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THE FEDERAL BUDGET AS AN ECONOMIC DOCUMENT

HEARINGS

BEFORE THE

SUBCOMMITTEE ON ECONOMIC STATISTICS

OF THE

JOINT ECONOMIC COMMITTEE
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THE FEDERAL BUDGET AS AN ECONOMIC DOCUMENT

TUESDAY, APRIL 23, 1963

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMIC STATISTICS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:05 p.m., in room AE–1, U.S. Capitol, Senator William Proxmire (chairman of the subcommittee) presiding.

Present: Senators Proxmire (presiding), Douglas, and Miller.

Also present: Roy E. Moor, economist, Donald A. Webster, minority economist, Hamilton D. Gewehr, administrative clerk.

Senator PROXMIRE. The subcommittee will come to order.

The Statistics Subcommittee today begins hearings on the subject of the Federal budget. These hearings are timely in view of the current interest in Congress and in the Nation generally concerning the level of Federal expenditures and the size of the Federal deficit. We hear a great deal about Government expenditures and deficits. Yet, very little information is available on either the nature of these expenditures and deficits or their economic consequences.

The purpose of these hearings is to attempt to determine techniques by which the Federal budget can be a more meaningful document for citizens, for students of government, for businessmen, and for Congressmen. At the present time, the Federal budget is virtually the only source of information on Federal policies, especially as these policies affect the national economy. This document must be reexamined in order that greater understanding can be obtained concerning the role of the Government in our economy. Everyone who is interested in examining Federal policies should be able to use the budget to obtain information about specific economic activities of the Government.

It is our hope that these hearings will contribute to an understanding of the Federal budget and, at the same time, develop proposals by which the budget can become a more useful document.

Now I would like to quote from a highly respected publication, the Weekly Bond Buyer for the capital market investor, about the significance of these hearings, because I think this statement is accurate, although it may not be as widely appreciated as we would like it to be. This is an article entitled the "JEC [Joint Economic Committee] Hunts Techniques To Size Up Federal Finances."

It is directly related to the hearings which begin this afternoon. In this article the following is stated:

> All the committee is really trying to do is to find a way to revise the Federal Government's budget system so that responsible officials in the administration and Congress, and of course the taxpayer, will know with fair accuracy how much the Government takes in and what it spends in any given period.

In this sense the JEC hearings could prove to be the most important that this or any recent Congress has held, for if it produces new budgetary guidelines not only will future appropriations and taxing policies be more meaningful, but for the first time in the Nation's history the public will have some real idea of how Government spending and taxing actually affect the private economy.

Dr. Break, we will begin with you. I see all you gentlemen have short statements. You can handle it any way you wish, read your statement, summarize it, or ad lib from it. We are happy to have you; go ahead, Dr. Break.

STATEMENT OF GEORGE BREAK, PROFESSOR OF ECONOMICS, UNIVERSITY OF CALIFORNIA

Mr. BREAK. Thank you, Mr. Chairman. My statement has to do with the Federal loan programs, and their treatment in the budget. The first two sections of it simply summarize the present treatment in the different documents. Several of the special analyses at the end of the budget deal with the Federal credit programs, not only the special analysis E in the present budget which deals entirely with them but special analysis C, which deals with the availability of foreign currencies and their use, analysis D that distinguishes between investment and operating expenditures, and F, which shows Federal activities and public works, and H which summarizes Federal aid to State and local governments. So there is quite a bit of information now in the budget. I think it is unfortunately uncoordinated; there are inconsistencies between the different sources that one can look at.

It is frequently difficult to untangle these inconsistencies and the very variety of presentation leaves the user uncertain about the true significance of Federal loans.

I think much could be accomplished by treating them in a consistent fashion, and by integrating the results and totals in a meaningful way, and I hope that the suggestions that I have here today will be of some help in this regard. I have essentially 10 suggestions.

1. For each individual program both disbursements and loan purchases should be shown separately on the expenditure side of the accounts, and principal repayments and loan sales on the receipts side. These are the most important operations of any loan program, and each has its separate and distinctive set of economic effects.

2. All of the above amounts should be brought together and shown in the summary statement of Federal expenditures and receipts as a separate part with its own positive or negative balance. In fiscal 1962, for example, this Federal loan account would have shown an excess of loan acquisitions over retirements of 2.8 billion, an amount that was 48 percent of the consolidated cash deficit of −$5.8 billion for the same period. The reason for segregating these loan transactions is that, unlike many other Federal expenditures and receipts, they do not alter the Government's net wealth position When disbursements exceed repayments, the cash account does indeed suffer a deficit, but the financial asset account enjoys an equal, and offsetting surplus. On the other hand, the $2.8 billion net expenditures in fiscal 1962 presumably did have an important expansionary impact on private incomes and output, and this is the main economic reason for including them with other expenditures in the budget.

3. The balance of the Federal loan account for any period can also be estimated by subtracting the amount of loans outstanding at the beginning from the amount outstanding at the end. These differences should be reconciled with the balance obtained by dealing with loan disbursements and repayments, loan purchases and sales, and loan writeoffs.

4. Just as investment in physical assets can be shown both gross and net of depreciation, Government investment in financial assets can, and should, be shown both gross and net of losses on bad loans. For either type of asset, disinvestment occurs to the extent that its market value declines.

5. Operating budgets should be constructed, at least for the major lending programs, showing administrative expenses, interest, and fee income, and capital gains and losses resulting from loan sales and defaults. Interest payments to the Treasury, if any, should not be included in administrative expenses. Total income of the program, however, can be divided into that part transferred to the Treasury in the form of interest payments and that part retained by the agency.

6. For economic analysis seasonally adjusted quarterly estimates for the major kinds of lending activities would be extremely useful. Four statistical series would provide much of the information needed: Loan authorizations (i.e., commitments to make new loans), disbursements, principal repayments, and the amount of loans outstanding. Unadjusted quarterly estimates of the latter are now available for many loan programs in the Treasury Department's very useful statements of "Financial Condition for Corporations and Certain Other Business-Type Activities," published regularly in the Treasury Bulletin.

7. It would also be helpful if present budgetary forecasts of future loan operations would distinguish between developments expected under existing laws and those anticipated if certain proposed legislative changes are adopted. In addition, principal repayments on loans already made should be separated from other expected repayments.

8. Detailed statements covering both income and expense and the sources and applications of funds, formerly included in the budget document, should be reintroduced into the appendix for the major lending programs. Similar statements are now published semiannually in the Treasury Bulletin, but they frequently do not show the amount of detail needed for economic analysis.

9. In addition to the amounts of new commitment authority now given for each major credit program in special analysis E, it would be useful to have a summary statement of the amounts of unused authority and the size of the backlog of loan applications awaiting approval.

10. Finally, there is a good deal of background information that would greatly increase the fiscal analyst's ability to estimate the economic impact of different lending programs tabulations such as the number and amount of loans made at different interest rates and terms to maturity, to different kinds of borrowers and for different purposes, and distributions showing the different amounts of time taken for loans to go through the various program stages. The important thing, of course, is that these data be made available some-

where, and space limitations may shift that task from the budget document itself to agency annual reports.

Thank you, Mr. Chairman.

Senator PROXMIRE. I thank you very much, Dr. Break.

Professor Brown.

STATEMENT OF E. CARY BROWN, PROFESSOR OF ECONOMICS, MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Mr. BROWN. Thank you very much, Mr. Chairman. I will just read the statement if I may.

Budget techniques and information have undergone continual improvement over the past decades. Many suggestions have come from a wide variety of sources, including the helpful work of this committee, to take further steps in the direction of making the budget a more meaningful and useful document. Instead of surveying this ground, a work already admirably performed in your publication, "The Federal Budget as an Economic Document," let me as a student of fiscal policy merely record myself in favor of or opposed to some of the major proposals that are currently under discussion insofar as the budget relates to problems of fiscal policy.

The impact of Federal fiscal action on economic activity cannot be determined, of course, by any single numerical aggregate. Yet judgments, to a first approximation at least, of this impact must be based on certain financial magnitudes. These magnitudes should be significant for the formulation of overall fiscal policy and should be contained in the budget document itself, rather than scattered through the Economic Report of the President, various hearings before congressional committees, and internal administrative memorandums.

What numbers seem most useful in the formation of fiscal policy? Obviously, those which most precisely conform with fiscal action as it affects private spending decisions. This means that the budget should display the character of the fiscal action as well as its timing.

1. THE CHARACTER OF FISCAL ACTION

It is a commonplace in economic analysis to distinguish the employment-creating effects of governmental fiscal actions which increase demand for output directly and also affect private disposable income, namely, Governmental purchases of goods and services, from those which affect only private disposable incomes, namely, taxes and transfer expenditures, from those which do not affect disposable incomes but alter liquidity and the structure of assets and liabilities, through lending and borrowing activities or the purchase of existing assets.

How well do the various budget concepts present this classification? The administrative budget, though still the most publicized of the various budget concepts, is inadequate because it omits a large segment of taxes and expenditures in the trust accounts and fails to classify expenditures in an economically significant way. The budget showing cash receipts from and payments to the public while an improvement over the administrative budget in its comprehensiveness, makes no distinction between the character of expenditures undertaken by the Government.

The budget on national income account is our best current aggregate measure of the impact of fiscal action on the private economy. It classifies expenditures in a useful way for economic analysis. I am pleased to see increasing emphasis being given to it. While some may object to its omission of lending activities and purchases of existing assets, these activities are more closely related to monetary and credit policy than to fiscal policy. If monetary and credit actions are to be included in the budget document, then the actions of the Federal Reserve System should also be brought in.

2. TIMING OF FISCAL ACTION

The timing of fiscal action is as crucial as its character and amount. In two respects the present budget document, regardless of concept used, could be improved in an important way to give more information on timing. We can find both expenditures and appropriations in it, but it is not clear which of these two steps in the expenditure process are most significant in influencing economic activity, or whether some stage in between is a more precise gage, such as contract awards, deliveries, and the like.

The other weakness of the budget document is its emphasis on the fiscal year rather than shorter periods of time, say, quarters. Within a given year, for example, taxes may be increased in the early part of the period, exercising a deflationary impact, and reduced later in the year when they would exert an expansionary influence, although their timing may come too late to make up for the initial deflation. Yearly totals of tax receipts would not exhibit this contractive-expansion pattern, yet it may be crucially important to an understanding of the behavior of economic activity in any particular year. On a calendar-year basis, for example, this may happen in 1963 if the tax reduction bill is passed in time to offset the deflationary impact of the increase in OASI contributions on January 1.

3. FULL-EMPLOYMENT BUDGET

The effect of fiscal action on economic activity cannot be determined by reference only to the actual budget deficit or surplus. Deficits or surpluses can arise passively from changes in GNP with a given tax expenditure structure as well as from an active policy which shifts the tax expenditure structure with or without changes in GNP. Furthermore, the size of the deficit or surplus will have differing impacts on the economy depending on the size of Government purchases of goods and services as well.

Since movements are taking place continually in GNP from year to year, a user of the budget document has a hard time determining whether governmental fiscal action has shifted as between years from an expansive to a deflationary posture, or to a more or less expansive or contractive position. Changes in GNP, and the consequent induced effects on taxes and transfer payments make the actual outcome of the budget a combination of passive and active fiscal action.

I would, therefore, recommend implementing a proposal made many years ago by the Committee for Economic Development. They would have the budget document contain an estimate of the full-employment budget position, making it possible to determine whether fiscal policy has become tighter or easier. The 1962 Economic Report of the President contained estimates of the full-employment budget surplus or deficit for the period from 1956 to 1962, but this should be expanded to include purchases of goods and services, transfer expenditures and receipts, and a further refinement would be to express them as percentages of, say, GNP. The anticipated budget position could also be shown as at the present time based on the likeliest GNP level or range. These assumed levels should be clearly set forth as they were in the 1964 budget.

4. LEGISLATIVE PROPOSALS

Proposed legislation and its effect on both expected and full-employment budget receipts and expenditures should be shown separately from the budget position under existing laws. For example, the precise consequences of the proposed tax revision on the 1964 budget are difficult to disentangle. On the expenditure side, on the other hand, both the 1963 and 1964 budgets have made important strides to fill this need. In this connection, longrun budgets should be developed to depict more fully the consequences for 5 or 10 years ahead of prospective budget receipts and expenditures, not only for new programs but also for existing ones.

5. CAPITAL BUDGETS

Despite the utility for State and local finance, capital budgeting at the Federal level does not seem to me to be desirable for fiscal policy decision. It runs the danger of justifying borrowing for capital outlays when fiscal policy may call for such expenditures to be tax financed; or prevent tax reduction below current outlays when expansive policy is needed. It also raises the arbitrary problem of classifying expenditures into current and capital items and determining depreciation on governmental durable goods. Expenditures on physical plant would be more apt to be categorized as capital outlays, whereas research and development, or education, would be more likely found in the current section of the budget. A bias toward hard goods might well be imparted to fiscal policy in a recession when other types of expenditures or tax reduction might lead to more optimal policies.

This is not to say that a capital-budget annex might not be significant and interesting. Cost comparisons of different programs can only be made when depreciation is treated as a cost item, rather than including the total capital outlay when made. Such comparisons could improve resource allocation decisions made between different ways of carrying out particular functions.

Senator PROXMIRE. Thank you very much, Mr. Brown.

Doctor Okun.

STATEMENT OF ARTHUR OKUN, PROFESSOR OF ECONOMICS, YALE UNIVERSITY

Mr. OKUN. In discussing the meaning of the Federal budget as a document, we are obliged to consider the meaning of the Federal budget as an instrument of policy to promote the economic objectives or our society. We want budgetary policies that will promote stability at a high level of activity and growth of our national productive capacity, and we need information and accounting techniques that will help us to evaluate the performance of fiscal policy.

THE BUDGET AND ECONOMIC STABILIZATION

In considering the overall impact of the budget, I should first ask whether it contributes to a balance between aggregate demand and total supply in the national economy. If we are to achieve the goals of the Employment Act, total spending on goods and services by consumers, investors, and Government must match our national productive capacity to produce goods and services. If the scales are tipped in the direction of insufficient demand, we find persistent unemployment and excess capacity, as we have throughout the past 6 years. If demand is excessive, we experience inflation. The Federal Government influences total effective demand directly by its purchases of goods and services and indirectly, but even more significantly, by transfer payments and taxes which alter the purchasing power, and hence the purchasing decisions, of individuals and firms in the private economy.

Both in its objectives and its instrumentalities, Federal budgetary policy works through the stream of total spending in affecting employment, production, and the price level. This analysis should demonstrate that no amount of information, however comprehensive, about the Federal sector alone can ever tell us whether the budget is doing its job. Whether a budget is appropriate or not depends on business conditions: if total spending is pressing hard on productive capacity, and inflation threatens, we should want the Federal budget to exert a restraining influence. When resources are underemployed, however, we want a higher level of demand and should welcome a stimulus provided by appropriate budgetary policies. When private demand is especially weak, a budget in deficit may simply reflect the depressive effect of a slack economy on tax collections. When private demand is especially ebullient, a budget moderately in surplus may not be sufficiently restrictive.

In short, the budget should be appraised as a part of the whole pattern of income and product flows of the Nation. Federal activities should be viewed in the context of total demand, both private and public. A number of corollaries about budgetary information follow rather directly from this principle.

(1) Economic assumptions: The Budget should supply information concerning the assumptions about national income and product on which fiscal policies and budgetary estimates were formulated. These assumptions have been specified in the last two budget documents and they have been discussed in detail in the Economic Report. This is a welcome development. Forecasts have always been required in order to derive budget estimates. Indeed, whenever plans are made for the future, they necessarily involve predictions and assumptions. The decision to make these explicit aids the appraisal of the fiscal program.

(2) National income budget: The national income and product accounts provide an integrated framework for viewing the income and spending flows of all sectors—including the Federal Government. Because they present the Government as part of a meaningful whole, data recording the Federal sector's activities on a national income basis are indispensable to the economic analyst. The inclusion of these data in the budget documents of the past 2 years in an important forward stride.

The national income accounts budget is a necessary, but not a sufficient, body of information about fiscal policy. Indeed, no single budgetary system or concept is sufficient. The administrative budget is needed in the congressional appropriations process. But the economic impacts of expenditures out of the general fund are not qualitatively different from those made by trust funds. This fact supports the shift of emphasis toward the consolidated cash presentation that was incorporated in this year's budget.

The national income budget is currently a different kind of data system from the cash budget. It is based on statistical estimation rather than a direct summation of accounting records. In its present form, it is not a suitable framework for program management and control. For this reason I believe that the cash budget should remain the core of the budget document. But I should strongly recommend the development of a data system that would permit closer linkage of the cash and the national income account budgets. In the case of accrued receipts for example, tax liabilities not yet paid, the reliance of the national income budget on statistical estimation is inevitable. In the case of expenditures, however, the national income entries could emerge from the accounting system if all disbursements were systematically classified as purchases, transfers, loans, etc.

(3) Monetary and credit aspects: In appraising fiscal policy, we need to know the future prospects and plans for the second most important instrument of stabilization, namely monetary policy. Under the present division of authority over economic policymaking, the budget cannot state the intentions or views of the monetary authorities. The absence of such information reflects a cost of decentralized policymaking. It is not a deficiency in data collection or an unwillingness to make explicit projections that keeps such information out of the budget.

Federal lending activities are one area where budgetary actions have important direct consequences on money and credit. The national income and product account, in omitting Government loans, does not deny their importance but merely recognizes that they are not income payments or income receipts. Federal loans are one aspect of the credit and monetary policies of the Federal Government, most of which lie outside the budget, in the hands of the Federal Reserve System. Government lending activities are properly shown in the cash budget and are included in the flow-of-funds approach to national economic accounting. It is regrettable, however, that the budget cannot discuss Federal lending or loan-guarantees in the broad context of the total financial outlook.

(4) Economic statistics: The evaluation of fiscal policy requires the best possible data for all sectors of the economy. Any improvement in our economic indicators and intelligence covering private demand is

an aid to the appraisal of the budget, because it helps to determine where the economy stands, where it is heading, and what policies are appropriate. We also need the best possible data for the public sector. The data and projections covering Federal obligations in the recent budget are most welcome. It would be most helpful if these annual data could be supplemented with projections of expenditures and obligations on a quarterly basis. It is not necessary that these quarterly data be included in the budget documents; but it is important that such information be available.

