1</td>
</tr>
<tr>
<td>Customs</td>
<td>1.8</td>
<td>2.0</td>
<td>2.1</td>
</tr>
<tr>
<td>Deposits by States, unemployment insurance</td>
<td>3.1</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Veterans' life insurance premiums</td>
<td>.5</td>
<td>.5</td>
<td>.5</td>
</tr>
<tr>
<td>Retirement contributions of Federal employees</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Other receipts ¹</td>
<td>3.7</td>
<td>5.0</td>
<td>6.9</td>
</tr>
<tr>
<td>Total receipts</td>
<td>131.1</td>
<td>147.7</td>
<td>165.2</td>
</tr>
</tbody>
</table>

Amounts under proposed legislation included above:

<table>
<thead>
<tr>
<th>Source</th>
<th>1966 actual</th>
<th>1967 estimate</th>
<th>1968 estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual income taxes</td>
<td></td>
<td></td>
<td>3.4</td>
</tr>
<tr>
<td>Corporation income taxes</td>
<td></td>
<td></td>
<td>1.3</td>
</tr>
<tr>
<td>Excise taxes</td>
<td></td>
<td></td>
<td>.2</td>
</tr>
<tr>
<td>Employment taxes</td>
<td></td>
<td></td>
<td>.2</td>
</tr>
<tr>
<td>Other ¹</td>
<td></td>
<td></td>
<td>.2</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>5.3</td>
</tr>
</tbody>
</table>

¹ Net of intragovernmental transactions and miscellaneous receipts offset against expenditures and change in accrued taxes receivable other than corporation income taxes.
Table 6D.—Means of financing, outstanding Federal securities and loans

[Fiscal years. In billions of dollars]

<table>
<thead>
<tr>
<th>MEANS OF FINANCING</th>
<th>1966 actual</th>
<th>1967 estimate</th>
<th>1968 estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowing from the public:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonbank investors</td>
<td>2.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial banks</td>
<td>-2.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Reserve banks</td>
<td>3.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total borrowing from the public</td>
<td>3.1</td>
<td>3.8</td>
<td>9.1</td>
</tr>
<tr>
<td>Seigniorage</td>
<td>.6</td>
<td>1.1</td>
<td>.5</td>
</tr>
<tr>
<td>Decrease in cash balances and monetary assets</td>
<td>.5</td>
<td>3.4</td>
<td></td>
</tr>
<tr>
<td>Increase in expenditures accrued but not yet paid</td>
<td>3.1</td>
<td>.8</td>
<td>1.1</td>
</tr>
<tr>
<td>Decrease or increase (—) in taxes and other receipts</td>
<td>.9</td>
<td>3.9</td>
<td>-.4</td>
</tr>
<tr>
<td>Total budget financing</td>
<td>8.4</td>
<td>12.9</td>
<td>10.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OUTSTANDING FEDERAL SECURITIES AND LOANS</th>
<th>1966 actual</th>
<th>1967 estimate</th>
<th>1968 estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>(As of the end of the year)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Federal debt</td>
<td>327.2</td>
<td>340.1</td>
<td>354.3</td>
</tr>
<tr>
<td>Less holdings by Federal agencies and trust funds</td>
<td>64.5</td>
<td>73.6</td>
<td>78.7</td>
</tr>
<tr>
<td>Federal securities held by the public</td>
<td>262.7</td>
<td>266.5</td>
<td>275.6</td>
</tr>
<tr>
<td>Federal credit programs:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct loans outstanding</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan account</td>
<td>28.8</td>
<td>34.1</td>
<td>38.5</td>
</tr>
<tr>
<td>Expenditure account</td>
<td>13.2</td>
<td>13.9</td>
<td>14.7</td>
</tr>
<tr>
<td>Total</td>
<td>42.1</td>
<td>47.9</td>
<td>53.2</td>
</tr>
<tr>
<td>Guaranteed and insured loans outstanding</td>
<td>95.7</td>
<td>99.0</td>
<td>104.1</td>
</tr>
<tr>
<td><strong>Memorandum:</strong> Federal home loan banks and Federal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>land banks:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct loans outstanding</td>
<td>11.5</td>
<td>12.9</td>
<td>13.0</td>
</tr>
<tr>
<td>Securities held by the public</td>
<td>10.4</td>
<td>11.7</td>
<td>11.6</td>
</tr>
</tbody>
</table>

1 Includes change in balances of deposit funds and D.C. Government; excludes the portion of accrued interest which is added to principal of the debt and is therefore borrowing from the public.

2 Including Federal Reserve banks.
Table 7

A reconciliation of budget totals for prior years adjusted for the Commission's recommendation with the present consolidated cash budget totals is shown in Table 7. The major differences which stand out are: (1) reductions in both receipts and expenditures as a result of treating certain enterprise-type receipts on a net rather than a gross basis, (2) differences on both the receipt and expenditure side growing out of a shift to an accrual timing basis, (3) an increase in expenditures from treating sales of participation certificates as a means of financing rather than as negative expenditures, and (4) the results of excluding the transactions of the two privately owned Government-sponsored enterprises: Federal home loan banks and Federal land banks.