THE BUDGET AND ECONOMIC GROWTH

Federal expenditure programs affect the supply, as well as the demand, side of our national economy. Our productive capacity is enlarged by the provision of public capital facilities for an improved and increased flow of Government services, and by Government programs which enhance the quality and efficiency of our natural and human resources in the private and public sectors. An appraisal of the growth impact of Federal outlays requires information on public investment—expenditures whose benefits extend over a number of years and which contribute to productivity in Government or in the private sector. Such information is currently available in Special Analysis D of the budget, but many further details could be useful. In particular, just as some current Federal activities build for the future, some activities use up or wear down the public capital accumulated in previous years. We need estimates of depreciation on public capital to show the net investment outlays of the Federal Government. The problems of estimating depreciation, or capital consumption, are enormous, but not insuperable. I hope the Bureau of the Budget will successfully complete a program to develop such estimates.

It is important to recognize that many of the most important public contributions to growth are made by expenditures that do not create durable tangible assets. I should advocate a concept of public investment which includes outlays for education, scientific research, et cetera. Public capital formation should build minds and bodies—as well as bricks and steel—for our future welfare.

Fiscal policy also influences growth through the tax structure. An ideal budgetary policy should raise its revenues through taxes that maintain incentives for our citizens to work efficiently and to invest productively. Because our tax laws do not change dramatically from year-to-year, we may not require a formal and detailed annual review of the incentive effects of taxation. But we must be constantly alert to these issues in the appraisal of the budget.

A comprehensive handling of public investment should lead toward the development of national wealth accounts that include both private and public assets and liabilities. A national balance sheet would be a most instructive set of data. It would help to show the significance of public assets—from schools to defense establishments—in total wealth. It would make clear how the public debt enters simultaneously as a liability of the Government and as an asset for the private sector. Some of the most heated discussions of fiscal policy might be tempered in the light of such simple accounting identities.

I have emphasized the importance of capital accounting for the Federal Government, but I do not consider this sufficient grounds for capital budgeting. We need detailed information on public investment, but we need not segregate public investment outlays in our budgetary totals or seek to finance them separately. It is true that many of our most prosperous and profitable business firms would show persistent deficits if they followed the accounting system employed by the Government, lumping current and capital expenditures. On the other hand, there are essential differences between Government and business operations and these may justify different accounting systems. The Government does not obtain its receipts through voluntary payments on the market; it does not sell its output by means of price tags; it does not seek profits or shun losses as a business does. Indeed, the very existence of collective consumption items reflects the social judgment that certain wants and needs cannot be met effectively through private production and market distribution.

If people insisted adamantly on reading the Federal budget as though it were a business income statement, it would probably be desirable to shift toward business accounting practices. But that is, I think, a counsel of despair. I am optimistic enough to believe that, with increased education about the budget, we can have an improved public understanding that focuses on the truly significant issues: how fiscal policy contributes to the national balance between supply and demand; how it influences the growth of our productive capacity; how well and how efficiently it meets urgent public needs for collective services; and how it affects income and wealth distribution. Such an understanding is the best antidote to the idle search for a single profit or loss figure to summarize the success or failure of the budget program.

There is much to be done in the improvement of information on Federal fiscal activities and I have mentioned some of the tasks which strike me as deserving priority: (*a*) improved estimation of items in the national income budget and closer linkage of the income account data to the cash budget; (*b*) integrated and coordinated information on the relation between fiscal policies and credit policies; (*c*) quarterly projections of expenditures and obligations over the forthcoming fiscal year; (d) more comprehensive information on public capital formation and capital consumption; (*e*) the development of a national balance sheet including the Federal sector. In closing, I should like to note that an equally important task remains to be accomplished in the promotion of better understanding of information already available. Education on the nature and objectives of fiscal policy is a key requisite to better budgeting and the educational mission deserves the utmost efforts of economists and statesmen.

Senator PROXMIRE. Thank you very much, Mr. Okun. Professor Shoup.

STATEMENT OF PROF. CARL S. SHOUP, COLUMBIA UNIVERSITY

Professor SHOUP. Does there exist a particular kind of Government budget that is especially helpful for presenting questions of fiscal policy to Congress and the public? This question is usually answered in the affirmative, and the search then proceeds for the appropriate type of budget. But perhaps we should pause for a moment at that question. In the present statement I shall suggest some general rules that might apply in building up a fiscal-policy budget, then try to see where an application of such rules would lead us. The kind of budget that emerges will, I fear, seem so strange and even incomprehensible that we may decide that no suitable fiscal-policy budget exists after all. This does not mean that no suitable fiscal policy exists. It means, rather, that fiscal-policy items are to be found, here and there, within a budget, and that they may well be segregated and brought together for fiscal-policy analysis, but that they hardly make up by themselves a budget in the accepted sense of that term.

Another implication of this line of thought is that neither the administrative budget, nor the cash budget, nor the national-income budge is a "best budget," for fiscal-policy purposes. Fiscal policy, in other words, like defense, or intergovernmental fiscal relations, is inherent in all budgets, but must be implemented through only a part, sometimes a restricted part, of the budget.

Selection of items for a fiscal-policy budget involves two questions: What transactions shall be included, and what dates shall be attached to them? Shall trust-fund transactions, business-type transactions, liquidity-altering transactions be part of the budget? Shall the year of inclusion be that of announcement of policy, enactment of legislation, accrual of liability, or payment?

WHAT TO INCLUDE

On the first question, a rule that merits consideration is: Do not include the item if nothing can be done about it for fiscal policy. Consider, for example, a nationalized steel industry run by a board appointed for a long term who have no intention of raising or lowering prices for countercycle purposes, or scheduling capital projects by the level of unemployment. A recession is at hand: the nationalized industry is estimated, for the coming year, to show a certain surplus, or deficit. Will it be helpful to include that surplus, or deficit, in the fiscal-policy budget? If it is included, it might best be put in a special category, to indicate that it is a figure that the Government of the day cannot affect. It is background information, on a part with estimates of the amount by which exports will exceed imports, or of the expected difference between gross retained business earnings and gross private domestic investment. There is, to be sure, this distinction: The nationalized industry's deficit or surplus has implications for the Government's debt or cash balance, if the industry finances itself partly through the Treasury. But even this element of change in Government debt or cash balance is itself a background figure, to be taken as given.

Moving closer to the center of Government, let us consider the Post Office. The Government's hands are not legally tied; yet we must assume that the public would not tolerate frequent changes in postal rates for countercycle purposes, or delay and inconvenience from timing and locating new post office buildings to accord with unemployment. Again, the expected postal deficit or surplus could be included in the fiscal-policy budget, but only as background information.

Consider next the trust-fund transactions. They are excluded from the administrative budget. In fact, Congress cannot "administer" them; Congress has tied its own hand—loosely, to be sure—has renounced, for the time being, a power to alter the flows of funds. It can of course alter them, by new legislation, but the implication of the trust fund is that here is a settled policy of segregating certain receipts and certain expenditures, at specified levels, and linking them in some way, to reach a designated goal over a period of years. A temporary increase of the payroll taxes for OASI, unaccompanied by any change in prospective pensions, and enacted solely for the fiscal policy purposes, would run counter to the philosophy of the trust fund. Similarly, a decrease of highway trust fund excises and a speed-up of that part of the Federal highway program that is linked with them, if done solely for fiscal policy purposes, would contradict the trust-fund principle to highway finance. One may oppose use of a trust fund for Federal highway finance, and I do oppose it, but that is not the point at issue here.

If the trust fund is itself a countercycle instrument, for example, the unemployment compensation trust fund, it may be included in the fiscal-policy budget if it is thought of as subject to change for fiscal-policy purposes.

These considerations lead to contemplation of an "active" or "efficacious" fiscal-policy budget that would resemble the administrative budget of the United States, although it would presumably exclude business-type deficits or surpluses, like those of the Post Office, and dividends and interest from Government-sponsored enterprises.[1] Moreover loans by Government and repayments to Government raise another question, that of alterations in liquidity rather than income, to be considered below.

In general, then, a fiscal-policy budget might appear in two parts: First, a completely comprehensive budget, embracing even the prospective surplus or deficit of a nationalized industry; that is, including everything that has direct implications for the Government's debt or cash position, but doing so as a matter of background information; second, a section of the budget, this section being the "active," or "efficacious," fiscal-policy budget, which excludes those items that are not available for countercycle operation for reasons legal—the nationalized industry of the kind assumed above; practical—Post Office; or philosophical—trust fund flows.

But if the "active" fiscal-policy budget is to suggest truly the alternative policies available, it should exclude certain taxes and expenditures that are clearly unsuitable for countercycle action, even though legal, practicable, and acceptable in principle. Thus, excises and general sales taxes might be excluded because the public's anticipation of changes in the tax rates would intensify the cycle. The corporation income tax might be excluded because changes in its rate would have little immediate effect on either consumer or business spending. We should not be surprised if, on the revenue side, a fiscal-policy budget came eventually to include only the personal income tax. On the expenditures side the fiscal-policy budget would include, similarly, only those kinds of Government expenditure that were suit-

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[1] See Joint Economic Committee, "The Federal Budget as an Economic Document" (by Dr. Roy E. Moor), 1962, p. 111.

able for countercycle change; thus, for example, it would not include long-term debt service, or, presumably, military outlays.

Fiscal policy formulators are concerned with those items that can be changed for fiscal-policy purposes. From this point of view, the total prospective Government deficit or surplus is only an information item, like an estimate of the country's export surplus.

Much of what is said above may seem to run contrary to a generally acknowledged preference for the cash budget—aside from loans and repayments—over the administrative budget, for formulating fiscal policy. The need for a cash budget statement is genuine, but it expresses a background information need, much the same need as that for information on prospective income and outgo in the private sector. In other words, I question whether we have distinguished sufficiently our need for background information from our need for data concerning those items on which fiscal policy can in practice operate.

Another aspect of the problem, what to include, refers to liquidity changes in the economy, including Government purchase and sale of indebtedness and of existing tangible assets such as land and buildings. The present administrative and cash budgets exhibit some asymmetry in this regard, with respect to debt instruments. To some extent, loans from Government to the private sector and repayments from the private sector to Government are taken into account in arriving at the deficit or surplus of these budgets, but, in general, loans from the private sector to the Government and repayments by Government to the private sector are excluded. If the fiscal-policy budget is to be designed to include liquidity information, it should be reasonably inclusive in this respect. Perhaps the most helpful device would be a presentation of liquidity changes in an annex to the fiscal-policy budget, or, alternatively, formulation of a fiscal-policy "statement" that would have its "income account," the budget, without loan or repayment items, and its "liquidity account," showing issuance of debt by and to Government and repayment of debt by and to Government.

Insofar as loans by Government are not entirely genuine loans, for instance, nonrecourse loans made under the farm program, they might be listed in a separate schedule, an attempt being made to estimate that proportion of such transactions that constitutes genuine loans.

Incidentally, in public presentation of the data on Government debt, the distinction between that part of the debt held by the Federal Government itself, or its agencies, and the remainder of the debt should be emphasized.

TIMING

The question of timing can be answered, public relations aside, by estimating the reaction date of the private sector for each type of fiscal-policy measure. The fiscal-policy budget, as a technical tool to help the executive and Congress act effectively, need not be committed a priori to just one timing basis for all items, whether cash basis, accrual, or whatever. For example, let us suppose that the changes in spending and saving touched off by changes in the personal income tax take effect close to the date of tax payment, even when there is a considerable lag between accrual and payment, as with farm income. Suppose further that changes in corporate spending date closer to the accrual of taxes. The fiscal-policy budget, as a technical tool for policy formulation, should then include the one tax on a cash basis, the other on accrual. If it does not do so, an adjustment will have to be made somewhere along the line, in computations of dated effects of a combined change in personal and corporate income tax rates. The national-income budget may prove fortuitously to contain the optimum mix of cash and accrual bases, but if it does not, we should not hesitate to design a special mix for a fiscal-policy budget. These remarks apply both to the revenue side of the budget and the expenditures side.

CONCLUSION

The prospective surplus or deficit in a budget will always need to be emphasized by the President, with its implications for countering depression, or inflation. Must there not, then, be some one best concept of surplus or deficit for this purpose? No, there is not; for, whatever concept of surplus or deficit the President uses, he will have to explain its significance against the background of the Nation's budget. Using one concept of the Government's surplus, he will have to call special attention to certain items in the Nation's budget that help explain why this amount of this kind of surplus is desirable. If instead he uses another concept of the Government's surplus, he will need to point more to certain other aspects of the Nation's budget. A fiscal policy can never be explained or defended without juxtaposing the Government figures with other, non-Government figures. The search for the one best concept of Government surplus or deficit for explaining fiscal policy to the country betrays, perhaps, a hope—an unfounded hope—that we can escape the need to present a reasonably detailed Nation's budget simultaneously with the Government's budget. Once we admit this need, we can use the administrative, the cash, or the national-income budget concepts with equal usefulness, making, in each case, the necessary connections with those items, governmental and nongovernmental, that lie outside the particular type of budget chosen. Meanwhile the formulators of fiscal policy, searching for alternative concrete measures to implement fiscal policy, will confine themselves to what I have termed the "active," fiscal-policy budget, or, rather, "active," collection of items, for they do not really constitute a budget in the usual sense.

Senator PROXMIRE. Thank you very much, Dr. Shoup.

Professor Break, you list a series of proposals that are very specific and constructive. Why in your judgment aren't these proposals in effect now? Would that take additional personnel, additional cost?

Mr. BREAK. Some of the suggestions certainly would. The construction of seasonally adjusted quarterly estimates, for example, would, I would guess. Some of it would require mainly a reorganization of the information that is now available.

Some of the agency annual reports, for example, give you the figures that I would like to have. They are not always in the budget document, however.

Senator PROXMIRE. Would this have to be done on a comprehensive basis for the entire budget, or would it be helpful if it is done in an increased extent, or if it is done on a modest basis so that we can determine its value? Incidentally, what would be the principal significance in value of these.

Mr. BREAK. Well, to answer the first part first, I would suggest starting with the most important loan programs and organizing them along the lines I have suggested, and there are a great many relatively minor programs that I would not be especially worried about leaving them in their present condition. But for the major ones, I would hope that some of these changes could be made.

The reasons for doing this, for instance, you take disbursements and repayments of loans which the Government itself authorizes, it would be nice if you could distinguish between loans going to private spending units who could not otherwise have obtained any loan from the private sector, these loans increase their spending power, and presumably induce them to do things they otherwise wouldn't have done.

Senator PROXMIRE. That is extremely difficult.

Mr. BREAK. That is very difficult, and I haven't suggested it here.

Senator PROXMIRE. I am chairman of the Small Business Subcommittee and the Banking Subcommittee and I know the Small Business Administration claims that none of their loans would be made if the SBA didn't make them, and technically they can prove it by saying they only make a loan if the applicant is turned down at a bank. But I think anybody who has any practical experience knows that this is a matter of form.

Mr. BREAK. Yes.

Senator PROXMIRE. The banker does this for a friend. He may participate on a 10-percent basis, so that it would be extremely hard to determine with any precision or any reliability——

Mr. BREAK. True.

Senator PROXMIRE (continuing). Whether or not this loan would or would not be made.

Mr. BREAK. Indeed I didn't put that in.

Senator PROXMIRE. It is my hunch that the SBA makes very little difference in the terms of the overall economy.

Mr. BREAK. If the loan doesn't add funds to that particular private borrower, it adds funds to the private lender. Otherwise he would have loaned money to that person, and the Government does it, so he has funds to loan to somebody else. So I think it adds funds to someplace in the private sector.

Senator PROXMIRE. Depending upon whether or not this might have its influence on our monetary authorities—might otherwise follow policies which would result in private lending.

Mr. BREAK. True.

Senator PROXMIRE. That would compensate for this.

Mr. BREAK. You have to also consider whether the Treasury is going to be financing these expenditures by debt sales or whether the Congress is going to react to these loan programs by holding down other kinds of expenditures that they otherwise would have or make taxes higher than they otherwise would have been. It is an extremely complex business.

My hope was simply to get as much useful information centrally available in the budget, and let the fiscal analysts play with it, and try to come up with whatever they can.

Senator PROXMIRE. I notice in your item 7 you say:

> It would also be helpful if present budgetary forecasts of future loan operations would distinguish between developments expected under existing laws and those anticipated in certain proposed legislative changes are adopted.

I think that is a very good suggestion. Is it your understanding that the President simply takes his proposals and assumes they are all going to pass, then makes his estimates based on this assumption? I presume he does that.

Mr. BREAK. Yes.

Senator PROXMIRE. For instance, the Youth Employment Act——

Mr. BREAK. I have really been unable to untangle what the figures mean, but then I have never needed to do so in detail. Presumably you could go to the agencies and try to find out whether the forecasts included or did not include proposed legislation.

Senator PROXMIRE. Of course so many of these new bills, the effect on the budget for the first year is likely to be quite small.

Mr. BREAK. Yes.

Senator PROXMIRE. Nevertheless there is at least a modest mistake. I don't want necessarily to get you gentlemen involved in a dispute but it seemed to me there was a little bit of difference between you on the one hand, and Mr. Brown and Mr. Okun on the other on whether or not these loan programs should be characterized as fiscal or monetary impact primarily, and I understood you to feel that their effect is primarily a fiscal effect and they should remain in the budget and I understood Mr. Brown to say that in his judgment the effect was primarily monetary in that the fiscal standpoint would be excluded?

Mr. BROWN. I wouldn't go so far as to say would be excluded. I think Professor Okun stated that better, namely, that it seems to me they affect the economy in a way similar to money and credit policies as you have indicated. Therefore if this is going to be included in the budget, then you ought to bring in an integrated monetary and fiscal annex, if you wish, into the budget to give us a better integrated picture of both fiscal and monetary action at one time.

Senator PROXMIRE. Why is the difference so great? After all, if loans are made for a housing program or we have a big loan program, the President is proposing now for higher education, for example, what is the big difference as far as the effect on our economy is concerned as to whether these are loans on the one hand, or grants on the other? Don't they in both cases have the effect of providing the kind of stimulation in demand, the kind of increase in employment which is quite similar whether they happen to be loans or happen to be grants?

Mr. BROWN. Well, if an expenditure is made that would otherwise not be made, and nothing else happens in the money and credit sphere, then I would agree. But I think the basic difference is that these expenditures, if they are loans, don't change your net worth position, and therefore we expect them to have a different effect on your spending behavior than would be the case if we just gave you money to build a house, for example.