Table 8

A twelve-year comparison of receipts, expenditures, net lending, and surplus and deficit in the budget as proposed by the Commission with the summary totals of the three present budgets is presented in Table 8.
Illustrative Tables and Results

Table 7.—Reconciliation of recommended budget to the present consolidated cash budget

[Fiscal years. In billions of dollars]

<table>
<thead>
<tr>
<th></th>
<th>1966 actual</th>
<th>1967 estimate</th>
<th>1968 estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RECEIPTS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts, present cash budget</td>
<td>134.5</td>
<td>154.7</td>
<td>168.1</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative and trust fund receipts</td>
<td>3.3</td>
<td>3.9</td>
<td>4.1</td>
</tr>
<tr>
<td>District of Columbia Government</td>
<td>.3</td>
<td>.3</td>
<td>.3</td>
</tr>
<tr>
<td>Plus:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee retirement contributions</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Excess of tax accruals over collections:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporation income taxes</td>
<td>-.7</td>
<td>-.9</td>
<td>-.7</td>
</tr>
<tr>
<td>Other taxes</td>
<td>-.2</td>
<td>.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Receipts in the proposed budget</td>
<td>131.1</td>
<td>147.7</td>
<td>165.2</td>
</tr>
<tr>
<td><strong>EXPENDITURES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditures, present cash budget</td>
<td>137.8</td>
<td>160.9</td>
<td>172.4</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative and trust fund receipts</td>
<td>3.3</td>
<td>3.9</td>
<td>4.1</td>
</tr>
<tr>
<td>Transactions with the International Monetary Fund</td>
<td>.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposit funds, net expenditures (except Comptroller of the Currency)</td>
<td>-.5</td>
<td>-.2</td>
<td>-.1</td>
</tr>
<tr>
<td>District of Columbia Government</td>
<td>.3</td>
<td>.3</td>
<td>.4</td>
</tr>
<tr>
<td>Net expenditures of Federal land banks</td>
<td>.6</td>
<td>.6</td>
<td>.4</td>
</tr>
<tr>
<td>Net expenditures of Federal home loan banks</td>
<td>1.3</td>
<td>1.0</td>
<td>-.6</td>
</tr>
<tr>
<td>Plus:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee retirement contributions</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Sales of participation certificates (net)</td>
<td>2.2</td>
<td>2.6</td>
<td>4.5</td>
</tr>
<tr>
<td>Change in checks outstanding and accrued interest</td>
<td>-.2</td>
<td>1.2</td>
<td>.7</td>
</tr>
<tr>
<td>Excess of accrued expenditures over checks issued:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defense</td>
<td>2.0</td>
<td>-.6</td>
<td>-.1</td>
</tr>
<tr>
<td>Nondefense</td>
<td>1.7</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Expenditures in the proposed budget</td>
<td>139.5</td>
<td>160.6</td>
<td>175.5</td>
</tr>
</tbody>
</table>

1 Amounts are approximate only: Actual exclusions will be determined as a result of study by the Treasury and the Bureau of the Budget.
2 Average of available data for prior years.
3 Including net lending. Also includes difference between net expenditures in the cash and annexed budgets for the banks for cooperatives, Federal intermediate credit banks, and Federal Deposit Insurance Corporation.
### Table 8.—Historical comparison of four concepts of budget totals, 1957-1968

[Fiscal years. In billions of dollars]

<table>
<thead>
<tr>
<th>Year</th>
<th>Administrative budget:</th>
<th>Receipts</th>
<th>Expenditures</th>
<th>Surplus (+) or deficit (−)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>70.6</td>
<td>68.6</td>
<td>67.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>69.0</td>
<td>71.4</td>
<td>80.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+1.6</td>
<td>−2.8</td>
<td>−12.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Receipts from and payments to the public (consolidated cash budget):</th>
<th>Receipts</th>
<th>Payments</th>
<th>Surplus (+) or deficit (−)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>82.1</td>
<td>81.9</td>
<td>81.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>80.0</td>
<td>83.5</td>
<td>94.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+2.1</td>
<td>−1.6</td>
<td>−13.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Federal sector of national income accounts (NIA budget):</th>
<th>Receipts</th>
<th>Expenditures</th>
<th>Surplus (+) or deficit (−)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>80.7</td>
<td>77.9</td>
<td>85.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>76.0</td>
<td>83.1</td>
<td>90.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+4.7</td>
<td>−5.1</td>
<td>−5.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Commission's recommended budget:</th>
<th>Receipt-expenditure account:</th>
<th>Receipts</th>
<th>Expenditures</th>
<th>Expenditure account surplus (+) or deficit (−)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>80.1</td>
<td>77.5</td>
<td>84.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>77.4</td>
<td>82.8</td>
<td>91.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>+2.7</td>
<td>−5.3</td>
<td>−7.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Net lending</td>
<td>1.3</td>
<td>1.5</td>
<td>2.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Total budget:</th>
<th>Receipts</th>
<th>Expenditures</th>
<th>Surplus (+) or deficit (−)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>80.1</td>
<td>77.5</td>
<td>84.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>78.7</td>
<td>84.3</td>
<td>94.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+1.4</td>
<td>−6.8</td>
<td>−9.7</td>
</tr>
</tbody>
</table>

1 See footnote No. 1, page 4.
GLOSSARY
GLOSSARY

This glossary is intended to explain the terms used in the Commission's Report and papers in as non-technical language as possible.

Accordingly, although the explanations are intended to be consistent in substance with official definitions contained in Government documents and instructions, they may not be in the same words. It should be understood that, in any such case, the explanation in this glossary should not be interpreted as a Commission recommendation for a change in the official definition in any respect.

“ABOVE THE LINE”—That part of a budget taken into account in calculating the budget surplus or deficit, i.e., receipts and expenditures, but not borrowing. In a capital budget, the current operating transactions, as distinct from purchases of assets.

ACCOUNTS PAYABLE—Amounts due to others for goods and services received, assets acquired, and performance accepted.

ACCOUNTS RECEIVABLE—Amounts due from others as the result of goods provided, services rendered, or funds advanced.

ACCRUAL ACCOUNTING—A system of accounting in which revenues and expenditures are recognized as they are earned. Usually this means recording receipts and expenditures at the time the liabilities are incurred as a result of services rendered, or, in the case of mass-produced “shelf” items, when goods are delivered, rather than when payment is made or received.

ACCRUED LIABILITIES—Amounts earned by others which are not yet payable.

ADMINISTRATIVE BUDGET—A financial plan for receipts and expenditures of funds owned by the Federal Government, including general funds, special funds, public enterprise funds, and intragovernmental revolving and management funds.

ADVANCES—See Prepayments.

ALLOWANCE FOR LOSSES—A valuation account set up to cover possible future defaults or losses on loans outstanding, or accounts receivable, which is subsequently charged in the event of actual default.

APPROPRIATION—An authorization by an Act of Congress to incur obligations and make payments out of the Treasury for specified purposes. At present, excludes authorizations to enter into contracts but not spend money (i.e., “contract authorizations”) and authorizations to spend debt receipts. Under the Commission's recommendations, these latter types of authorization would also be called appropriations, but appropriations to liquidate contract authorizations would not be counted as new appropriations.

AUTHORIZATION—An Act of Congress which authorizes Federal programs, obligations, or expenditures. The term “authorizations” sometimes refers to basic substantive legislation setting up a program or an agency, and authorizing appropriations to be made for them, but not actually providing authority to spend. In the Commission's report and staff papers, however, “authorizations” usually refers to spending authorizations, such as appropriations, rather than to basic substantive legislation which does not include spending authority.

AUTHORIZATIONS TO SPEND DEBT RECEIPTS—A form of spending authorization enacted by the Congress permitting an agency or department to borrow money from the public or from the Treasury and spend the proceeds of such borrowings.
BACKDOOR FINANCING—Obligational authority granted by the Congress other than in appropriation acts, usually in the form of contract authorizations or authorizations to spend debt receipts.

BALANCED BUDGET—A budget in which receipts are greater than (or equal to) expenditures.

"BELOW THE LINE"—That part of a budget not included in calculating the surplus or deficit, i.e., borrowing and other financing items. Also, in a capital budget, the transactions affecting assets.

BUDGET—A financial program for future operations. For the Federal Government, the budget is transmitted by the President to the Congress each January for the fiscal year beginning the following July 1. In the Commission's report, the term "the budget" also refers to the summary totals of appropriations, receipts, expenditures (excluding net lending), expenditure account surplus or deficit, gross and net lending, total expenditures, and total budget surplus or deficit.

BUDGET APPENDIX—A volume published annually with the budget document providing detailed estimates, explanations, and draft appropriation bill language, agency by agency, and account by account.

BUDGET DOCUMENT—The book, prepared annually by the Bureau of the Budget, in which the President transmits to the Congress his budget message and summarizes new legislative proposals, budget estimates, and appropriation requests.

CAPITAL ACCOUNT—The "below the line" part of a capital or divided budget in which goods and services to be consumed over a number of years are recorded. The entries in the capital account would not be used in the calculation of an ordinary budget surplus or deficit.

CAPITAL BUDGET—A divided budget in which expenditures for capital goods are recorded "below the line."

CAPITALIZATION—The calculation of the discounted present value of amounts to be received or paid at some future time. See also "Discounted Present Value."

CASH ACCOUNTING—A system of accounting in which receipts and expenditures are recorded at the time cash is received or paid out, rather than at the time of accrual. See also "Checks Issued" and "Checks Paid."