In other words, if you give me money to build a house or lend me money to build a house, my other actions are going to be different, noticeably.

I will have resources free to buy other kinds of durable goods.

Senator PROXMIRE. I think this is perhaps true when you are talking about private individuals, or somewhat true. I am not so sure it is true when you are talking about school districts, when you are talking about public bodies.

They build a school because they need it, and their tax rate may be higher or lower?

Mr. BROWN. Well, even there it seems to me that I would expect public bodies to make a decision in terms of ultimate repayment, which would affect their decision in a different way from the way it would be affected if you simply reduced the price of the school, you see. That is, you are cheapening the cost of ultimate school expenditures.

Senator PROXMIRE. Yes. I recognize the difference.

Mr. BROWN. Yes.

Senator PROXMIRE. I am just concerned with whether——

Mr. BROWN. A difference in kind.

Senator PROXMIRE. I am concerned with whether the difference is just in degree. Doctor Break, what is your judgment on this?

Mr. BREAK. I would say a loan is capable of having as much stimulating impact as a grant. The differences I would see are, first, that the loan is a sort of self-policing device. You charge an interest rate on that and you presumably restrict the recipient to income-earning projects that are at least better than that interest rate.

If you give them a grant, unless you police it yourself he can do whatever he likes with it.

The second is that the loan has to be repaid in future years, and this will affect the behavior of the recipient in future years. It may even affect his behavior right now if he is going to try to provide for that repayment. As Professor Brown just said, it doesn't make the recipient better off except by opening up an income-earning prospect to him that he otherwise couldn't undertake.

And from the point of view of the Government, it doesn't make the Government worse off. The Government acquires a financial asset which may be an earning asset, it typically is an earning asset, and for that reason I would view the loan differently from the grant even though they both have the same stimulating effect.

In the one case the Government is acquiring an asset and in the other it isn't.

Mr. OKUN. It may be worth pointing out that the Government can exercise the same effect without any cash disbursement at all by a loan guarantee program.

I think that loan guarantee programs have had an important effect on the housing market. There it is clear that we wouldn't want to add that to budgetary totals.

Senator PROXMIRE. Well, except that certainly notice should be taken of it somehow in the budget.

Mr. OKUN. Yes.

Senator PROXMIRE. This mass transit bill we had, a $375 mililon loan guarantee as you know, and many expect it to have a substantial effect on the economy.

Dr. Brown, in your statement you say:

> I would recommend implementing a proposal made many years ago by the CED. They would have the budget document contain an estimate of the full employment budget position, making it possible to determine whether fiscal policies become tighter or easier

and so forth.

Now if you rely on this full employment budget concept, don't you have to make some pretty firm assumptions about monetary policy?

Mr. Brown. Oh, I don't propose this as a rule to be followed. I am not saying that the budget—what the CED did was to go farther and say that the budget should be balanced or a surplus was to be run at full employment.

Senator Proxmire. Their notion was the budget should not be balanced as I understand it, until we reach some level, maybe 4 percent unemployed.

Mr. Brown. Right.

Senator Proxmire. Then balance, get a surplus over that, deficit below it?

Mr. Brown. Mind you, I am not saying there should be any rule attached to this balance, you see. All I would like to know is what the balance is at full employment so that I will know when the tax schedules have been shifted up and down.

Senator Proxmire. How can you know that if you don't know what the momentary policy is?

Mr. Brown. Well, if full employment tax yields rise, you see, if you show me a budget this year and show me a budget next year, and full employment tax yields have risen, adjusted for growth but let's waive that for the moment, then I would infer that there has been an upward shift in the tax schedule. There has been some legislation which has increased tax yields, regardless of what has happened to momentary policy. Now whether or not that is an adequate deflationary or inflationary effect will depend upon monetary policy.

Then you have to look at the two together. But at least I can judge what is going on with fiscal policy which I can't do now because I am running up and down a schedule as well as perhaps having a schedule shift on me, and I can make no unambiguous judgment.

Senator Proxmire. But, as I understand, the whole notion of this full-employment surplus was that you would calculate your tax rates, one of the things the administration is proposing now that I oppose. You would reduce taxes with the idea in mind that you would stimulate the economy sufficiently with the deficit that would be involved and increased spending too, so that you would increase business activity and bring in more revenue, and balance the budget. Now what I am saying is how can you determine that a tax cut of a certain amount is going to achieve a balanced budget when you don't have any idea what your monetary policy is?

Mr. Brown. Mind you, if a full employment budget were computed under existing law and under the proposal, I would assume that the full employment budget would show a larger deficit after the smoke had cleared, after the tax legislation.

Therefore, I would say that there would be an expansive force on the fiscal side from the tax reduction, which would, might, be offset by monetary action. I would have to then look at monetary action. But it wouldn't show a balance. I mean, the full employment budget would show a bigger deficit or a smaller surplus as a result of the action of the Federal Government if it cut taxes.

Senator Proxmire. You also argue the other way, that no matter how much you reduce taxes or increase your spending, that you are not going to reduce unemployment if you have a stringent enough monetary policy?

Mr. BROWN. That is right; yes; all I am saying is I would like to see what fiscal policy is doing. Then I also want to see what monetary policy is doing. But if I were going to implement a rule like the CED did, then I think what you are saying is very important.

Senator PROXMIRE. I have to leave for a rollcall. I will be back in about 10 minutes.

Dr. Mooor, who is our economist and, as you know, an outstanding expert and who wrote, if not perhaps a definitive work but a great work in this field, will carry one with some questions.

Mr. MOOR. I am curious if I can get some agreement or disagreement among you.

One of the things that I was interested in, Professor Shoup, is this distinction that you drew between those things which you can take actions on and those which are predetermined. First, the obvious question is, have you attempted to draw up any list as to the types of items that you might include?

Senator Proxmire, for example, reacted when you were giving this idea that he was very surprised you had apparently excluded the corporate tax in those things where you might take fiscal action.

Mr. SHOUP. Yes.

Well, I don't come out with a very lengthy list of items as you can probably infer.

Mr. MOOR. Is there anything left?

Mr. SHOUP. The personal income tax yields almost $50 billion so that is not a bad place to start on the receipts side. And on the expenditures side we have something called public works, which are supposed to be adjustable now and then.

And as far as I am concerned, that is almost it for an active fiscal policy of any magnitude. I am probably omitting something on the expenditures side I should think of, but on the whole, the expenditure side doesn't seem to me to be very flexible for a short-term countercycle action, always excepting such items as advances to the States for unemployment compensation and other stopgaps that will continue as long as we have an inadequate unemployment insurance program, and excepting, too, of course, possible increases in transfer payments for welfare, and so on, that must grow as a depression continues, but I am assuming that we are now talking about things which we change, simply because we want to influence the cycle and not because of events the cycle has brought with it, like unemployment.

Mr. MOOR. You would exclude as part of that latter, then, the items that change in the budget as a result of changes in the economy, the passive changes?

Mr. SHOUP. Of course, those passive changes would be part of the background information, wouldn't they, to take into account?

I think the essence of my argument is that whatever type of comprehensive budget we use, we find we will have to link it to the national income accounts, the Nation's accounts, so that, if I presented an administration budget to the Congress, I would have to say, the surplus or deficit here is inadequate because on the one hand, the Nation's export surplus is such and the prospective capital formation is such, and the social security and trust fund cash flows are such, and none of these can we expect to change very markedly.

I have to make the same kind of explanation with modifications, whatever type of comprehensive budget I submit.

Mr. Moor. But there is another part implied in your proposal that the administration should also tick off the various things they are going to do.

Mr. Shoup. That is right.

Mr. Moor. Recognizing the inadequacies that you have described here?

Mr. Shoup. Yes; and as I say, a list of those items can hardly be called a budget. It is rather a series of items for fiscal policy action.

Mr. Moor. But as part of the discussion that has occurred elsewhere with respect to the budget, one of the interesting things here is that this would put a little more responsibility on the administration in presenting its budget to indicate those areas where it both could and will be taking action?

Mr. Shoup. Yes.

Mr. Moor. The second type of question that I was interested in, and this I present to all of you, I think everybody with the possible exception of Professor Shoup for the reasons he has just indicated was emphasizing the relative desirability of the national income account. I would be curious to ask each of you in turn what sort of changes you might want to make in the national income accounts insofar as the Federal sector is concerned. Professor Break?

Mr. Break. I think the major change would be that I would add on a loan account along the lines I have suggested showing the disbursements and purchases of loans and repayments and sales of loans as a financial investment activity and then the income account, income and expense for the agencies involved, and I would also include the debt operations of the Treasury as a separate——

Mr. Moor. I will ask the question Senator Proxmire did not ask. What would you do with the Federal Reserve Board?

Mr. Break. I wouldn't do anything with the Federal Reserve Board but I would like to know what they are doing, and have statistics about their debt operations as well, and those are available in different publications.

Mr. Moor. Some of the material with respect to loan operations are in the national income accounts but not in the Federal sector of the national income accounts; isn't that right?

Mr. Break. I think it is impossible, isn't it, to find the loan operations. They are in the flow of funds accounts in some form, but I don't believe you can distinguish them in the national accounts——

Mr. Moor. That is correct.

Mr. Break (continuing). Any of those. The effects are in there.

Mr. Moor. Yes. Well, not only effects——

Mr. Break. Attributed to no one.

Mr. Moor. But some of the expenditures that they are incurring are included. Professor Brown?

Mr. Brown. Well, I wouldn't take exception to having a lending or credit supplement if it were generalized to include all of the actions that are relevant, including the Federal Reserve Board. I suppose that the only other things that I would change, at least for the moment, would be to have shorter run quarterly data in the national income budget on a national-income basis forecast, and have that in the budget document, too.

Secondly, to have longrun projections at, say full employment and have a full-employment national income budget.

Mr. MOOR. Beyond the current fiscal year?

Mr. BROWN. Right. But to do this on a full-employment basis, which means that we are not making precise forecasts, and may be off a good bit, but the degree of error would be much less, I would assume, than trying to forecast what the level of effective demand will be next year.

Mr. MOOR. Professor Okun?

Mr. OKUN. I certainly think that we could use the information on loans and that these can be shown as a supplement to the accounts; but the whole conceptual framework of income accounting—as I learned it from Professor Shoup several years ago—does distinguish loans from income payments, and I don't see any way of viewing loans as income-generating expenditures. They just aren't. I think there may be places in which we do need to distinguish between "hard" and "soft" loans to the private sector as well as to foreign countries. Where loans aren't treated seriously as implying an obligation on the part of the borrower to repay, they should be treated as income payments.

Mr. MOOR. Going back, Professor Break, then, to the loan question, there are several additional questions about this, one of which is very current, as you know.

How would you really distinguish in the budget between, let us say, repayment of loan as contrasted with selling off of the paper by the Federal loan agency? I mention this because of the proposed selling off of loan paper that the administration is now doing.

Is this different in its economic effects, and if so, would you treat it differently in the budget? That is what I am asking.

Mr. BREAK. I think it might well be different. I am not prepared. I don't know enough about the effects of either type of transaction to tell you what the difference is or say exactly what the difference is, but for instance, repayments coming from private spending units may have different effects from the purchase by lenders, private lenders, of Government loans, and for the moment all we can do I think is to show the two separately and hope that in the future we will know more than we now know about their separate effects.

I would certainly argue against combining them so that one couldn't see the separate amounts in question.

Mr. MOOR. Basically you would show them just on a cash basis?

Mr. BREAK. I guess so, yes.

Mr. MOOR. Professor Brown, with respect to the full employment budget, this is another area of general agreement between you and I wanted to go into this a little bit.

Would you make these with respect to different assumptions concerning full employment?

Mr. BROWN. Well, I would presume that if we wanted to use 4 percent as the general agreed target, then I would make them on a 4-percent basis. If we are prepared to move up to 3 percent, why then I would move up with that.

But it seems to me there is an administrative consensus more or less as to what they are trying to achieve ultimately, and I would use that as the target. But the major point is that the target not be changed all he time, so that then we have the same problem as we have now of trying to interpret what is going on in the economy.

Mr. MOOR. What are the advantages, and again this is a question I think Senator Proxmire wanted to ask, what are the advantages of having the quarterly data if you make longer run projections?

Mr. BROWN. Well, just a specific instance, it seems to me, is what is happening this year.

Mr. MOOR. Yes.

Mr. BROWN. The first quarter we have increased old-age and survivors' insurance contributions substantially. Maybe by the end of the year we will have cut taxes. The current estimates indicate these will just about offset each other.

And yet, it seems to me, that in terms of the effect on, the shortrun effect on, the economy, there is a world of difference between having a tight fiscal policy or a tighter fiscal policy at the beginning of the year and a looser one at the end than if you had had a stable policy throughout the period, and the quarterly data would reveal this to you.

Mr. MOOR. This can be stated in another way as saying that you are placing more emphasis on the nature of rates of change and so on, in the various components.

One of the things that you came out with as a consensus, and I think this comes as something of a surprise. Are you all in more or less general agreement that with respect to the budget document it would be useful to try and put in depreciation of capital assets?

Mr. BREAK. Yes.

Mr. MOOR. You would say yes?

Mr. BREAK. I would say yes.

Mr. BROWN. Yes. I think that in terms of, well, ultimately, wealth accounting as Mr. Okun stated it, I think this is a very useful piece of information.

There have been attempts, as you undoubtedly know, to make depreciation estimates.

I think we can perhaps do it at the Federal level, and it is important, I think, for us to know what the capital stock of the Federal Government is as far as growth and other concepts are concerned.

Mr. MOOR. And then, as part of that presumably, the next step would also be to try and deduce the nature of the returns, prospectively, on a year-by-year basis to be obtained from the capital——

Mr. BROWN. That might be done, too.

Mr. MOOR. Well, just to make an individual comment at this point, I was gratified to see some of these comments simply because we said them in the earlier staff study.

And now we will wait for just a minute or two for Senator Proxmire to return from the rollcall.

That is all.

(A slight pause.)

Senator PROXMIRE (presiding). Dr. Okun, in your statement, you say:

> In considering the overall impact of the budget, I should first ask whether it contributes to a balance between aggregate demand and total supply in the national economy.

Now, you are asking this as your first question in terms of viewing the budget as an economic document, I take it?

Mr. OKUN. Well, the first question——

Senator PROXMIRE. Or would you say that this should be the first priority of a budget, that it should be the first criteria that we should apply to a budget?

Mr. OKUN. Well, the first criterion I would apply to the overall impact of the budget. I think here, perhaps, most all of us rather focused on these aggregate——

Senator PROXMIRE. Perhaps it is unfair if I do not preface what I have in mind with this:

You know that this notion, of trying to stimulate our economy or stabilize our economy or prevent inflation, by fiscal action is relatively new, and I mean new as far as Members of the Congress are concerned in the last couple of years.

People have talked about it before but the President—I remember as recently as this President of the United States talked about the budget in different terms only a little more than a year ago. So that what you are talking about is something that, to many of us, is a pretty drastic doctrine, however orthodox it might be among economists.

So what I have in mind in the first place is to ask you whether or not it is possible for a budget, even as big as ours is, to achieve pretty much full employment, in our society.

In view of our record in the 1930's, when we had deficits for 10 years which averaged 4 percent of our gross national product, and we ended up with a 14 percent of our work force out of work. In view of the fact that we have had big deficits in the last 4 or 5 years, and still have a stagnant economy, do you think it is possible for us to adopt a budget policy that we can count on by itself as achieving this objective that you have in mind?

Mr. OKUN. I think we can adopt a budget policy that will help promote full employment.

I do not think we can give, in our present state of knowledge—that we can thread the needle to the point of saying just how much stimulus is required and exactly when it should be applied and exactly when it should be removed.

Senator PROXMIRE. I am not talking about threading a needle. I am talking about——

Mr. OKUN. Well——

Senator PROXMIRE. I am talking about whether you can really get any stimulation of our economy out of it.

Mr. OKUN. It seems to me the best evidence on that is what happened in the early 1940's, when we got more stimulus than we wanted and more stimulus than we needed. The nature of the budgetary actions there were not qualitatively different from the kind of thing that we have had——

Senator PROXMIRE. There was certainly a whale of a difference in quantity. We had a $50 billion deficit one year.

These days we would have to have $120 billion deficit to have the equipment.

We are talking about deficits that are a small fraction of that.

Mr. OKUN. That was clearly an overdose of stimulative medicine, and the economy needed to be contained by——

Senator PROXMIRE. In light of the situation we need a $30 or $40 billion deficit to reach full employment?

Mr. OKUN. Well, I would hope that would not be the case. I do not think that is the case today.

If that were the case it would indicate such an extreme weakness on the part of private demand that we might have to look at what the causes were and what kinds of fundamental institutional changes could have taken place that would account for anything like a potential $30 billion excess of private saving over private investment.

Senator PROXMIRE. You see, there are contradictory elements in this thing.

In other words, if you embark on a policy of achieving a budget balance—I mean, an economic balance and an end of unemployment through deficit spending you may undermine the confidence on the part of the entrepreneurs and others who are very important in the economy and represent 80 percent of the GNP or more.

So that is it not perfectly possible that if you do this you are going to have to have a perfectly enormous deficit to achieve what you wish, and if you are going to have to have that you might have to have fundamental changes in the economic nature of our society?

Mr. OKUN. Granted; any policy, however wise in principle, depends for its efficiency on the way people react to it.

I think we have come a long way in the business community's receptiveness toward a flexible fiscal policy. I read most of the statements the business community has been making in favor of tax reduction, at least not matched by expenditure reduction, as an agreement that——

Senator PROXMIRE. Well, they do not quite put it that way. They want a tax cut if you can cut the spending first, and they are awfully vague in terms of matching.

I think that most of the businessmen I have talked to would like to see a spending cut at least matching the tax cut.

Let me ask you another question about this:

If we follow this philosophy do we not tend to destroy any real incentive for Government economy?

Do you not begin to eat away at the drive for trying to operate your Government efficiently?

What argument can you really give to an agency that comes before the Appropriations Committee and asks for 5,000 more employees, as most of them are doing, or a lot of them are doing?

Mr. OKUN. This is an argument for full employment.

The place where you can really see the cost of waste is in a fully employed society. It is hard to make a case against waste in an unemployed society where the parables about leaf racking and digging holes and refilling them are quite accurate; that any sort of waste may be good for the society if that is the only way you can get to full employment.

I think there are lots of stimulative measures that are efficient—particularly tax reduction, which permits the private sector to make its decisions.

Senator PROXMIRE. Well, that is a very good answer.

In other words, you would like all alternatives like tax reduction, monetary policy programs, and other things that would stimulate the economy without engaging in wasteful public activities?

Mr. OKUN. Right. However, if there are extra Government expenditures which are productive, they ought to be under consideration, too.

Senator PROXMIRE. One other question along that same line.

President Kennedy in 1961 tried to do this, what I might call, a zigzag policy.

We were in a period of recession and he proposed that we step up our Federal expenditures and it did not amount to very much.

I think I tried to make an analysis and it was a third of a billion dollars. It was not very much.

If you do follow your prescription, as you put it on page 2—

> If total spending is presing hard on productive capacity, and inflation threatens, we should want the Federal budget to exert a restraining influence. When resources are underemployed, however, we want a higher level of demand and should welcome a stimulus provided by appropriate budgetary policies.

Can you really do this except for a tax cut or a tax increase, both of which are extraordinarily hard to engineer through Congress?

Can you do it through the expenditure part of your budget?

Mr. OKUN. Well, the leeway is marginal, as you suggest.

I worked with the figures on the 1961 experience, too, and I think I can add up to a total somewhat larger than $300 million.

We had——

Senator PROXMIRE. It was pretty infinitesimal in view of the size of our GNP, was it not?

Mr. OKUN. Yes, I grant that.

But even our $10 billion tax cut package is less than 2 percent of the GNP——

Senator PROXMIRE. I agree with that. That is another reason——

Mr. OKUN. The difference between a buoyant and progressive economy and one that is not performing up to par is 5 or 6 percent of GNP, and it is the frosting on the cake that we are looking for, but that frosting makes a great deal of difference in the economic atmosphere.

Some policies that can give us even a small fractional increment to GNP are worth pursuing.

The President is on record with a request for temporary tax authority. Now, whether there should be a change in the traditional division of powers, the authority between the Congress and the President, or not, I think there is an argument for entertaining temporary tax reduction and temporary tax increases in the situation where there seems to be a transitory danger of either inflation or recession.

I do not think that is a problem as most people diagnose it today.

Senator PROXMIRE. Unfortunately there is a rollcall now.

I think I can wait another couple of minutes. Senator Douglas will be back while I am downstairs.

Mr. OKUN. From year to year, the growth of Federal revenues that would take place under constant employment conditions permits a rather sharp movement of the budget in the direction of increased restriction without any change in expenditures.

It is easier to be restrictive by not doing anything over a period of time.

We have an economy which should grow with constant employment by about three and a half percent a year, and in current prices, even with price stability, that means about a 5 percent increase in current dollar GNP and in tax collections.

This means that you have about a $6 billion swing in the budget if expenditures do not rise at all.

Senator PROXMIRE. Well, from the standpoint of expenditures rising at all we should not have too much of a problem in achieving that.

We have had a steady rise in spending and it is far more in proportion than any increase or proposed increase of what we should have in the GNP.

The rise last year in spending was 8 or 9 or 10 percent. It is a big increase, and each year it has been substantial, far more than the 3- or 4-percent increase in GNP.

So that the proportionate increase in Government spending lately has been bigger.

It is distorted by what happened in World War II and the Korean war, of course, when we had colossal military expenditures, but in terms of the expansiveness of the Government we seem to be getting——

Mr. OKUN. Well, there was a 2-year period, from late 1958 to late 1960, in which Government expenditures were on a very flat plateau.

For better or for worse. This does indicate that the upward trend of Government expenditures is not inexorable.

Senator PROXMIRE. Now, you had a very interesting notion in your statement where you discussed investment, and this is one of the difficulties, it seems to me, with the idea of having a capital budget.

You said you would advocate a concept of public investment which includes outlays for education, scientific research, et cetera.

It is a wonderful idea but where do you stop?

You get into a situation where you put almost everything in the capital part of your budget. I think you are right that probably the best investment we can make is in training and education, but how can you really call it capital?

Mr. OKUN. In the professional literature of economics, there is increasing attention to "human capital," and we are getting figures on the wealth embodied in human beings through education.

And I think this can be applied, not easily but feasibly, to the public sector. Any——

Senator PROXMIRE. Would you actually isolate educational expenditures and say the Youth Employment Act, the expenditures involved in this manpower training, and any aid for education, all as part of the capital investment?

You certainly would not say there was an increase in the Government's net-worth position?

Mr. OKUN. Well, that is certainly true. Perhaps I did make this sound much easier than it is. I will grant that it is a very difficult problem, but the inclusion of a zero amount for building human capital is surely the wrong answer. We can do it better than settle for zero.

Senator PROXMIRE. I am going to have to run downstairs, unfortunately, or I will miss a rollcall.

Dr. Moor again will carry on. Senator Douglas will be back shortly and so will I.

Mr. MOOR. There is one specific question that is going to come up in our hearings later.

An economic analysis of the budget certainly must include, among other things, an analysis of the efficiency with which resources are being used by the Government and virtually no mention was made of this in any of your papers, I think, in large part just because economists tend to concentrate largely on the fiscal aspects and the effect of the Government on the economy.

Do you have any comments that you would like to make in this discussion concerning techniques by which we could judge a little more the efficiency with which resources are being used in the public sector, Professor Brown?

Mr. BROWN. Well, I do not have any easy ways of doing this.

I did make one small suggestion, and that is that if you used depreciation on Government capital then this will help you in a cost analysis; that is, if I were making an analysis of the cost of schools I would not want to put in capital outlays, I would put in depreciation of the schools so I could make a sensible decision.

That is purely a mechanical thing. As to how efficient you are, we have a pricing system in the private sector which gives us signals. In the public sector we do not.

Therefore, we are involved in this very difficult process of making estimates of costs and benefits from different kinds of programs.

I do not see that there is any way out of that except to expand research in this area and, as you know, it has been expanded over the last 10 years in universities and so forth, but still it is an enormously difficult problem.

In some cases it is fairly simple. I mean, we could perhaps make estimates of whether it is better for the Government to rent automobiles or own its own, and so forth.

But on the big questions then you get into this very difficult problem of estimating future benefits and future costs.

Mr. MOOR. Anyone else?

Mr. OKUN. There are some suggestions in your study of the Federal budget as an economic document for getting more of the cost and benefit calculations into the budget.

Such calculations are made continuously in the Budget Bureau. They are obviously very speculative, and very hypothetical kinds of calculations.

They are a good deal better than the absence of a calculation though. The difficulty is that once such figures are published they have to be defended and they are very hard to defend.

Some of the attempts to get quantification of important budgetary information, I think, awaits a more sympathetic attitude toward quantification of concepts which are hard to measure and where the margins of error are bound to be large.

Mr. MOOR. I think this is a point, and I do not want to put words in your mouths, but one way to summarize a lot of what all of you have said is that the budget—and disagree with me if this is wrong—

that the budget should include much more analytical material as well as simply raw data, only the point I take as being made by Professor Okun, is that somehow you have to be sympathetic to this analytical material that would go in.

I have one other question which arose as a result of a question by Senator Proxmire and then an answer by you, Professor Okun.

I, too, remember the 1961 period. The new administration came into office and they wanted to stimulate the economy which was then at a relatively low point.

They took a great deal of administrative action which was of a fiscal-policy nature.

Do you have any comments as to either the extent to which that ought to be in the budget or the ways in which it might come into the budget, those types of actions which they took which, if I remember the list, virtually none of them ever appeared in the budget?

Mr. OKUN. Bygones are forever bygones in the budget document.

Mr. MOOR. Yes.

Mr. OKUN. Your study made me realize how a student of U.S. fiscal policy, who had never lived through the fiscal policy events, would have a very difficult time piecing together the evolution of things during a year.

By January 1962 everything was looking forward, and this was true even in the budget review of the fall of 1961.

We need somewhere to get a more systematic review of the developments during the year and put on record the changes that were made in light of changing economic developments.

Senator PROXMIRE. Senator Douglas?

Senator DOUGLAS. Mr. Okun, in your statement, you say that the budget should be judged as to whether it contributes to a balance between aggregate demand and total supply, and you imply that there may be a discrepancy between aggregate demand and total supply.

Now, I remember years ago reading a book by three eminent members of your department at Yale, "Principles of Economics," by Fairchild, Furniss, and Buck, which laid down, as a central tenet, that supply and demand always balanced and that, in accordance with Say's law, the production of goods constituted the demand for goods.

Now, do you repudiate the economic gospel of your department?

Mr. BROWN. Plead the fifth amendment.

Mr. OKUN. Traditions are rather short.

Senator DOUGLAS. No, but what is wrong with that theory?

It is fundamentally based on Say's law, that the production of goods constitutes the demand for goods.

Mr. OKUN. There has been a good deal of thinking about this in the past generation, and I think the data, the facts of life of economic fluctuations are perhaps the best refutation we have——

Senator DOUGLAS. Well, that may be attributable to physical factors.

The question is: Can there be a chronic shortage of demand?

In other words, granted that Keynes' first book was correct and the theory of money is correct, the general theory of employment interests to money is correct, and implying the chronic deficiency——

Mr. OKUN. Well, a possibility of a deficiency. I think saving decisions and investment decisions do have a considerable measure of independence in our economy.

Senator DOUGLAS. Well, that is the first part of it, that the savings may exceed the investments and, therefore, it sterilizes the monetary purchasing power of the banks.

Now, of course, the Englishman who died yesterday, Robertson, argued that this might be true for 1 year but the savings of 1 year became the investments of the next year so that, therefore, there was not a permanent discrepancy for this reason and, as a matter of fact, it more or less accepted this principle of Robertson.

No, you have to do better than that, Mr. Okun, to prove that there is insufficient aggregate demand.

This is the basic assumption virtually on which most Keynesians rest, but it has got to stand on more than an assumption or else it will be as empty as you say Say's law is.

Is it a cliche or is it the truth?

Mr. OKUN. The truth is that there need not be an automatic, reliable balance between aggregate demand and the nation's productivity——

Senator DOUGLAS. In money terms?

Mr. OKUN. In money terms.

Senator DOUGLAS. But could not this be resolved by a decrease in interest rates, a decrease in wages, a decrease in price, so that the price levels would then be adjusted so that they would be equal to the total supply of monetary purchasing power?

Mr. OKUN. The possibility of that is an interesting puzzle that fascinates some academic economists.

The realities are that prices are not responsive to excess supply in the aggregate. They may be in particular markets.

Even if they were responsive in the aggregate, it is really questionable whether the cumulative spiral downward would not have adverse effects on expectations and investment demand, and whether we would be any better off.

Senator DOUGLAS. What is the meaning if you say that the aggregate demand is not equal or not sufficient to take off the market the total supply; what is the meaning of it in money?

Could you put that in?

Mr. OKUN. Well, I am using aggregate—"total supply" here in the sense of national productive capacity, a full employment measure of what we can produce. And what business firms would be happy to produce at existing prices.

Now, there is excess capacity——

Senator DOUGLAS. What are you speaking of, aggregate demand or aggregate potential supply, now?

Mr. OKUN. I am comparing the aggregate demand that would emerge at full employment with the aggregate supply that would take place at full employment. We infer from the fact that we have remained below full employment that demand and supply have, in fact, been balanced, only at underemployment rates. There remains, as you put it, a potential supply, a willingness to produce, a willingness to sell goods and to utilize capacity.

There is clearly a willingness to work on the part of an excessive number of unemployed people that would permit an expansion of production if the demand were there to buy it.

Senator DOUGLAS. Well, I would like this put in money terms.

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I would like to think of this situation as one where the sum total of goods, which are produced or could be produced, the sum total of price tags on goods which are produced and could be produced, in excess of the sum total of monetary purchasing power in the pockets of consumers—I like to put it that way—but if there is the situation where there is not enough aggregate money demand to purchase goods, that could be produced at full employment at current prices, could not this be solved very simply by a reduction in current prices with a corresponding reduction in wage rates and interest rates?

May not the trouble be due to either (*a*) monopoly or (*b*) to wages and capital receiving more than their marginal productiveness and Fairchild, Furniss, and Buck, upon which I am sure you are brought up, which say that this could be readjusted and effected through the medium of unemployment, and if you have employment the wage rates could come down, the business could not sell its full output, but they would reduce prices and then you would get a readjustment.

Really, was not the Yale School right in adopting this principle?

Mr. BROWN. One catch, I think, is about the general price reduction—I mean, this may be one reason for inadequate demand, for sure. But I think our modern version of Say's law would be that full employment of the goods and services produced create income which could take the goods off the market. The whole issue is what is inhibiting spending power. If we reduce prices we reduce incomes as well, in money terms, and this may not be a solution to the problem.

Instead, you may have to take more drastic action. Monopoly may be one. Foreign exchange rates may be another. Fiscal policies may be another. Monetary policies may be another.

Distribution of income, and so forth, may be others.

Senator DOUGLAS. Well, I am a little pained to find that Yale University has departed from the pure milk of the gospel according to William Graham Sumner, Irving Fisher, and Fairchild, Furniss, and Buck.

Mr. OKUN. We call that progress, Senator.

Senator DOUGLAS. One other question I would like to ask, and I think it is probably or should be probably addressed to Mr. Shoup, but perhaps also to Mr. Break.

I have been very much interested in the so-called capital budget picture.

I wondered if you would have a general comment on that, and then we will try to define what items should be regarded as capital investments.

Mr. SHOUP. Well, I believe a capital budget is especially useful at State and local levels for determining methods of financing the projects, whether by borrowing or by taxation; that there are often reasons for linking borrowing with capital projects at the State and local level that we do not find at the Federal level.

At the Federal level I would be interested in a capital budget as an information document, let's say.

Senator DOUGLAS. Which we are getting more and more since last year in the report of the Director of the Bureau of the Budget.

The budget last year and this year makes efforts to classify, on the basis not merely of covering outlays but capital investments.

Mr. SHOUP. Yes, and the more we have of this distinction of types of outlays the better off we will be in making estimates of our progress nationally, and for appraising results of expenditures, but I do not believe that at the Federal level we should have a capital budget in the sense that it should be set aside and financed in a particular way differently from current outlays.

Senator DOUGLAS. Well, you see the difficulty we get into, with people who still believe in annually balanced budgets, is that they apply this to capital investment as well as to current outlays, and I would like to ask you this—do you think that capital investments—assuming that a balanced budget is correct over a period of time, and I would tend to feel that way, over a period of time but not necessarily in each and every year, do you not think that it would be well to draw a distinction between current outlays over a period of time and capital investments for a period of time, and that capital investments, at least in the short run, not in the run of a business cycle, need not be financed out of current revenues?

They might be financed out of borrowings?

Mr. SHOUP. Well, I would rather say that, in the first place, it is difficult for me to accept an assumption that the budget must be just balanced over the long run because I would prefer to say that the aim is maintenance of full employment with price stability; that this may——

Senator DOUGLAS. You do not believe in Say's law then, either, do you?

Mr. SHOUP. No, I cannot say that I feel bound——

Senator DOUGLAS. I am not conducting an inquisition here, but do you believe in Say's law, Mr. Break?

Mr. BREAK. I would agree with what Professor Shoup just said.

Senator DOUGLAS. And Mr. Brown?

Mr. BROWN. No, I could not.

Senator DOUGLAS. Well, Fairchild, Furniss, and Buck seem to be in for a very hot afternoon.

Senator MILLER. I wonder if we could have someone define "Say's law," so we will know what it is that we are talking about?

Senator DOUGLAS. It is just that the production of goods essentially constitutes the demand for goods, and that there cannot be a discrepancy between demand, so-called, and supply so-called.

Senator MILLER. Do our panelists agree with the definition of that?

Mr. BROWN. Oh, yes, that there cannot be a deficiency in demand because supply creates its own demand.

Senator MILLER. May I say that I have heard that economists sometimes differ on the meaning of the words in definitions.

Senator DOUGLAS. Well, are you satisfied now, my colleague?

Senator MILLER. Yes, sir.

Senator DOUGLAS. Well, now, to come back—if you pay for a capital budget for State and local governments why not for the Federal Government?

Mr. SHOUP. Well, the reason for favoring a capital budget for State and local governments is largely this, that in a State or locality you have a constant inmigration and outmigration of persons.

Over a period of 10 years quite different sets of persons will benefit from a given highway or a given school, and one can distribute the load of paying for that highway or school among the successive sets of persons by a borrowing technique, coupled with taxation through service and refunds.

Now, on the Federal level the projects the Federal Government undertakes, which are mostly after all defense and a certain number of transfer payments are for the people of the whole, we do not have this transient population problem, and I do not see the same necessity for financing by borrowing that I do for some State and local projects in order to spread the burden equally over successive—I do not say "generations" but groups of users.

At the Federal level we do not have that need.

But even if you do not have movement of people in and out of different generations—but there it is quite different because when you have that, one generation inherits the wealth from the preceding generations, whereas the people that move in and out of New York City over a period of years do not inherit wealth from each other and, therefore, you must use borrowing in order to get an equitable distribution of payments for the roads and highways and schools often; whereas, you can, in fact, cannot get that same pattern at the Federal Government level because the transients are related to each other by inheritance and it makes quite a difference.

Senator DOUGLAS. You seem to agree with what I take it is the contention of Dr. Okun, that primarily deficit budgets, the purpose, should be to get as near as possible to full employment without producing full inflation?

Mr. SHOUP. Well, that should be one of the major aims.

Senator DOUGLAS. What else?

Mr. SHOUP. Surely, another one would be the proper allocation of the Government's resources among the various types of expenditures, and the efficient allocation of those resources, surely, so that the full employment, stable price level problem is only one budgetary aspect, and it is the one that would determine largely the amount of surplus or deficit you wanted——

Senator DOUGLAS. Would you be frightened at all by having continuing governmental deficits decade after decade in the quest for full employment?

Mr. SHOUP. If that proved necessary in order to obtain full employment I would certainly feel that something was wrong with the structure in operation of the private sector, and that we should try to find out what that trouble is.

But let us note the assumption, that if it were possible to have deficits over decades, without inflation, and while maintaining full employment, if that could be done then we would have to say that it should be done unless some way could be found to change the working of the private economy.

But let's hope that the private economy will not ever get to that level.

Senator DOUGLAS. Well, may not monopoly be one of the reasons for the sum total of price tags on goods, both produced and potential, exceeding the sum total of monetary purchasing power on the part of the consumers?

May it not be monopoly or oligopoly resulting in a jacked-up price level?