CASH BUDGET—See "Receipts from and Payments to the Public."

CHECKS ISSUED—A basis for reporting Government disbursements as of the time when checks are issued to pay for goods or services (or cash is paid in lieu of checks). This is the main basis for recording expenditures in the present administrative budget.

CHECKS OUTSTANDING—Checks issued but not yet paid.

CHECKS PAID—A basis for recording Government disbursements as of the time when checks are paid by the Federal Reserve banks holding the Government's deposits against which the checks are charged. This is the main basis for stating total cash payments in the present consolidated cash budget.

CLEARING ACCOUNT—A term covering various accounts which provide the accounting link between the budget surplus or deficit and changes in debt outstanding and cash balances. Some accounts covered by the term are: (1) checks paid based on telegraphic reports from Federal Reserve banks; (2) public debt interest payable; (3) deposits in transit.

COLLECTIONS BASIS—A basis for reporting Government receipts in which receipts are recorded when cash is received rather than when they accrue.

CONSOLIDATED CASH BUDGET—See "Receipts from and Payments to the Public."
CONTINGENT LIABILITY—A conditional commitment which may become an actual liability in consequence of a future event beyond the control of the Government. This includes such items as insured and guaranteed loans and bank deposit insurance.

CONTRACT AUTHORIZATIONS—Authority granted by the Congress to agencies or departments to incur obligations prior to enactment of an appropriation. It must be followed by an appropriation or the receipt of moneys earmarked by law to permit payment of the obligations incurred.

COST-BASED BUDGETS—Agency budgets in which activity levels are measured in terms of the value of resources consumed in carrying out the activity, rather than in terms of the obligations incurred. Most agency budgets, aside from the Department of Defense and the State Department, are now presented on a cost rather than an obligations basis.

COSTS—Program cost (or expense) is measured by the value of goods and services consumed regardless of when acquired. Approximately equal to current expenditures (i.e., excluding capital outlay) plus inventory reductions, plus depreciation. Implicit in the measurement of cost is an accrual basis of accounting.

CURRENT AUTHORIZATIONS—Authorizations enacted by the Congress in or immediately preceding the fiscal year.

CURRENT OR INCOME ACCOUNT—The “above the line” portion of a budget that includes a separate capital account.

DEBT ISSUED IN LIEU OF CHECKS—Government securities issued to cover expenditures instead of cash or checks, consisting primarily of noninterest-bearing notes issued to international organizations and interest accruals on savings and retirement bonds and Treasury bills. In earlier years, also included Armed Forces Leave Bonds, and excess profits tax refund bonds.

DEBT LIMIT—See “Public Debt Ceiling.”

DEBT SUBJECT TO LIMIT—The public debt plus securities of Federal agencies guaranteed as to principal and interest, less certain small debt items, not included in the 1917 Act of Congress limiting the public debt, plus the outstanding amount of FNMA participations certificates authorized and issued in fiscal year 1968.

DEFAULT—A failure to repay a loan or other obligation.

DEFICIT OR BUDGET DEFICIT—The excess of budget expenditures over receipts.

DELIVERIES BASIS—A basis for reporting Government expenditures in which an expenditure is recorded when goods are physically received. This is the main basis for recording expenditures in the national income accounts (NIA) budget.

DEPOSIT FUNDS—Combined receipt and expenditure accounts established to account for amounts that are either (a) held in suspense temporarily and later refunded or paid into some other funds of the Government upon administrative or legal determination as to the proper disposition thereof, or (b) held by the Government as banker or agent for others and paid out at the direction of the depositor.

DEPRECIATION—The decrease in the value of physical assets due to use or the passage of time; the portion of an asset's cost which is charged to current expense in a given accounting period.

DISBURSEMENTS—Checks issued or cash paid. In the present budget, disbursements are net of repayments (refunds and reimbursements).

DISCOUNTED PRESENT VALUE—The price that a buyer would be willing to pay for a future benefit or a series of future benefits. The determination of that price involves specifying some rate of interest (rate of discount) to compensate for the fact that the benefits will not be received until some time in the future.
ECONOMIC STABILIZATION POLICIES—Central government monetary and fiscal policies designed to bring about high employment, stable growth, and price stability in the national economy, and equilibrium in the international balance of payments. See also "Monetary Policy" and "Fiscal Policy."

EXPENDITURES—In the present administrative and consolidated cash budgets, the amount of checks issued or paid and cash payments made, net of refunds, and reimbursements received. Under the Commission’s recommendations, expenditures will be recorded on an accrual basis, representing the aggregate of liabilities incurred for performance accepted by the Government (including goods received in the case of mass-produced "shelf" items, work done by a contractor to the Government’s order, and services performed) and other liabilities incurred not involving performance, whether or not payment has been made and whether or not invoices have been received.

FEDERAL SECTOR—The sector of the economy comprised of the Federal Government and its agencies. Used in social accounting systems such as the national income accounts and flow of funds accounts.