Mr. SHOUP. Possibly to some degree, but I am not inclined to put much emphasis on the—on it quantitatively in view of the share of the national income that goes to profits and the much smaller part of that share that we would have to attribute to monoply or oligopoly profits.

But, surely, it is one among many.

I would only urge that the present situation could not be improved by one-half, say, if we could by some magic wand eliminate monopoly and oligopoly.

Senator DOUGLAS. Suppose the Federal Government runs a deficit either —well, suppose the Federal Government runs a deficit through a tax cut and then the Congress—or tries to run a deficit through a tax cut and then Congress cuts expenditures by the same amount as the tax cut.

Is there any net stimulation?

Mr. SHOUP. No, there is a net destimulation then.

We probably would plunge deeply into a depression under those conditions.

Senator DOUGLAS. So you would not favor a reduction in expenditures equal to the reduction in tax receipts?

Mr. SHOUP. In fact, I see no point in reducing expenditures at all if we are attempting to stimulate the economy.

Senator DOUGLAS. Well, now, one further question—you see, I never believed Fairchild, Furniss, and Buck. So this is very interesting testimony.

Suppose the Federal Reserve Board decides that the total supply of bank credit will not be increased and, therefore, that any increase in expenditures by the Federal Government will be exactly compensated for by decreases in the amount of credit available to private industry?

Will there be any stimulation under those conditions?

Mr. SHOUP. There might be a little but there would surely be an unfortunate circumstance to have two branches of the Government working at cross purposes.

Senator DOUGLAS. Would you be willing to write to Mr. William McChesney Martin to that effect?

Mr. SHOUP. As I recall, the statement was a decrease in credit to business, not a mere maintenance of the existing levels of credit.

Senator DOUGLAS. Well, the next question is—the effect of the multiplier is presumably to increase the volume of private transactions. Indeed, a tax cut does just that.

It results in increased purchases by taxpayers which, in turn, has a multplicative effect, so that the volume of private business tries to expand.

Now, if the total supply of bank credit is kept constant, is there any net stimulative effect?

Mr. SHOUP. I should say that it would be more difficult to obtain the stimulative effect if the total of bank credit was kept constant, since this would imply an increase in the velocity of the circulation of money to achieve the ends.

And I should hope that a deficit financing program, to stimulate the economy, would be coupled with some easing of the credit situation and some increase in the supply of money.

Senator DOUGLAS. Well, this is something that some of us have been contending for for some time, but we meet with very little success when we talk to the Chairman of the Federal Reserve Board.

This is said to be inflationary. Do you regard it as inflationary?

Mr. SHOUP. The only thing I regard as inflationary is something that leads to a rise in prices, and I do not think that a certain increase in the stock of money now, if kept to certain limits, would lead to an increase in the price level.

Senator DOUGLAS. In other words, you are depending upon the increase of the real gross national product to offset any increase in total monetary purchasing?

Mr. SHOUP. Yes.

Senator DOUGLAS. Well, I would say economics have progressed very far, even at Yale, since Fairchild, Furniss, and Buck.

I have no more questions.

Senator Miller?

Senator MILLER. Thank you.

Mr. Shoup, I have a few questions. Did I just hear you, in effect, equate inflation to an increase in prices?

Mr. SHOUP. Yes.

Senator MILLER. What about services?

Mr. SHOUP. Pardon me?

Senator MILLER. What about services?

Mr. SHOUP. Well, by an increase in prices, I mean an increase in the prices of all goods, either services or commodities.

Senator MILLER. Fine.

Mr. SHOUP. So that I would expect if there were an increase in the price of services, that should go in the index and be a marker of inflation.

Senator MILLER. So I presume when we talk about inflation we are talking about increases in prices of goods, increases in prices of services, and also increases in prices of governmental services, State, local, and Federal.

Mr. SHOUP. I do not believe I would count the latter in because we have no way of pricing the units of service that the State, local, and Federal governments turn out.

The number of crimes prevented, the amount of health achieved, the number of wars prevented, are all outputs, but we have no prices on those.

Senator MILLER. Well, what do you do, though, when you analyze the reason why there has been an increase in the implicit price deflator or when you analyze the reason why there has been an actual period of inflation, and you know about how much that is, and the prices of goods and ordinary commercial services appear to have been about the same?

Are you not almost forced over to the conclusion that governmental services are the reason for the result?

Mr. SHOUP. My understanding is a little different, and that is that the implicit deflator or inflator of governmental input, not services, governmental costs, is derived from what has been happening in the private economy, and that it is because prices have been going up in the private sector that we have this deflator or inflator applied to the Government figures. In the private economy, the cost of services has been rising steadily per unit, because they usually are not subject to technological improvement as is the production of automobiles and other things like that.

So that to induce people to stay in the service industry, such as the barbering trade, for example, you have to keep raising their wages and that means raising the price of haircuts, while the price of automobiles can remain constant with an increase in hourly wages.

So I would say it is the inflation in the private sector that is the inflation that we know about, and that we do not really know whether it costs more or less per unit of output for Government now than it did before, because we have no measure of units of output for Government.

Senator MILLER. I heard the other day that we could have a period of relative retail price stability and comparative price stability, as far as commercial goods are concerned, but because Government is increasing so much in its costs, both Federal, State, and local, that we might still have inflation and reduce the purchasing power of our money as the result of that situation.

Would you agree with that observation?

Mr. SHOUP. Not unless we had far too little taxation to accompany the Government expenditures.

If we have the appropriate amount of taxation withdrawn from people's pockets to accompany the Government's expenditures, then what remains in our private pockets would not be enough to cause inflation in the private sector.

Senator MILLER. But if we do not have the accompanying taxation——

Mr. SHOUP. It does not have to be dollar for dollar. I merely indicated an appropriate amount of taxation. It might be 80 or 90 cents of taxation, or, it might be $1.10, depending on the state of the economy.

Senator MILLER. But, by the same token, you would suggest, I suppose, that you might not have an appropriate balance of taxation and as a result, you might have this inflation?

Mr. SHOUP. Certainly you can; absolutely.

Senator MILLER. Now, you also indicated that if we had a deficit, as a result of a tax cut, and if we cut Federal expenditures to balance off the tax cut, that, in your judgment, would not have any stimulating effect——

Mr. SHOUP. It would be worse than that. It would actually increase the depressive effects now existing.

Senator MILLER. In other words, you would agree with the statement that the President made last week, that if we cut $5 billion of spending out of the Federal budget, that it would have very serious consequences, as far as unemployment is concerned.

Mr. SHOUP. I should think so.

Senator MILLER. Why?

Mr. SHOUP. Because if the Federal Government stops spending, it directly or indirectly stops business firms and others from hiring employees who are producing the things that the Government purchases.

Senator MILLER. Might we not have an equivalent sad effect because that much money is going to be drained out of the private economy to buy the Federal Government bonds to finance the deficit?

Mr. SHOUP. In the first place, I would not favor financing the deficit completely that way.

But suppose we did finance it that way, there is a certain amount of idle money around and its velocity of circulation can be increased by corporations and others who might purchase these bonds, which money might not have been spent but would have been held idle.

But nevertheless, I would not favor financing the deficit increment entirely by bonds issued to the nonbanking public.

Some of it, I think, should go to the banking system to increase the stock of money.

Senator MILLER. You mean you would monetize the debt?

Mr. SHOUP. I would monetize some part of the increase in debt; yes.

Senator MILLER. Do you think you could have this price stability or stability in the purchasing power of our money if you did that?

Mr. SHOUP. Oh, I think so; as long as we have substantial unemployment there should not be much difficulty in holding prices in line.

Senator MILLER. Well, the tragic part of it is, Dr. Shoup, that during the last 2 years, Economic Indicators—not my figures, but the figures of the President's Council of Economic Advisers—indicate that we have had about $14 billion of inflation.

And I know that some people say that we have had relative or comparative price stability. But the fact of the matter is that the dollar has gone down.

It is about as low now as it has ever been. So the purchasing power of the money is steadily going down.

I must say that I thoroughly agree with your statement about the desirability of budget purpose, aiming at full employment. You coupled that with price stability, and I hope you mean by "price stability," or at least would include in that "stability," the purchasing power of our money.

Mr. SHOUP. That is what I mean by it.

Senator MILLER. Now, I must say that I thoroughly agree with that as an objective, but when the dollar continues to slide in its value we are not attaining that objective even though we do have, unfortunately, 5.7 percent of our people unemployed.

Mr. SHOUP. Yes, we seemed to have failed in both objectives, haven't we?

And my view is that we will always fail to some degree in both objectives; that we will probably never get absolute price stability.

We will probably never get complete elimination of unemployment. And, in saying that we could hold prices in line, this was a shorthand statement for saying that the financing I would propose over the next few years would not cause prices to rise more than they will in any event, because, in any event, I would look for some small upward creep in the price level, whether we have unemployment or do not have it.

Senator MILLER. Well, then if you proceed on the assumption that we are going to have some increase in prices and some diminution in the value of the dollar I presume you would, a least, strive to keep that at an absolute minimum?

Mr. SHOUP. I would certainly strive not to increase it.

I would not adopt measures that would increase that.

Senator MILLER. Well, if you thought that monetization of some of this debt that you and I have been talking about, would have that effect would you then still favor monetization of the debt?

Mr. SHOUP. I would certainly not be as forthright in my policy recommendations as I now am.

I would then have to balance off the disadvantages of a further rise in prices with the advantages of a decline in unemployment.

Senator MILLER. Might it be that if we have a continued diminution in our dollar that this could have a bad effect on private business and as a result we might have an aggravation of the unemployment?

Mr. SHOUP. Oh, possibly, but history seems to show that businessmen are more active and invest more in times when prices are rising than when prices are falling, but I do not advocate rising prices on those grounds, you understand.

I am simply attempting to answer your question directly.

I think the more dangerous problem of rising prices would be with respect to our international balance of payments, and that is a very difficult situation which complicates any fiscal policy recommendation at the present time.

But even taking this into account, it seems to me that the unemployment situation is so tragic and so large and so profound in its implications that we simply cannot stand by and allow it to remain at the level that it has reached.

Senator MILLER. Well, let me share with you the concern about the tragedy of unemployment, but I am sure that you and I also would be concerned about the tragedy of the squeeze on the people living on fixed incomes, social security retirement, pensions, who cannot make ends meet because the purchasing power of their money is being whittled away.

So we might end up having to balance tragedies.

Mr. SHOUP. We do. Every year we must balance the tragedies and we have been doing it and will have to continue to do it, I am afraid.

Senator MILLER. And where would you say that the balance is now?

Would you say it is in balance or would you say——

Mr. SHOUP. No, I would say it is definitely out of balance now.

There is too much unemployment tragedy relative to the inflation tragedy.

Senator MILLER. Well now, we have a 5.7 percent unemployment rate now, as I understand it.

And in their appearances before us it appears that administration spokesmen tell us that a 3 percent unemployment rate represents "full employment."

I think it is 3—or 4 percent, rather.

So we are only 1.7 percent away from "full employment."

It does not seem to me that we are terribly far out of balance there. But there are millions of people, Dr. Shoup, who are being squeezed by inflation, finding it difficult to meet their hospital and doctor bills, millions of them.

And it is so serious that every once in a while Congress is asked to increase the social security payments so that these people can just make ends meet.

I wondered if you considered that or do you agree with the definition of "full employment" that the administration——

Mr. SHOUP. Assuming that the prices will drift upward, in any event, my belief is that we can eliminate a part of this unemployment without causing a further increase in prices.

That is the point, it seems to me. Maybe I am too pessimistic about the price level.

Let's assume that it is going to remain constant if we continue the present policy, and I would then say it would still remain constant if we eliminated one or two points on the unemployment index.

So it is my point of view at the present moment that there is no great conflict. The conflict would come when we have gotten down to about 4 percent unemployment and wanted to reduce it still further, and then faced, perhaps, a definite choice between a further slight rise in the price level and further slight decrease in the unemployment.

As to the definition of what "full employment" is, my feeling is that it is rather fruitless to attempt to establish a level like that.

I would say let's see what we can do with fiscal policy, toward whittling that percentage of unemployment down, and at the same time—and I think this is quite important—let's see what we can do concurrently with spending money for training and retraining, and educating people to be able to fill jobs that are now available which they cannot fill.

Sometimes this is as simple as teaching somebody how to read and write, to enable them to fill a job, and I am sure that a large part of our unemployment is because of inadequate training of those who are unemployed, but I am also sure that that is not the whole story.

Senator MILLER. Let me go back to this theory of not cutting back Federal expenditures.

I presume that we might cut some Federal expenditures without any particular effect upon employment; whereas we might cut others with substantial effect upon employment.

Would you agree with that?

Mr. SHOUP. Doubtless, Federal expenditures vary in that regard, yes.

Senator MILLER. I have in mind, for example, let's say a powerplant which private industry is ready, willing and able to build and operate.

Now, if there is a Federal appropriation being requested for the purpose of having the Federal Government build that we might, I presume, safety cut that out of the budget as far as employment is concerned, because it looks like in either event the people are going to be put to work.

Would you go along with that type of an example?

Mr. SHOUP. Well, surely there must be many types of Federal expenditures that are rival to private expenditures.

If then Federal expenditure is being undertaken it must be for some policy reason, having nothing to do with unemployment. And the issue would be settled on that basis.

I would only add, to be quite sure of this, that we would have to be most careful in our selection of these projects because, by and large, one can assume that the immediate effects of Federal reduction in spending would be a net decrease in employment.

Senator MILLER. Would you pardon me just a moment?

Mr. SHOUP. Surely.

Senator MILLER. Well, the point I am making here, Dr. Shoup, is that for somebody to just say, "Well, if you cut $1 billion out of Federal expenditures you are going to have a hardship"—and that is maybe yes and maybe no—we had better start talking about getting down to cases, and when we talk about cutting $1 billion, we had better not act too quickly on concluding that this is going to have an adverse effect on employment.

The point I want to make further is that if, let's say, the $1 billion is cut in an area of Federal expenditure, which the private sector is going to take on anyhow, and we cut that so we can have a $1 billion tax cut for stimulating effects, might we not end up with more employment as a result of that refined type of an approach in cutting back expenditures to make room for the tax cut?

Mr. SHOUP. I am afraid not, because the taxpayers who were relieved of this tax load would then have to shoulder the burden of paying for the services produced by this private plant.

Senator MILLER. The taxpayers would have to shoulder the burden of paying for the services of the private sector?

Mr. SHOUP. Somebody would have to pay them, in the end, for this private plant that is now going to be built since the Government plant is not going to be built.

Somebody will have to buy the services of that private plant.

They will have to spend money for it and their money will be spent to engage the workers on that plant.

Had the private plant not been built, and the Government plant been built instead, the workers would have been engaged with the tax money.

So I think you come out on the same general level of employment and spending in either case, assuming you have a precise one-to-one correspondence here between Federal cut in spending and the private firm's increase in spending.

The consumer takes the place of the taxpayer, you might say.

Senator MILLER. Yes, sir; but where I would question it is your assumption of the dollar for dollar, because the point would be that while the tax cut would affect a certain number of people over here who, in turn, would have to finance that project, and you would have the dollar for dollar there, a great mass of other taxpayers, who have no particular interest in this project at all, would have more money left to invest as a result of that tax cut.

Mr. SHOUP. Well, then we would seem to be cutting taxes more than we are cutting expenditures and that, of course, would be all right with me.

Senator MILLER. Not quite. The point would be that you can have a tax cut and the cut in expenditures balance out but because only some of those people, affected by the tax cut, will end up having to contribute to that particular project, and the other taxpayers would be encouraged to invest and to grow.

If I understand the philosophy behind a tax cut I would think that that would follow.

If the tax cut had no stimulating effect then there is no point in having it.

Mr. SHOUP. Well, perhaps we are not thinking of the same set of implicit figures here but if taxes are cut by $1 million so that the Government does not spend the $1 million on the plant and the services that it would give away free of charge then, it seems to me, that if the private enterprise would undertake the plant somebody has to give it $1 million.

Now, if you say that only part of the taxpayers are so affected, granted, but then that means that somebody else in the economy has got to contribute to keep this private enterprise going.

So far as I see it, it is still the total amount, $1 million, in either case and that by cutting taxes $1 million and Government expenditures $1 million, and disregarding certain refinements in the theory of this, it comes out with certainly no stimulating effect.

Senator MILLER. All right. Now, if that is so then why would you not argue the same way about the cutting of the Federal expenditures and say we can cut the Federal expenditures to make room for the tax cut because the Federal expenditures otherwise would draw this money out except for the money position of the national debt?

Is that what you come to?

Mr. SHOUP. No, I do not think so, if I understand what you are saying.

Are you attempting to suggest that there is some way of stimulating the economy by equal cuts in taxes and the Government expenditures? Is that it?

It is difficult for me to understand quite how that is going to take place.

Perhaps, as I say, we are not using the same example.

Senator MILLER. Dr. Shoup, let me go back to this situation—as I understand it, your position would be that in order to make room for a tax cut of, let's say, $1 million, that if we cut Federal expenditures by $1 million this would have a bad effect, in fact, a worse effect than if there had been no tax cut.

Mr. SHOUP. Well, let us say that it would counterbalance the tax cut.

I think it would have a slightly worse effect but for technical reasons, which we perhaps do not have to go into here, and let us just say that it would be a rough offset.

Senator MILLER. Well, then my point back to you was that this failure to cut Federal expenditures, which leaves us in the deficit situation, would mean that we would be in about the same boat anyhow because we would have to find $1 million which otherwise would be utilized in the economy to finance the national debt.

And then, as I understand it, you said that we would not expect to buy Government bonds to finance all of the national debt; that we would monetize some of it.

Well, then are we at this point—would you agree that except for the monetization part of this that you are stuck either way you go as far as taking money out of the economy is concerned?

Mr. SHOUP. Not quite, Senator Miller, for the reason that much of the money that would come out of the economy would come from cash balances that would have remained idle, that would have remained in the hands of corporations and others as, you might say, excess working capital.

I would agree on this, which I think is one of the points if I understand it, that you wish to make, and that is that it is quite likely that some part of the bonds issued to the public to you and me and others, to finance the deficit would come out of the spending we would otherwise have done.

And to that extent that type of bond issue would tend to offset the beneficial effects of the tax cut.

So that I would say that we——

Senator MILLER. You mean the beneficial effects of the tax cut or the Government expenditures?