FEDERALLY OWNED FUNDS—Funds entirely owned by the Federal Government as distinct from the trust funds which the Federal Government theoretically holds in a fiduciary capacity.

FINANCIAL INTERMEDIARY—An agency or institution which borrows and relends.

FISCAL POLICY—Federal Government economic stabilization policies designed to foster economic goals such as high employment, stable growth and prices, and balance of payments equilibrium, through changes in taxes and levels of Government spending as distinct from monetary policy.

FISCAL YEAR—Any year designated for financial accounting purposes, not necessarily a calendar year. For the Federal Government, the year running from July 1 to June 30, and designated by the year in which it ends.

FLOAT—The difference in entries in the books of two parties to a transaction due to time lags in mail delivery, check clearing, or similar timing differences.

FLOW OF FUNDS ACCOUNTING—A system of social accounting in which the sources and uses of funds are recorded for each sector of the economy.

FUNCTIONAL CLASSIFICATION OF THE BUDGET—An analysis of the budget, such as that contained in Part 4 of the budget document, in which expenditures and authorizations are grouped according to major purpose, e.g., national defense, international affairs, etc., regardless of the spending agency or department.

FUND—An accounting entity consisting of the set of interrelated accounts which record assets and liabilities, and income and outgo, related to a specified purpose. Also (loosely) a sum of money available for specified purposes.

FUNDING—The act of providing financing for a specified purpose.

GENERAL FUND—The major federally owned fund which is credited with Government receipts not earmarked by law, and is charged with expenditures payable from such revenues and from general borrowing.

GOVERNMENT-SPONSORED ENTERPRISES—Five enterprises whose transactions are presently included in the consolidated cash budget. This category includes the Federal land banks and the Federal home loan banks (all private ownership), the Federal intermediate credit banks and the banks for cooperatives (mixed ownership), and the Federal Deposit Insurance Corporation (no private ownership).

GROSS—The total value of a sum or a transaction, before reduction by applicable offsets.

GROSS NATIONAL PRODUCT—Total market value of all final goods and services that the Nation produces in a single year.
GUARANTEED LOANS—Private loans made with an arrangement for the Government to cover part or all of any defaults.

IMPUTATIONS—Estimates of the value of goods and services obtained outside the market, used in lieu of their market cost.

INDEFINITE AUTHORIZATIONS (APPROPRIATIONS)—A form of spending authorization enacted by the Congress which allows an agency or department to enter into contracts, to obligate the Government or to make expenditures in an indefinite amount, which amount is subsequently determined by exercise of executive discretion granted by the act. The major example is the permanent indefinite appropriation authorizing the payment of interest on the public debt.

INSURED LOANS—See “guaranteed loans.”

INTEREST SUBSIDY—The value of the subsidy implicit in loans made by the Government which results from charging submarket interest rates. Partially measured by the difference between the rate paid by the Treasury on the money it borrows and the interest rate received on the loans made by the Government.

INTERFUND TRANSACTIONS—At the present time, payments from one administrative budget fund to another administrative budget fund, or from one trust fund to another trust fund, which result in the recording of a receipt and an expenditure. Excluded in calculating total administrative budget and total trust fund receipts and expenditures. See also “Intragovernmental Transactions.”

INTRAGOVERNMENTAL REVOLVING AND MANAGEMENT FUNDS—Funds established by law to facilitate the accounting for and administration of intragovernmental activities which are financed by two or more appropriations, or which derive their receipts primarily from other appropriations or funds.

INTRAGOVERNMENTAL TRANSACTIONS—Payments from administrative budget funds to a trust fund or from a trust fund to administrative budget funds. These transactions result in recording an expenditure and a receipt which are then excluded in calculating consolidated cash budget receipts and expenditures. See also “Interfund Transactions.”

LETTER OF CREDIT—A document which permits the recipient of the letter to withdraw cash from a Government account upon demand.

MEANS OF FINANCING STATEMENT—The part of a budget summary showing the coverage of a deficit or the disposition of a surplus.

MONETARY ACTIVITIES—See “Monetary Policy.”

MONETARY AUTHORITIES—The Treasury and the Federal Reserve, which have the power to create and destroy money.

MONETARY POLICY—Federal Government economic stabilization policies, primarily executed by the Federal Reserve System, designed to achieve economic goals such as high employment, stable growth and prices, and balance of payments equilibrium, through influence on the money supply, interest rates, and credit availability, as distinct from fiscal policy.

NATIONAL INCOME ACCOUNTS OR NATIONAL INCOME AND PRODUCT ACCOUNTS—A social accounting system maintained by the Office of Business Economics of the U.S. Department of Commerce, in which the income and expenditure of households, corporations, and other sectors of the national economy are estimated and published quarterly and annually.

NATIONAL INCOME ACCOUNTS (NIA) “BUDGET”—A measure of receipts and expenditures of the Federal Government sector of the national income and product accounts. It includes Federal trust fund transactions, but excludes loans and similar transactions since they consist of the exchange of financial assets or physical assets which are not newly produced and therefore do not contribute to current “income.”

NET—The value of a sum or a transaction after reduction of the total value by related applicable offsets.
NEW OBLIGATIONAL AUTHORITY (NOA)—Authority becoming newly available for a given year, provided by current or prior actions of the Congress, enabling Federal agencies to obligate the Government to pay out money. At present, NOA may consist of appropriations, contract authority, or authority to spend debt receipts. Under the Commission's recommendations, the word "appropriations" will be applied to the present concept of NOA.

NO-YEAR APPROPRIATIONS—Appropriations which remain available for obligation and expenditure until the objectives for which they were made have been completed, without requiring further congressional action.

NONRECURS LOANS—Loans, such as advances to farmers by the Commodity Credit Corporation (CCC), the terms of which provide that the borrower may forfeit his collateral rather than repay the loan, and be under no further legal obligation to the lender.

OBLIGATED BALANCE—That portion of the balance of an appropriation account which is necessary to pay for obligations already incurred, but for which expenditures have not been made.

OBLIGATIONAL AUTHORITY—Authority provided by the Congress to enter into obligations requiring the Federal Government to pay out money. For any year, it is equal to new obligational authority plus unobligated balances brought forward from prior years.

OBLIGATIONS—Contracts or other valid commitments to pay out money made by Federal departments and agencies.

PARTICIPATION CERTIFICATES—Interest-bearing instruments representing shares in a pool of Government-held loans. Under present practice, the Government continues to service the individual loans, and takes the loss on any defaults.

PERMANENT AUTHORIZATIONS—An authorization automatically becoming available by virtue of previous legislation, without current action by the Congress.

PLANNING-PROGRAMMING-BUDGETING SYSTEM (PPBS)—Procedures receiving increasing use and importance in recent years in the preparation of agency budgets, which specify program objectives in quantitative terms, measure benefits, and seek least cost solutions through the budget process.

PREPAYMENTS—Payments to a contractor in advance of performance usually in order to provide the contractor with working capital necessary for the fulfillment of the contract. In an accrual system, these are receivables (assets) rather than expenditures, until performance occurs.

PRESIDENT'S BUDGET MESSAGE OR PRESIDENT'S MESSAGE—The annual message sent by the President to the Congress each January outlining his budget requests for the coming fiscal year and explaining his major budget proposals.

PROGRESS PAYMENTS—Payments made to contractors in recognition of partial completion of work on contracts.

PUBLIC DEBT—The total of all securities outstanding representing direct debts of the United States Treasury.

PUBLIC DEBT CEILING—The maximum level established by the Congress of the public debt subject to limit. See also "Debt Subject to Limit."

PUBLIC ENTERPRISE FUNDS—Revolving funds authorized by specific provisions of law to finance a continuing cycle of operations with receipts from such operations, derived primarily from sources outside the Government, available in their entirety for use by the fund.

PUBLIC ENTERPRISES—Business-type activities of the Government which generate receipts to cover, or partially cover, their expenses. Major examples are the Post Office, the Tennessee Valley Authority, and the Commodity Credit Corporation.
REAPPROPRIATIONS—Spending authorizations, made by the Congress, which continue the availability of unused balances which would otherwise expire.

RECEIPTS—In the present administrative and consolidated cash budgets, money or checks received by the Federal Government, except as a result of refunds or reimbursements. In the budget recommended by the Commission, receipts would be on an accrual basis, representing the aggregate amount due the Federal Government, except for refunds or reimbursements of expenditures.

RECEIPTS FROM AND PAYMENTS TO THE PUBLIC—A statement combining administrative budget transactions with those of trust funds, deposit funds, and Government-sponsored enterprises (with the elimination of certain intragovernmental transactions) to show the flow of cash between the Federal Government and the public. Often referred to as the cash or consolidated cash budget.

REVOLVING FUND—A fund established to finance a continuing cycle of operations in which expenditures generate receipts, which are available for expenditure without further action by the Congress. The net excess of expenditures over receipts is included in the budget as an expenditure (or a negative expenditure if receipts exceed expenditures).

SEIGNIORAGE—Profits received by the Government from coinage operations resulting from the excess of the face value of the coins over the cost of the metals used in them.

SERVICING OF DEBT—Payment of interest on and repayment of principal of borrowed funds.

SOCIAL BENEFITS AND SOCIAL COSTS—The benefits or costs of a project or program (often estimated or imputed) accruing to the public as a whole. Not limited to a monetary expression of budget receipts or costs.

SPECIAL ANALYSES—Special explanations of budget data published in or with the budget document to reveal the details of particular aspects of the budget. Presently there are Special Analyses covering such items as Federal grants-in-aid, credit programs, and public works programs.

SPECIAL FUNDS—Federally owned funds, other than the public enterprise funds, which are credited with earmarked receipts. The reclamation fund is a major example.