Mr. SHOUP. No, I am speaking now with the assumption that we have a tax cut, thereby increasing the deficit and that we have to get money from somewhere to cover the deficit, to continue the same level of expenditures that we had before.

And the question was how to finance this increment of deficit, this increase in deficit caused by the tax cut.

And that if we finance it entirely by selling bonds to you and me and the rest of the public, we will decrease spending by us to some degree, and that decrease of spending will tend to offset, to some degree, the beneficial effects of the tax cut.

So I would hope that we would finance part of it by selling bonds to the banking system and the balance by selling bonds to those who held idle balances.

And in that way we could avoid largely causing a decrease in private spending through the bond issue.

Senator MILLER. When you used that phrase "idle funds" I am wondering if you were talking about cash in a vault or are you talking about funds in a bank's savings account drawing interest, which funds through the bank are being put to use.

Mr. SHOUP. I am referring to, for example, bank deposits held by a large business corporation, which the corporation holds as bank deposits because the going interest rates do not attract it to put that money into short-term securities.

If the Government is selling more short-term debt or medium-term debt and it puts interest rates up slightly, and it might need only a slight increase, this corporation might then be willing to turn over to the Government's use this bank deposit which the corporation would otherwise have literally held idle.

Since corporate comptrollers will vary the assets that they hold in cash as against Government securities in some degree with respect to the interest that they can get, and I might say also with respect to the intensity of effort by the private sector and the Government bond dealers and so on in finding places for Government bonds, this sometimes happens.

I understand that in the last decade, for example, the dealers in Government bonds have been quite successful in finding idle pools of cash that have been persuaded to take up Government bonds, pools which never would have been activated if the Government bonds had never been issued.

Senator MILLER. If the monetization portion of this would indeed result in an inflation would you then advocate it?

Mr. SHOUP. Let me say that if it would result in inflation I would then have to rethink the entire policy program and ask myself how much inflation, how much rise in prices, and what would be the price we would have to pay to reduce unemployment, and we are back to our discussion of some time earlier, I think, where it became a question of balancing one against the other.

In other words, I am not willing to say that any amount of unemployment is preferable to even a 10th of a percent rise in price per year. I am not willing to be an extremist in price stability to that extent, but I do prize price stability highly, and would not want to incure the cost of rising prices to eliminate unemployment without first searching for all other possible methods of curing it.

But, as I said before, we should do that anyway.

We should be active in our retraining and other methods to eliminate unemployment.

Senator MILLER. Oh, yes. Well, I would thoroughly agree with you on that.

There is one other factor that enters into this.

Now, we talked about balance of tragedies. There is another tragedy that is looming on the horizon, and that is this tragedy of the outflow of our gold, an outside phenomenon which some people seem to think is a harbinger of great tragedy ahead if we do not stop it, and which the diminution in the value of the purchasing power of our money seems to be aggravating at least.

Now, if the failure to preserve the purchasing power of our money resulted in a continued outflow of this gold would you take that into very serious account in balancing this off against the unemployment problem, too?

Mr. SHOUP. Yes, if I understand your question correctly, Senator Miller.

That is, assuming there was a rise in prices as a result of a certain fiscal policy and that that rise in prices, in turn, so disturbed foreigners with respect to our position that they withdrew gold, then indeed, that is one more reason why we would not want to have a rise in prices.

I might say that I think the balance-of-payments problem, however, is fundamentally due to very strong underlying forces that do not have too much to do with whether prices rise in this country by a half of a percent or 1 percent a year but, perhaps, that is a little outside the scope of our present discussion.

Senator MILLER. Well, I was not necessarily referring to the rise in prices of goods that we would support.

I was just referring to the continued whittling away of the purchasing power of the money as a result of which foreign creditors might be inclined to call on us for payment in gold rather than in dollars.

Mr. SHOUP. Well, the foreign purchasers, of course, are facing in their own home countries much the same kind of steady increase in prices that we are facing.

In fact, I think rather more so in most of the countries.

And one has to ask oneself what they do with this gold that they get.

This gets us again rather far afield, but I think there is no disagreement, is there, on the score that none of us would like to see a steady increase in the price level and that none of us want to adopt a fiscal policy that would cause a further increase in prices than will occur, in any event.

Senator MILLER. Well, I have the feeling that we are in agreement on objectives, and that where we are having our real problem, and one reason for these hearings, is in the way we are trying to solve that problem.

Now, the fact remains that we have not been solving these problems. We have unemployment. It could be worse but it is not what our target is.

We have continued diminution in the purchasing power of our money which some people do not think is anything to be concerned about.

Others do, and we have this continued outflow of gold, running about $900 million a year, in each of the last 2 years, and something about $2 billion a year in each of the 2 previous years and possibly something that could have been worse had it not been for the acceleration of some payments of debts by foreign debtors.

And so this cannot go on. At least we have been told that it cannot go on without tragic effects and now we are trying to do something about it.

Now we get down to this situation. Nobody seems to know precisely what the results will be.

My gracious chairman, Senator Douglas, stressed the multiplier effect and yet we have been told by other economists appearing before this committee that the multiplier effect depends ultimately upon the psychology of the American people to work.

For example, an extra dollar in the hands of a consumer might, under the multiplier theory, result in paying out 90 cents of it and saving 10 cents, and, on the other hand, if the psychology was a little different it might result in it going into the bank instead of being spent.

So we are into a problem of calculations on probabilities.

And we are also, in making the calculation of probabilities, going to be weighing risks of tragic consequences.

What I am suggesting is whether or not we should give a little greater emphasis to the risks of continued outflows of gold and continued diminution in the purchasing power of our money than perhaps we have been heretofore.

Mr. SHOUP. Yes. Well, I would agree, certainly, that it becomes a matter ultimately of weighing the respective aims that we all seek in attaching relative values to them so that some will be much more concerned over a possible further outflow of gold than they will be over a continuation of the present level of unemployment, and others will feel the other way.

For my own part, as you see, I am quite concerned over the level of unemployment and, as to the outflow of gold, I think that that is due to other forces, other factors rather than fiscal policy, and will have to be met ultimately by policy measures that have very little to do directly with our prescription of whether or not we should have a tax cut for the next year.

Senator MILLER. Do you think we should have a tax cut?

Mr. SHOUP. Definitely, yes.

Senator MILLER. Do you think we should have a cutback in any of our Federal spending?

Mr. SHOUP. Only if we are spending for something that we do not need to spend for, in which case I would then advocate a still further tax reduction.

Senator MILLER. Well, of course, Dr. Shoup, you have put your finger on the word that is causing this difficulty and that is the word "need."

Some people would translate that into terms of direct expenditures for armament and others are translating it into terms of financing projects to understand the mother love of monkeys.

So what do we mean by this word "need."

Mr. SHOUP. Well, Senator Miller, I do not consider myself at all qualified, at least this afternoon, to pass any judgment on a nonfiscal policy matter on the nature of Federal expenditures.

That is to say, I might have my own personal ideas on the subject, but I do not want to appear as a witness at the present time advocating this or that Federal expenditure or opposing this or that Federal expenditure.

What I do want to testify to is the need for an increase in the Federal deficit, whether achieved by a decrease in taxes, which I would prefer, or whether achieved by an increase in Federal expenditures.

Senator MILLER. You say you would advocate an increase in the deficit?

Mr. SHOUP. Yes, I think the current rate of the deficit is too low to stimulate the economy appropriately, and I would hope that it will be increased.

Senator MILLER. Would you hope that it will be increased if it would aggravate or would cause a diminution in the purchasing power of our money?

Mr. SHOUP. In that case I would have to rethink the whole problem and assign weights.

But I do not think that it will cause an increase in prices more than will otherwise occur.

Senator MILLER. In other words, are you saying that the defiicit would not necessarily be accompanied by a diminution in the purchasing power of our money?

Mr. SHOUP. In fact, I am saying that it almost surely would not be accompanied by any further increase in the diminution than will occur, in any event.

Senator MILLER. Well, then, how is it that we can point to the economic indicators for the last 2 years, which the Council of Economic Advisers has published, and find that while we were going about $14 billion deeper into debt we were suffering a reduction in the purchasing power of our money by a little over $14 billion?

Mr. SHOUP. Well, I do not believe that cause and effect are as simple as those figures might indicate.

We can go back and find periods when we had Government surpluses or practically balanced budgets and still find prices rising.

The level of prices in the private sector, I think, will continue to rise slightly for reasons that I tried to suggest some time ago, whether you have a superbalanced budget or a balanced budget or an unbalanced budget.

My only concern is that, in adopting our fiscal policy, our deficit policy, we do not add to these upward pressures on prices.

We want to keep the price level just as stable as we can.

Senator MILLER. Well, may I say that I thoroughly agree with that statement, that we want to keep it just as stable as we can, but the question, of course, then arises:

How do you determine when the amount of the deficit is going to push you over the inflation that would otherwise occur?

Mr. SHOUP. Well, first of all, I think we would keep a close eye on the unemployment index and, as simply a rough rule of thumb, if we dropped it down to, say, 4 percent and prices were not moving up any faster than they had been anyway, I would say that at about that level we should take an entirely fresh look at the situation and see whether we dared to proceed further in deficit financing.

Meanwhile, I would hope that we would have been eliminating some of that remaining 4 percent by retraining and other structural changes.

Finally, the only ultimate test is what happens to the price level, and if prices do start going up more than they have been or would have anyway, and by that I mean more, let us say, than—shall I try to be precise—more than, say, a half of a percent a year, possibly I might want a leeway of three-quarters of a percent or 1 percent, but we could be more precise if we had more time to study it—but if prices started rising faster than that then, indeed, the entire fiscal policy needs to be reexamined right away.

Senator MILLER. And if the outflow of the gold problem still persists——

Mr. SHOUP. Well, if that still persists my view on that is that it can be allowed to persist a while longer, but if it continues to persist after a substantial period of time then I do not think we should call upon the unemployed to stop the flow of gold.

I think that there are—in other words, we should not ask people to be unemployed in order that gold would not flow out of the country and, rather, we should ask ourselves what fundamentally is causing this outflow of gold and seek the remedy.

Senator MILLER. Well, Dr. Shoup, you have been very patient in answering these questions of mine, and I apologize to the other two gentlemen there, that I have not directed any questions to them, but let me wind up on this one final question:

Well, I might lead into it with another question.

This outflow-of-gold problem is something that we both recognize that cannot continue ad infinitum. Sooner or later there is going to be a day of reckoning.

Mr. SHOUP. Right.

Senator MILLER. What would be your suggestions as to the consequences if it persists?

Mr. SHOUP. Well, there are many, so many, possible alternative answers to that question that I hesitate to embark upon it, Senator Miller, at this hour.

Senator MILLER. Well, for example, Senator Byrd has said that the devaluation of our money might well occur, either devaluation by Government direction or devaluation, in fact, because of the world money market.

Mr. SHOUP. Well, it might occur, but I do not think it will be of much use in stopping the gold outflow if it did occur, because I think

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if we devalued, everybody else would devalue, and we would be right back where we were before.

The fundamental cause of the gold outflow, aside from capital movements which again is too vast an area for us to get into this afternoon is, of course, the fact that we have a demand for foreign currencies owing to outlays such as our necessary spending on foreign military and economic aid. I am not suggesting that the immediate remedy is a cut in those outlays.

I am only suggesting that the gold outflow is a symptom of some very powerful forces that work throughout the world that have, on the whole, little to do with our current fiscal policy problem for the next year or two.

Senator MILLER. And the final question then:

Are we in a position where the only way we are going to get these people back to work is to have increased Federal spending or is it possible that, either voluntarily or by some kind of Government encouragement, possibly through a technical revision in our tax laws, as distinguished from a tax rate cut, the Government could stimulate the private sector to do the job?

Mr. SHOUP. I think we have done well to revise the depreciation policy as we have in the income tax law.

I am not sure that the so-called investment credit is very helpful considering all the consequences but, to answer your question more directly, I would say that I am inclined to think that private investment which we need so badly will come only when business firms see plenty of consumers storming their gates to buy their goods and that that is the biggest stimulus that we can give to private business.

And consumption will increase if we cut the taxes on consumers appreciably.

Meanwhile, further incentives to business firms probably will be fairly weak in their results. Later on, they might be much stronger once the level of consumption has risen appreciably.

Senator PROXMIRE. May I interrupt just a moment?

Senator MILLER. Surely.

Senator Proxmire has a problem which I do not have, and let's let Senator Proxmire put in his questions now.

Senator PROXMIRE. This fine article that I read, at the very beginning of the meeting, in the Weekly Bond Buyer makes this statement, that the unhappy fact of the matter is, however, that no one in the Government, irrespective of his post or title, knows how much the Government takes in each year or how much it spends; what is worse, as matters stand today, no one can find out; if the President called the Postmaster General and said, "How much does it cost to run the postal service?" Mr. Day would have to say "I do not know"; moreover, it would not do the President any good to get rankled, because Mr. Day cannot find out and they indicate that this is pretty much true throughout, that not only the President or the Post Office, the FHA Administrator, Robert Weaver, has no idea how much the Government is taking in and how much it is spending.

Now, I would like to know if this statement is precise and accurate in your judgment—that is, you three outstanding experts on the budget, as economists—or whether you think it overstates the case somewhat?

That is all I have to ask.

Mr. BROWN. Well, I would say it probably overstates the case but I do not know the Post Office situation, but there is a definitional problem——

Senator PROXMIRE. How about the Housing Administration?

Mr. BROWN. I would not know that specifically in detail. But, obviously, these people have to account to the Government, but there are many ways of accounting; that is, whether you net out expenditures or whether you gross them up, and you could say the same thing about a business firm with many departments.

It might appropriate funds for wages to a department and the department might then spend these or allocate them to subdepartments, you see.

Senator PROXMIRE. This goes much further than that.

It says that a few days after President Eisenhower took office in 1952 former Postmaster General Arthur Summerfield called for the office books and he was politely advised that a rough estimate of the expenditures might be put together in a few months, but it would only be an estimate. And he said this would be true of department after department.

Mr. BROWN. Well, I know of only some departments that I have had contact with, and they keep quite careful records on that. In fact, they have to, to stay within the law. I would be very surprised if they were writing checks against accounts or using funds that were not appropriated to them and they have very careful records.

Senator PROXMIRE. Mr. Okun, would you like to comment on that?

Mr. OKUN. I think there are areas where it can be said that we do not know what the grosses are, and we should. I think though the impression that there may be dollars "under the rug" in the Post Office certainly is inaccurate. The accounting for public funds——

Senator PROXMIRE. Well, heaven knows, we have dollars under the rug and behind the wall and poked in the ceiling somewhere in the Defense Department.

We had the Comptroller General testify to us that they have no idea, the Army, Navy, and Air Force, that is, no idea of what their inventories were.

They came before our committee some time ago and said that the Air Force lost $140 million of inventory on just one item, and the feeling was that because we have computers now you do not have to worry about inventories. The difficulty is that it still takes human beings to feed this into the computers and the inventories are not being taken.

This is not precisely the same question I was asking but it is about the same thing.

The Government is so enormous I wonder if it is not true that we do not have a precise or even a close approximation of what is being spent and what is being received.

Mr. OKUN. Well, the inventory area is certainly one area we do not have the information we should. I think this is a reflection of the absence of capital accounting in the Government sector, a situation that all of us have lamented.

Senator PROXMIRE. Dr. Shoup?

Mr. BROWN. Excuse me, but I think another aspect on this Post Office cost is a thing besides inventory; namely, depreciation. And I think they may very well be referring to that. That there is an absence of depreciation accounting. But I think as far as flow of funds is concerned there are different concepts, checks issued and warrants issued, and all of this sort of business, but my impression is that this is very carefully done though goods may be lost, heaven knows, and it may be difficult to cost items. Cost accounting is very difficult in any field or situation where there are joint costs.

Mr. SHOUP. It is my impression that it is mainly a matter of gross or net figures, and a good deal of netting goes on in the process so we only get, you might say, the net results of the Post Office.

But I suppose it is possible to know what the gross flows in the Post Office are and, accordingly, I would think that the tone of the statements read here would seem to me to be a little overemphasizing the problem or perhaps not stating it precisely enough in terms of to what degree should we ask for and get gross figures rather than content ourselves with figures that are netted out.

Senator PROXMIRE. I would like to recommend that when you get a chance you might read this whole article. I think it is certainly a very provocative article and it would be good for you to read it.

Mr. SHOUP. It is in the Bond Buyer?

Senator PROXMIRE. Yes, in the April issue.

I am going to leave now as I have to.

Senator Miller?

Senator MILLER. All right, thank you. Thank you very much, Dr. Shoup, also. Thank you, gentlemen.

We will adjourn the hearings now until 2 p.m. tomorrow afternoon, at which time we will take up the subject of "Use of the Budget in Economic Planning."

Mr. William Butler, vice president of the Chase Manhattan Bank; David Novick, head of the Cost Analysis Department of the Rand Corp.; Maurice Stans, investment counselor, and formerly Director of the Bureau of the Budget; and Murray Weidenbaum, senior economist of Stanford Research Institute, will be the witnesses.

(Whereupon, at 4:50 p.m., the committee adjourned to reconvene at 2 p.m. Wednesday, April 24, 1963.)

THE FEDERAL BUDGET AS AN ECONOMIC DOCUMENT

WEDNESDAY, APRIL 24, 1963

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMIC STATISTICS,
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 2.08 p.m. in Room AE–1, U.S. Capitol, Senator William Proxmire (chairman of the subcommittee) presiding.

Present: Senators Proxmire (presiding) and Miller.

Also present: Roy E. Moore, economist, Donald A. Webster, minority economist, Hamilton D. Gewehr, administrative clerk.

Senator PROXMIRE. This afternoon we meet on the meaning of the Federal budget and its economic implications, and this afternoon the subject is "Use of the Budget in Economic Planning."

We have three distinguished economists.

We had hoped that we could hear from Mr. Maurice Stans but Mr. Stans, I understond, is on safari in Africa. While the committee goes far afield sometimes, it usually cannot afford to go quite that far afield while rollcalls are going on.

So our first witness is Mr. William Butler, now vice president of the Chase Manhattan Bank.

STATEMENT OF WILLIAM BUTLER, VICE PRESIDENT, CHASE MANHATTAN BANK

Senator PROXMIRE. Mr. Butler, we are very happy and honored to have you here, and you may proceed.

Mr. BUTLER. Thank you.