"SPEED-UP"—Legislative or administrative action to reduce the time lag between accrual and payment of tax liabilities.

SUPPLEMENTAL APPROPRIATIONS—Appropriations made by Congress after an initial appropriation to cover expenditures beyond original estimates.

SURPLUS OR BUDGET SURPLUS—The excess of budget receipts over expenditures.

SUSPENSE ACCOUNT—A combined receipt and expenditure account established to hold temporarily funds which are later refunded or paid into some other fund of the Government upon administrative or legal determination as to the proper disposition thereof.

TAX AND LOAN ACCOUNTS—Treasury accounts maintained with designated commercial banks for the deposit of money raised by the Treasury through financing operations and certain taxes. These deposits are subject to call by the Treasury for transfer to Federal Reserve banks when necessary to replenish balances in the Treasurer's general checking accounts from which disbursements are made.

TAX LIABILITIES—Taxes accrued to date but not yet paid by taxpayers to the Government.

TIMING ADJUSTMENTS—Reconciliations needed to change budget receipt or expenditure totals based on one stage in transactions to totals which reflect a different stage.
TRANSFER PAYMENTS—In national income accounting, payments for which no currently produced goods or services are received in exchange. Major examples are social security benefits and grants to State and local governments.

TREASURER'S ACCOUNT—The Government's principal account for the cash assets derived from financial transactions (seigniorage as well as borrowing) and administrative budget and trust fund receipts, consisting primarily of deposits in Federal Reserve banks and deposits in tax and loan accounts in commercial banks.

TREASURY BILLS—Short-term (usually three-month) Treasury debt instruments, sold at a discount from face value rather than carrying any explicit rate of interest.

TREASURY CASH BALANCES—Balances on deposit in banks to the credit of the Treasurer of the United States and other accountable officers, cash on hand in the custody of accountable officers, and cash in transit for credit to the account of the Treasurer.

TREASURY GENERAL FUND—See "General Fund."

TRUST ENTERPRISES—Business-type operations with the public administered by the Government with funds theoretically held in trust for others.

TRUST FUNDS—Fund accounts maintained to account for receipt and expenditure of moneys held in trust by the Federal Government for use in carrying out specific purposes and programs in accordance with the terms of a trust agreement or statute. Trust funds are not included in the present administrative budget, but are included in the consolidated cash budget and in the new budget recommended by the Commission.

TRUST REVOLVING FUNDS—A type of trust fund established to finance business-type operations, with receipts available to finance expenditures.

UNOBLIGATED BALANCE—That portion of the balance of an appropriation account which has not been committed for a specific purpose, and which is still available for obligation.
APPENDIX
EXHIBIT A


STATEMENT BY THE PRESIDENT

I am today appointing a Commission of fifteen distinguished American citizens to make a thorough study of the Federal Budget and the manner in which it is presented to the Congress and the public.

Mr. David M. Kennedy, Chairman of the Board of the Continental Illinois National Bank & Trust Company of Chicago, will be Chairman of the Commission. The Chairmen and the ranking minority members of the Senate and House Appropriations Committees have also agreed to serve on the Commission. In addition, the Commission will include the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General. The other members are private citizens, all recognized experts in the fields of finance and economics, some of whom have served previously in high government positions. I may appoint one or two other private citizens to the Commission in the near future.

In my Budget Message last January, I pointed out that:

For many years—under many Administrations—particular aspects of the overall Budget presentation, or the treatment of individual accounts, have been questioned on one ground or another.

In the light of these facts, I believe a thorough and objective review of budgetary concepts is warranted. I therefore intend to seek advice on this subject from a bipartisan group of informed individuals with a background in budgetary matters.

It is my hope that the group I am appointing today—outstanding and informed men with wide-ranging experience in business, government, economics, and budgetary matters—can advise me on the best approaches to the presentation of the Federal Budget.

Tradition and precedent have played an important role over the years in the shaping of our budgetary rules and presentation. The fact is that today all are agreed that some of our traditional budget concepts do not adequately portray how the Federal Government's activities affect the health of the American economy and the lives of the American people.

The Federal Budget is a vital document. The Federal Budget is a complex document. It is vital because it affects the lives of every man, woman, and child in this Nation. It is complex because it encompasses the full scope of the Federal Government's activities. Yet, because of its complexity and
scope, there are few who understand it. The study this group is to undertake should assist both public and Congressional understanding of this important document.

I am asking the Commission to prepare its recommendations by September. If it appears necessary to extend the deliberations beyond this date, the September report can be in the nature of a progress report. It is my hope that at least some of the recommendations of the Commission can be incorporated in my next year's Budget.