Much of our economic planning at the bank involves the preparation of short-term economic forecasts. We look ahead a year or two to see where the economy is going, projecting such economic aggregates as gross national product, industrial production, personal income, profits and investment. This work is very important. The bank's budget is based on these projections.

Many of our decisions as to portfolio policy and general investment policies rest on the short-term forecast.

As a part of these forecasts, Government plans for spending and taxing are important. Federal expenditures on goods and services alone account for over a tenth of all U.S. spending, and when transfer payments, grants to State and local governments and the like are included, almost a fifth. Furthermore, both expenditures and taxes have a very significant impact on private income and spending.

Today, I propose to address my remarks to the problem of using the Federal budget as a source of information on Government spending plans and on expected tax receipts, and to the question of obtaining better information on these plans and their impact on the economy.

In recent years, changes have been made in the budget toward making it a more useful instrument for economic analysis and planning. For forecasting, one of the most useful additions has been the inclusion of the national income and product budget. This budget makes it possible to fit Federal expenditures, receipts and cash flow into the GNP type accounting systems which are used as a basis for forecasting. However, much remains to be done. For, in spite of the progress which has been made, it is virtually impossible, using the budget itself, to translate fiscal estimates which are made as much as a year and a half in advance into currently reliable estimates of Government spending and receipts. A means of obtaining continuously updated information is needed, and this information is needed on a quarterly basis. Quarterly estimates are essential for short-term forecasts, but at present such estimates can neither be obtained nor made from information published by the Bureau of the Budget. Nor can they be obtained from other interpretive sources such as the Department of Commerce. Quarterly projections at present can only be made by interpolation, extrapolation, through expert or inside opinion, or by guesswork.

Publication of quarterly projections in the annual budget, and more frequent budget reviews are needed. But it seems to me that more than this is required. The services of a staff within the Bureau of the Budget, charged with keeping continuously abreast of fiscal plans and economic developments would seem to me essential. The services of such a staff could be indispensable not only to the public, interested in making economic forecasts, but also the administration, Congress, and State and local governments.

Specifically, such a staff should be charged with obtaining and making available continuously updated quarterly estimates of Federal expenditures and receipts. And the staff should be charged with assessing the possible impact of different economic developments in the economy on Federal expenditures and receipts. This would give individual forecasters a basis for gaging changes in Federal expenditures and receipts related to their individual forecasts of economic developments.

Federal budget expenditures are the largest component of total Government spending, and, as such, first attention should be given to seeing that budget receipts and expenditures, both current and projected, are presented in a form useful to economic forecasters and financial planners.

However, Government at all levels encompasses a great deal more than Federal budget expenditures, and it would seem that we need more information about trends in and the impact of nonbudget Federal transactions and receipts and expenditures at the State and local level. Altogether, only a little more than half of total Government spending at all levels of Government is accounted for by the Federal budget.

Trust fund spending at the Federal level will have increased by $21 billion or 290 percent in the 1954–64 fiscal decade compared with a $31 billion but only 31 percent increase for budget expenditures. In the 5-year period 1959–64 the discrepancy is smaller but still there—45 percent for trust funds, 23 percent for budget spending. Since the trust funds are to some extent automatically countercyclical in movement, it would seem that projections of outlays and receipts would be useful; further, since this is also an area in which "one-shot" anti-recession measures can be quickly effected (e.g. prepayment of GI dividends, temporary extension of unemployment benefits), we should be able to relate the impact of "autonomous" actions to the national income accounts.

TRANSFER PAYMENTS

Similar considerations apply if Government spending is divided into transfer payments and purchases of goods and services. Between the 1954–64 decade transfer payments will have grown from a little more than one-fifth of Federal expenditures to more than two-fifths. It seems important not only to be able to project trends in this area, but to be able to estimate the impact of projected spending (and receipts) on gross national product. In this connection, it should be pointed out how dubious the division between purchases of goods and services and transfer payments can be. For example, Government expenditures for research and development contracted to individuals or nonprofit institutions are considered transfer payments while such outlays to profit-making companies are purchases of a service and appear in the national product accounts.

STATE AND LOCAL GOVERNMENTS

Spending in this area has shown a steady uptrend, and through 1962 had grown faster than Federal spending for a decade. In 1962, State and local purchases of goods and services equaled 47 percent of total Government purchases and 32 percent of total Government expenditures. One reason for the extremely steady rise in spending that appears in current quarterly data in the national income accounts is that State and local purchases are for the most part extrapolated, rather than developed from data reflecting the current rate of spending.

Material should be developed so that we can better assess developments at the State and local level. This seems to be particularly vital if Federal tax and spending policy is being designed to create one set of stimuli for the economy which is negated by trends at the State and local level. Thus, if the Federal Government is cutting taxes, but State and local governments increasing them, what is the net effect on the economy? Further, in considering revisions of the Federal tax structure, the whole system of tax distribution and tax burdens (by income tax bracket, for example) should be examined with State and local government included.

Thank you.

Senator PROXMIRE. Thank you very much.

Now our next witness is David Novick, head of the cost analysis department of the Rand Corp.

STATEMENT OF DAVID NOVICK, HEAD COST ANALYSIS DEPARTMENT, THE RAND CORP.

Senator PROXMIRE. Mr. Novick, I understand you have quite an elaborate statement. Now we are very grateful for it, and it is my understanding that you will deliver the portion of your statement through page 7.

Mr. NOVICK. Right.

Senator PROXMIRE. And without objection the remainder will be put into the record.

Mr. NOVICK. Thank you.

You have invited me here today to talk about the 1964 budget as an economic document and possible improvements in its concepts, documentation, and presentation which can be made in future years. With your permission, I will read a brief statement that I have prepared which summarizes my views in this matter and then I will be only too happy to discuss with the committee such questions as it may wish to raise and about which I believe myself competent. I would also like to supplement this very brief summary with a more complete statement to be included in the record.

The opening paragraph of the 1964 edition of the "Budget in Brief" probably is an appropriate point of departure as it stands today:

> The budget serves several purposes. It is both a financial report and a plan for the future. It is also a request for legislation, since congressional action is necessary if the proposals in the budget are to be carried out. Further, it is an important aid in the management and administration of the Government's activities. Finally, it is an economic document, for it must take into account the many ways in which Government taxation and spending affect the efficiency with which our economic system operates.

From this statement I would like to pick out two points which I feel merit serious attention. The first, the budget as a plan for the future. The second, the budget as an economic document.

Let me start with the second because I think it can be handled more quickly. From the above quotation it is apparent that the economic document that the Executive undertakes to present relates entirely to the problems of Government taxation and the overall spending effect on the efficiency with which our economic system operates. Although the budget has probably been used for these purposes within the halls of Government, there is very little in the document as it is available either in the compact volume which is described as "containing the facts and figures most users of the budget would normally require or desire," or in the appendix which presents the complete details of the budget to permit the outsider to do economic analysis of a specific or detailed kind.

With respect to receipts, even though there is a breakdown of receipts by source, this simply relates the total revenues required to overall measures of ability to pay, such as gross national product, personal income and corporate profits before taxes. To determine the economic effect of the proposed legislation, substantial additional information is required to determine the possible economic impact of the proposed schedule of appropriations. This is well illustrated by the current discussion of the President's recent proposal for tax reduction. You gentlemen know better than I the many questions this raises with respect to timing, amount, and distribution to specific sources and schedules of taxation.

The budget statement is even more deficient when applied to the effect of the proposed spending on the operation of our economic system. Although in 1964 the military budget is presented in program terms—i.e., a summary of major military programs and the activities required for each of these objectives—the major portions of the budget are still presented in terms of major functions in which it is very difficult to identify the specific end objective sought by the expenditures. If we are to do a good job of allocating our resources it is important that we identify not only the functional objectives of expenditures such as personnel, property, travel, etc., but also that we identify rather definitely the specific purpose which certain portions of these functional expenditures will serve—national security, airway safety, recreation, education, etc. In addition, as an aid to economic planners in Government and industry, serious consideration should be given to inclusion in the budget of the expected distribution of funds by industry and by regional area.

Although there is a general plan upon which the budget is based, it is not easy to identify specifically the funding requests to the specific objectives. Furthermore, treating the budget on a departmental basis means that there can be substantial overlap of end objectives in the purposes for which the funds are to be applied by several departments and agencies. For example, research and development appears in some form in practically every departmental budget. However, as has been demonstrated in the National Science Foundation studies of this subject, it is very difficult to single out all of the research and development and to identify it in terms of either the major objectives sought or the kinds of work to be performed. For several years now this has been an area of major study by the Departments of Commerce, Labor, Defense and others.

The presentation of the Department of Defense budget in the form initiated in 1961 is an excellent beginning in identifying major outputs rather than just the inputs. I think the approach introduced by the Defense Department can be successfully adapted to many other departments of Government. If this were done we would then be able to identify common end objectives sought and to do this regardless of the department in which the task has performed. As you know, Defense Department programs are stated not in terms of the four military forces but rather in terms of objectives such as strategic retaliation, continental air and missile defense, and the like.

Another important feature of the Defense Department approach is that it projects next year's budget on the basis of a plan which extends 5 and more years into the future. Although such plans are now called for rather generally in the Federal Establishment, I know of no place where this activity has been pursued either with the commonness of purpose or effective demand for performance as has been the case in the Department of Defense. It might be appropriate to require either the Bureau of the Budget or some other executive agency to draw the nonmilitary departments into a planning and programing structure similar to that now used by the Department of Defense.

If planning were in fact projected into the future, the budget could then appropriately identify the financial implications of current requests which extend beyond the next fiscal year. As the budget is now presented this is a major omission. Projecting the financial requirements 5 or so years would permit both the executive and Congress, as well as businessmen and economic analysts, to make better studies of the future implications of the Government's current intentions to make financial commitments.

The question of future implications of current financial commitments is probably the point on which the present budget is most deficient. In the discussion of new obligational authority in the budget it is pointed out that not all of the obligational authority enacted for a fiscal year is spent in the same year. Also, that the expenditures in the current year will be significantly affected by unspent new obligational authority enacted in prior years. This means, then, that only by very careful and well-informed analysis is it possible to identify the relationship between NOA and expenditures. This is important since each of these has a quite different economic impact. The one is both current and future; the other is current only.

This problem could be dealt with rather easily if we were to distinguish clearly between the one-time outlays and the recurring annual expenditures. Although this has the implications of a two-budget structure, that need not be the case. As you know, current planning in the Department of Defense is in terms of three major money flows. The first, research, development, test, and evaluation; i.e., the one-time outlays necessary to create a capability. Second, investment; i.e., the one-time outlays necessary to install the capability in the military inventory. And third, annual operating expenses; i.e., the expenditures required each year to operate the capability already in the force.

These same concepts of major money flows can be adapted rather generally, and the request for appropriations can be so labeled, which would give a major indication with respect to the one-time or continuing nature of the expenditures. Perhaps more important, such an identification of the money flows would permit us to know the extent to which the current investments carry with them an obligation for future recurring operating expenses. And obviously if this relationship is identified it would then be appropriate to require that at the time the investment obligation was under discussion, there also be exposed to view the long-range considerations and the implications for future recurring outlays.

In summary, I do not belive the current budget to be very useful as an economic document. It would seem to me that it could be substantially improved, first, by requiring and identifying the long-range plans which are the basis for the budget. Second, by incorporating into the budget document at least 5-year projections of the funding implications of the plans. Third, by identifying specific money flows, that is, the one-time outlays such as research and development and investment, and distinguishing these from the recurring annual operating expenses. Finally, I think it extremely important that the budget document identify current requests for investment commitments and the future implications of these commitments for either associated investment or recurring annual operating expenses in the years to come.

With your permission, I would like to extend my remarks for the record with the more complete statement already distributed to the members of the committee.

(The balance of Mr. Novick's statement follows:)

EXTENSION OF STATEMENT OF DAVID NOVIK, HEAD, COST ANALYSIS DEPARTMENT, THE RAND CORP., SANTA MONICA, CALIF.

Generally speaking, my view on the budget as an economic document is fairly clear cut. With some few exceptions, the present budget is not very useful for economic planning since it does not serve as a very definitive indicator of Government intentions or the implications of intentions. The principal reasons for this are the following (not necessarily in order of relative importance, and certainly not mutually exclusive): [1]

1. Lack of an "end product" or "activity" oriented budget structure or format.
2. Too much of an administrative and/or organizational orientation in the budget structure.
3. Timespan covered by the budget is too short.
4. Insufficient distinction between one-time investment and recurring operating outlays.
5. Budget concepts and language are too complicated.

Each of these points is discussed briefly.

LACK OF AN "END PRODUCT" OR "ACTIVITY" ORIENTED BUDGET STRUCTURE

Although significant improvement has been introduced in recent years in one major area (the Department of Defense), the general lack of meaningful "end product" or program identifications in the budget format is still probably the major deficiency in the present approach. Further improvements—and major ones in certain areas—will have to be made if the budget is to provide those engaged in economic planning with something more than a very general indicator of Government intentions and of the implications of these intentions.

The present Department of Defense approach remedies these deficiencies by recasting the basic objectives and their economic implications into a program budget which is prepared in addition to the regular budget. The Secretary of Defense uses the program budget as the basis for his deliberations in making his allocation of resources to the national security objectives which are his responsibility. As you know from the Secretary's classified and unclassified presentations, he also uses this for his explanation of the Defense Department's part of our national security objectives and the resources required for them. The significant feature of the new planning and programing concept that was initiated in the Department of Defense early in 1961 is the approach taken to decisionmaking and control in the vital area of defense expenditures. Planning is considered in long-range terms of missions, forces and weapon system—resource outputs—rather than in terms of the standard appropriation categories of procurement, construction, personnel, etc.—resource inputs. The time period is 5 or more years in the future, not just next year's budget.

Planning in terms of missions such as strategic defense or continental warfare has diminished the relevance of separate military service boundaries. Each one is now viewed in terms of its contribution to the overall Department of Defense mission. Under this new approach, the military services—the Air Force, Army, Navy, and Marines—are required to estimate the cost implications of individual weapon systems for 5 and more years into the future.

[1] Here we are concerned primarily with the budget as available from the U.S. Government Printing Office, and not with the generally unavailable detailed backup to the budget.

The new approach is based on the premise that effective planning and programing require a full understanding of the long-range implications of decisions to allocate resources.[2] A decision to procure a given quantity of hardware carries with it requirements for facilities, acquisition and training of personnel, personnel housing, support equipment and a host of other related items, all of which must be paid for. In addition, a procurement decision implies a decision to incur annual recurring costs so long as the system remains in the inventory. A clear identification of the timing and cost of these requirements is essential to a full understanding of the resource impact of a given decision. It is to provide the Secretary of Defense and his military advisers with this understanding that the new programing/budgeting system has been instituted.

TOO MUCH OF AN ADMINISTRATIVE AND/OR ORGANIZATION ORIENTATION IN THE CURRENT BUDGET STRUCTURE

Closely associated with the lack of an end-product orientation, except for the Department of Defense and a few other exceptions,[3] is the fact that the current budget format is heavily influenced by administrative (and hence organizational) considerations. The main point here is not that the administrative facets of budgeting are unimportant, but rather that these matters should not be permitted to dominate the budget structure for all purposes.

To be more specific, a distinction should at least be made between (1) the budget as a management tool to assist in making major allocation decisions, and (2) the budget as an administrative device to facilitate carrying out and managing programs and activities after Congress has made the appropriations. Clearly these two purposes involve different sets of considerations, which in turn imply that two types of budget presentation may be desirable: (1) A format oriented toward end products or tasks to be performed—a program budget—and (2) a presentation in terms of organizations and administrative budget categories—the existing Federal budget.

Having two objectives in mind for budget presentation and format does not make for an impossible task in preparing the budget. It is done regularly in developing budgets in many industrial corporations.[4] Basically, what is involved here is that in preparing the various components of the budget at the working level, the proper identifications (usually through coding devices) would be made which will permit pulling the budget together in different ways.

Many of the management problems reflected in the Federal budget and the decision processes that accomplish their resolution, closely resemble the problems and decision processes reflected in the DOD budget. The Federal budget, like the DOD budget, is concerned with the allocation of scarce resources. As in the DOD budgetary process prior to 1961, the Federal budgetary process today is characterized by the organization of information along departmental, rather than mission, program, or natural function lines. Inevitably, therefore, management decisions bearing on specific problem clusters are made piecemeal, lacking

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[2] For a more detailed discussion of program budgeting, see D. Novick, "Efficiency and Economy in Government Through New Budgeting and Accounting Procedures," the Rand Corp., R–254, Feb. 1, 1954; "Which Program Do We Mean in 'Program Budgeting?' " the Rand Corp., P–530, May 12, 1954; "New Approach to the Military Budget," the Rand Corp., RM–1795, June 12, 1956; program budgeting: "Long-Range Planning in the Department of Defense," the Rand Corp., RM–3359–ASDC, November 1962; "New Tools for Planners and Programers," the Rand Corp., P–2222, Feb. 14, 1961; G. H. Fisher, "The New OASD (Comptroller) Programing/Budgeting Process," the Rand Corp., RM–3048–PR, March 1962; "Statement of Assistant Secretary of Defense Charles J. Hitch Before the Subcommittee on National Policy Machinery of the Senate Committee on Government Operations," July 24, 1961, published in the hearings before the Subcommittee on National Policy Machinery of the Committee on Government Operations, U.S. Senate, 87th Cong., 1st sess., 1961, pt. VIII; "Statement of Assistant Secretary of Defense Charles J. Hitch Before the House of Representatives, Military Operations Subcommittee of the Committee on Government Operations," July 25, 1962, and "Extract From Secretary McNamara's Statement on the Fiscal Years 1963–67 Defense Program and 1963 Defense Budget Presented to the House and Senate Appropriations and Armed Services Committees in January and February 1962," both published in the hearings before the Subcommittee of the Committee on Government Operations. House of Representatives, 87th Cong., 2d sess., 1962, pt. II (pp. 513–547 and pp. 642–804); Hugh McCullough, "New Concepts in Defense Planning Programing and Budgeting," the Federal Accountant, vol. 12, No. 1, September 1962, pp. 70–84.

[3] For example, Agricultural Research Service, Soil Conservation Service, Bureau of Land Management and Bureau of Reclamation.

[4] The Ford Motor Co. is a good example. This company has several types of budgets, including an "administrative-organizational" budget and a budget presented in terms of "end products" or "product lines": Ford, Thunderbird, Lincoln, etc.

a consistent goal-oriented policy framework, lacking comprehensive study of supply requirements balances for scarce resources—lacking, in short, the information-decision structure essential for rational, efficient, and flexible choice among alternative options.