We are fortunate in having assembled so able and distinguished a group of citizens to undertake this task.
EXHIBIT B

LETTER OF APPOINTMENT TO COMMISSION MEMBERS

THE WHITE HOUSE,

MR. DAVID M. KENNEDY,
Chairman of the Board, Continental Illinois National Bank and Trust Company, 231 South La Salle Street, Chicago, Illinois

DEAR MR. KENNEDY: I would like to thank you personally for agreeing to serve as chairman of the Commission to advise me on budgetary concepts and presentation. I have asked you to participate in a very important venture. My recent budget message stated:

“For many years—under many Administrations—particular aspects of the overall budget presentation, or the treatment of individual accounts, have been questioned on one ground or another.

“In the light of these facts, I believe a thorough and objective review of budgetary concepts is warranted. I therefore intend to seek advice on this subject from a bipartisan group of informed individuals with a background in budgetary matters. It is my hope that this group can undertake a thorough review of the budget and recommend an approach to budgetary presentation which will assist both public and congressional understanding of this vital document.”

The Federal budget each year presents a very wide and detailed array of financial information about the activities of the Federal Government. Although there has been little question about the lack of availability of such detailed data, the Commission may wish to suggest additions to or deletions from this array of information. I welcome any such suggestions. The principal area for the Commission to examine, however, is the set of concepts which underlie the major budgetary totals and their summary presentation.

There are, as you know, several basic measures of budgetary totals and budget surpluses and deficits in use today—the administrative budget, the consolidated cash budget, and the national income accounts budget. Each was developed to meet the need for analyzing different aspects of Federal programs and financing. I believe the Commission should examine these different measures in the light of the different purposes for which budget data are used, and recommend the appropriate measures for each purpose, along with such changes in those measures as it deems appropriate.

A budget is not only a statistical record, but also a planning base and means for exercising control, by the Congress and the Executive Branch.
I hope that the Commission will keep this aspect in mind as well as the other important purposes served by budget information.

There has been particular question raised about the budgetary treatment of Federal lending programs, relating both to loan disbursements and to receipts from the sale or other disposition of loans. I hope the Commission will carefully review present budgetary practices with respect to these lending programs and recommend how loan disbursements and receipts should be treated in arriving at overall budget totals.

There are other important problems of budget measurement which the Commission will undoubtedly want to review including, but of course not limited to, such matters as the netting of receipts against expenditures in business-type operations, the timing of disbursements and receipts (for example, cash or accrual), and so forth.

In a complex modern world, the Federal budget is necessarily a formidable document. Nevertheless, I would particularly welcome any suggestions which the Commission might have on clarifying the presentation of the budget and increasing its usefulness to the Congress and the public.

I would appreciate receiving your recommendations by September. If it appears necessary to extend your deliberations beyond that date, your September report could be in the nature of a progress report. It is my hope that at least some of the recommendations of the Commission can be incorporated in next year's budget.

I think it would be useful for the Commission to seek the views of such groups as the Committee for Economic Development, the U.S. Chamber of Commerce, and other organizations which have in the past conducted studies of budgetary concepts and practices. The views of former Budget Directors and Secretaries of the Treasury should also be quite useful in the Commission's deliberations.

Enclosed is a listing of the full membership of the Commission. The knowledge and background which you and the other members bring to the Commission will, I am confident, insure a careful, objective, and informed review of the Federal budget.

Sincerely,

 disregard

Enclosure

[Similar letters were sent to each Commission member.]
EXHIBIT C

COMMISSION MEMBERSHIP AND STAFF

Mr. David M. Kennedy, Chairman of the Board, Continental Illinois National Bank and Trust Company of Chicago.
The Honorable Robert B. Anderson, New York City (Secretary of the Treasury, 1957–60).
The Honorable Frank T. Bow, Ranking Minority Member, Committee on Appropriations, U.S. House of Representatives.
The Honorable Henry H. Fowler, Secretary of the Treasury.
The Honorable Carl Hayden, Chairman, Committee on Appropriations, U.S. Senate.
Mr. Winthrop C. Lenz, Executive Vice President, Merrill, Lynch, Pierce, Fenner & Smith, New York City.
The Honorable George H. Mahon, Chairman, Committee on Appropriations, U.S. House of Representatives.
Professor Paul W. McCracken, The University of Michigan.
The Honorable Charles L. Schultze, Director, Bureau of the Budget.
Professor Carl S. Shoup, Columbia University.
Mr. Leonard S. Silk, Editorial Page Editor and Chairman of the Editorial Board, Business Week.
The Honorable Elmer B. Staats, Comptroller General of the United States.
Mr. Robert M. Trueblood, Chairman of the Policy Group, Touche, Ross, Bailey & Smart, Chicago (President, American Institute of Certified Public Accountants, 1965–66).
Dr. Theodore O. Yntema, Oakland University, Rochester, Michigan.
The Honorable Milton R. Young, Ranking Minority Member, Committee on Appropriations, U.S. Senate.

Staff:

Robert P. Mayo, Staff Director.
Wilfred Lewis, Jr., Research Director.
Ronald W. Johnson, Research Assistant.
Jeffrey M. Wiesen, Research Assistant.
Roselle Smith, Administrative Assistant.

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