Many examples could be cited, but for dramatic object lessons one need go no further than (1) the multiple, interlaced, overlapped, often internally inconsistent foreign economic activities embedded in so many departmental budgets; (2) the unmeasured aggregate Federal funding of R. & D. activities, with the resulting competitive, even inflationary, pressures on the scarce supply of R. & D. talent; or (3) the numerous easy commitments to initial spending for incompletely analyzed programs (such as farm price supports, veterans' benefits, or HEW activities) whose future costs are seldom brought into the decision focus in the appropriate time and magnitude perspectives.

These management omissions resemble those that existed in DOD prior to the introduction of the program budget structure. If their elimination was important and useful in that area, it is surely equally important and potentially useful in the balance of the Federal Government's budget structure. The case is made stronger by the observation that some elements of the military budget are related to and competitive with some elements of the nonmilitary budget.

Important public and private benefits would be secured from more general use of the program budget approach. The executive and legislative branches of the Government would find in the budget information efficiently organized for management analysis, planning, operating, and controlling—administrative functions now only partially, often ineffectively, serviced by the existing budget format. In addition, managers, economists, and social scientists outside the Government would have available for a variety of significant uses information about the scope, character, and projection of Federal fiscal commitments—information not provided in meaningful terms in the existing budget format. Corporate planning, both short and long term, would be strengthened. Economic analysis based on the relation of the Federal budget to the total performance of the domestic economy would be improved. The planning and management of economic and social resources in the private sector and for the service of national security requirements would be strengthened.

In addition, it would be highly desirable, from the standpoint of planning in both Government and industry, if information could be provided as to the expected distribution of budgeted funds by major industry and regional area categories. Although such projections would be difficult to develop and implement—and would necessarily be subject to greater uncertainties than other budget projections—their importance for planning purposes would appear to warrant serious consideration. Even in summary form, such projections would provide extremely valuable tools for management and economic planning in both Government and industry.

It is appropriate to observe, finally, that the transformation of the total Federal budget into a program-structured, decision-oriented information array would be an essential and powerful step toward the potential ultimate transformation of the entire gross national product statistical structure into a much more informative and utilitarian instrument for understanding and managing scarce resources in all parts of our economy.

The existing Federal budgetary structure (outside DOD) is primarily designed to present an accounting for departmental appropriations in terms of such administrative categories as personnel, travel, equipment, etc. It does not clearly distinguish between operating and investment outlays, or adequately identify R. & D. expenditures. Its forward time horizon is short, with no portrayal of the long-term (say, 3- to 5-year) implications of current budget commitments. Above all, it is not organized in terms of end objectives, tasks, or missions. As a result, it does not provide an aggregation and display of information in a form that would substantially assist top-level Government decisions on resource allocation or on the accomplishment of meaningful task objectives. For the same reasons, it does not reveal the Government's economic and social commitments in terms that would facilitate extragovernmental interpretation and analysis.

It should be particularly noted that the present budgetary information display does not aggregate expenditures for common program objectives in two or more executive departments or agencies. For example, the total Federal commitment to foreign economic programs can be discovered only by identifying and aggregating such related programs in State, Agriculture, Commerce, Defense, and other budgets. This identification and aggregation is not facilitated by the existing budgetary structure. Similarly, transportation assistance programs are scattered through several budgets. So are R. & D. expenditures.

With respect to these deficiencies, the Federal budget structure differs from good current budgetary practice in private industry where similar management problems of resource allocation continually confront top-level administrators. Here, identification of cost or investment "packages" organized in terms of meaningful groupings of end products, services, or missions—including forward projections for several years to reflect the total time-phased commitments that are related to current outlays and proposals in a continuing cost stream—is widely recognized as good practice.

TIME SPAN COVERED BY THE BUDGET IS TOO SHORT

Under current procedures, the budget is presented for the past, current, and one future fiscal year. While it is true that in terms of obligational authority many of the procurement funds in the next year's budget refer to items to be delivered 2 to 3 years hence, this future impact is not made explicit and the budget as a whole is extremely short-range oriented.

From the standpoint of making major allocation decisions, and also from the standpoint of the budget as an indicator of intentions and the implications of intentions, the short-range orientation of the present budget represents a very real deficiency. With regard to any of these purposes, and many others, it would be very useful (perhaps mandatory) that at least a general notion about the probable long-range financial implications of the current budget be portrayed.

For example, many types of major procurement items provided in the budget for the forthcoming fiscal year very definitely imply further procurements in future years as well as substantial recurring outlays to operate and maintain the activity being procured as long as it is kept in operation.

To be more specific, most major military weapon systems generate a "life cycle" funding pattern over a long span of years covering three principal phases: (1) Research, development, test and evaluation (R.D.T. & E.); (2) procurement for the combat force;[5] and (3) operation of the system after it has been introduced into the force. (See chart.) Thus, while a decision to undertake system R.D.T. & E. does not necessarily imply a decision to procure the system, a procurement decision—if and when it is made—automatically implies a decision to incur recurring or annual operating costs as long as the system is in the combat force. The annual operating cost implications of a proposed investment program are an example of the type of "future" considerations that should be taken into account by those making major resource allocation decisions and by those engaged in budgetary review of these decisions. But this cannot be done effectively if the budget is as short-range oriented as it is at present.[6]

The above argument in favor of increasing the time horizon of the budget should not be construed as recommending that budget appropriations actually be granted for, say, 5 or 10 years into the future, or that long-range estimates can be very precise. The actual granting of appropriations could be carried out in an "incremental" fashion, much as is done at present, but it would be done in the context of a long-range projection and hence with some knowledge of the probable future budget implications stemming from what is being decided currently.

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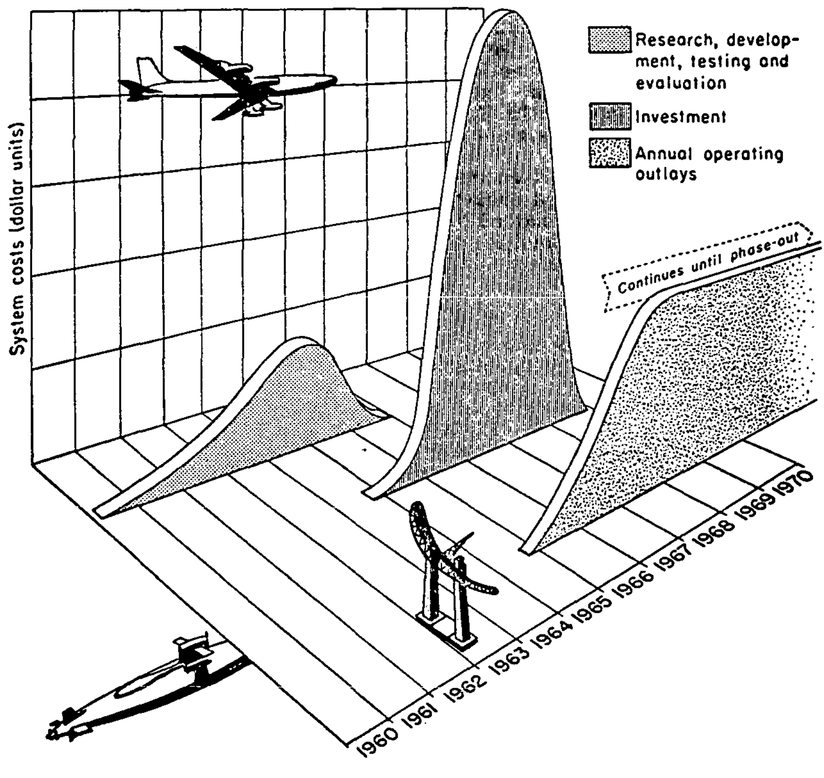
[5] That is, if the system is actually procured for the active force. Not all systems that have been developed are introduced into the combat inventory.

[6] Again a distinction should be made between the budget as a tool for assisting in making major allocations decisions and the budget as an administrative device after the major decisions have been made. From the administrative budgeting viewpoint, the time horizon can appropriately be a fairly short one.

It is, of course, a virtue of the program budget process that it does not require a change in budget format. Planning and programing are simply superimposed on the budget and govern its substance, though not its form. The relationship is explicity stated in a recent House Appropriations Committee report.[7]
"Basically, each annual appropriations bill is simply an additional annual increment to the longer range Defense program."



Example of weapon system "life-cycle" funding

In its study of the national policy machinery, the Jackson subcommittee of the Senate Committee on Government Operations invited the testimony of officials from the Department of Defense and the Bureau of the Budget. The subcommittee expressed firm support for extended time horizons in budgetary projections, and for improved presentation of information to make the budget more useful in illuminating program choices and in measuring program performance. The final report emphasized the need for coordinating planning and budgeting: [8]

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[7] 87th Cong., 2d sess., Department of Defense appropriation bill, 1963, House of Representatives Rept. 1607, p. 7.

[8] "Organizing for National Security," staff reports and recommendations submitted to the Committee on Government Operations, U.S. Senate, by its Subcommittee on National Policy Machinery, vol. 3, p. 97.

"Forward budgeting can be no better than the forward planning which underlies it. Many departments and agencies have had little experience with long-range programing—and relating such planning to budgeting. Departmental planning staffs, traditionally, have only occasionally viewed themselves as coworkers of budgetary officers. The problem of developing the necessary planning skills and of creating a productive partnership between the planner and the budget officer is a vexing one. Its solution deserves, and will require, sustained effort."

The need was especially emphasized for more forward planning in the Department of State. The report also pointed out the importance of relating aid to foreign governments to a nation's self-help development programs and to assistance from international agencies or other outside sources:

"Moreover, each part of the U.S. effort—economic or military aid, loans or grants, or food-for-peace sales—ought to be seen in the light of an overall program."

A longer time span for foreign aid planning was urged.

The need for an extended budgetary time horizon was recognized in a study of the Federal budget by Senator Proxmire's Subcommittee on Economic Statistics of the Joint Economic Committee. The generalized use of cost-benefit relationships was advocated as a means of achieving better budgets.[9]

INSUFFICIENTLY CLEAR DISTINCTION BETWEEN INVESTMENT AND OPERATING OUTLAYS

Although there are exceptions, and although the fiscal year 1964 budget (especially the military component) reflects some improvement over previous years, the present budget structure does not provide a very definitive distinction between "one-time" or investment and "recurring" or annual operating outlays. This deficiency is, of course, closely related to the lack of a long-range time horizon just discussed. It is mainly in a longer range time context that the distinction between investment and operating outlays becomes fully significant and most useful.

The reasons for making such a distinction are fairly well established. Some of them stem directly from accounting and budgeting concepts set forth in almost any standard textbook on accounting principles and practices. Probably of more fundamental importance than the accounting concepts per se, however, is the underlying relation to basic types of management decisions that have to be made in almost any kind of activity, whether Government or private.

In the context of basic management decisions for modern-day business and Government it is very often necessary to set up a third major category, research and development,[10] which in a sense may be viewed as a special class of the investment category. We therefore end up with three general types of basic management decision areas which are applicable to a wide range of activities, both military and nonmilitary. The following sequence of events is typical: (1) We decide to perform research and development on an item—e.g., the major equipment in a weapon system. (2) If the prototypes or test items show up favorably in the testing and evaluation program, we may decide to put the developed item into production and introduce it, along with all its required supporting activities, into an operational environment. (This is the procurement or investment decision.) (3) When the item or system is placed in its operational environment, a number of additional decisions concerning maintenance and operation must be made over a period of years.

The above represents a quite logical classification of major considerations involved in general sequential decisionmaking processes. In this context, it makes a lot of sense to introduce explicitly the three discisionmaking categories into the budget format—especially since these three areas involve varying degrees of uncertainty and the use of different types of management techniques. In addition, with the budget format set up in this way, a basis is provided for viewing certain activities and programs in terms of "life cycle" funding patterns,[11] provided the budgetary time horizon extends far enough into the future.

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[9] 87th Cong., 2d sess., "The Federal Budget as an Economic Document," study paper prepared for the Subcommittee on Economic Statistics of the Joint Economic Committee, Congress of the United States, Government Printing Office, 1962.

[10] Here we define "development" to include "test and evaluation" and related activities required to bring the item or system to ehe point where it is ready for introduction into an operational environment.

[11] See illustration.

BUDGET CONCEPTS AND LANGUAGE ARE TOO COMPLICATED

To anyone except those intimately familiar with the budget and budgetary process, the present document tends to appear as a hopelessly confusing conglomeration of overly complicated concepts and jargon. For example, within a relatively few pages of the 1964 budget the reader is confronted with the following set of funding concepts and classifications:

1. Budget authorizations.
2. Expenditures.
3. Direct obligations.
4. New obligational authority.
5. Net expenditures.
6. Appropriations.
7. New authorizations.
8. Permanent authorizations.
9. Current authorizations.
10. Reappropriations.
11. Receipts from operations.
12. Intragovernmental funds.
13. Revolving funds.
14. Reimbursements.
15. Reimbursable obligations.
16. Unobligated balances.
17. Supplemental appropriations.
18. Obligations incurred.
19. Recoveries of prior-year obligations.
20. Total obligations.
21. Object classification.

Even though this list is not complete, this is clearly a formidable list, and one that is likely to baffle even the most discerning and persistent reader. Many of these terms are "defined" on pages 6 to 8 of the 1964 budget; but others are not. And even though many of the terms are defined in a formal sense, it is still difficult to comprehend their substantive meaning and to be able to translate from one funding concept to another.

A key question arises from this: Are all of these funding concepts and jargon necessary? Here it is again useful to distinguish between two major aspects of budgeting.

1. The purely administrative aspects—particularly those involved in carrying out and administering the numerous programs after Congress has passed the appropriations.

2. The major resource allocation decisionmaking aspects of budgeting, either within the executive or the legislative branches of the Government. (The question of the budget as an indicator or intentions and the implications of intentions also falls in this category.)

From a purely administrative viewpoint, undoubtedly many of the numerous concepts and categories listed above are useful and perhaps necessary. But even here it is difficult to belive that things must be as complicated as they are now.

In contrast, when we consider the budget as a major factor in the resource allocation decision process and as an indicator of intentions, then clearly the budget presentation should not be cluttered up with numerous different and complexly interrelated funding concepts. For this purpose, perhaps two concepts—"obligational authority" and "expenditures"—would be sufficient; and in fact it is conceivable that only one may be adequate. If only one concept is to be used, expenditures is probably preferable to obligational authority.[12] The principal reasons for preferring expenditures are that they give a more accurate reflection of the time-phased economic impact of the budget, and they also tie in closely with the fiscal operations of the Government as viewed by the Treasury Department. This latter consideration can be extremely important, especially when the administration, as in recent years, is forced to operate under a national debt ceiling and hence must keep close surveillance over Government expenditure rates.[13]

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[12] Actually, the distinction is only important with respect to the R.D.T. & E. and investment parts of the budget. For the remainder, obligational authority and expenditures tend to coincide for a given item in the budget for a given fiscal year.

[13] In this connection, it is vitally important to recognize that obligational authority tends to "lead" expenditures in the R.D.T. & E. and procurement parts of the budget. Typically, when obligational authority is reduced in a given year, the impact on expenditures does not show up until considerably later. Conversely, when obligational authority is increased markedly (as during the Korean war), the peak in expenditures occurs several fiscal years later. For a discussion of this point, along with illustrative examples, see David Novick, "Leadtime in Modern Weapons," the Rand Corp., paper P-1240, Dec. 26, 1957 (also published in "Federal Expenditure Policy for Economic Growth and Stability," Joint Economic Committee, Congress of the United States, 85th Cong., 1st sess., U.S. Government Printing Office, Washington, D.C., Nov. 18–27, 1957).

A SUGGESTION FOR IMPROVEMENTS

In this brief review the present budget structure was examined from the standpoint of how well it served as an indicator of Government intentions and the implications of intentions. It was also pointed out that this purpose of the budget is essentially synonymous with that aspect of budgeting associated with making major resource allocation decisions. In such a context—apart from the purely administrative considerations of the budget—the present budget structure was found to be deficient in several major respects.

These deficiencies provide the basis for making suggestions about how the present budget format might be improved. Converting the deficiencies into positive recommendations, we obtain a list somewhat as follows:

1. The budget structure should provide for packaging of meaningful end-product activities, reflecting the financial requirements for accomplishing major tasks, missions, etc.

2. For this purpose, the budget should not be burdened with purely administrative categories, funding concepts, and jargon.

3. The time horizon should be extended considerably further into the future, even though the specific appropriations should probably continue to be granted incrementally as at present.

4. A more clear-cut distinction should be made between investment-type outlays and recurring or annual operating-type outlays; and in many cases a third category, research and development (including test and evaluation), should be delineated.

5. Serious consideration should be given to inclusion in the budget of expected distribution of funds by industry and by regional area.

Senator PROXMIRE. Thank you very much.

Our last witness is Mr. Murray Weidenbaum, senior economist with the Stanford Research Institute.

STATEMENT OF MURRAY WEIDENBAUM, SENIOR ECONOMIST, STANFORD RESEARCH INSTITUTE

Senator PROXMIRE. Mr. Weidenbaum, we welcome you.

Mr. WEIDENBAUM. Thank you, Mr. Chairman.

I should like to briefly review the uses of Federal budget information for the purposes of economic analysis and then to recommend some innovations which may improve the usefulness of the data.

A more complete paper is submitted for your consideration.

My statement is based on a twofold view of the Federal budget as an economic document.

First and most essentially, the budget is a tool of management. It is the primary vehicle through which the President assembles his program for the coming year and transmits his recommendations to the Congress.

The budget is thus also a tool for decisionmaking by the Congress in the area of economic policy.

Secondly, and subsidiary to the management aspect, the budget is also a major source of information for economic planning by Government, business, labor, and other groups and individuals.

I should like to describe some of the uses.

The measures of the budget totals are important for making analysis of the current and future performance of the economy because of the size and the volatility of the Federal sector.

In addition, the trends in the various components of the budget are essential planning inputs for a very wide variety of regions, industries, and organizations.

For the companies who are major Government suppliers, changes in the amount and composition of Federal purchases are critical planning data, and often strongly influence company investments in plant and equipment and research and development.

Companies who are closely related to Government contractors—suppliers, subcontractors, et cetera—may be similarly affected.

Planning and development of specific regions may be heavily influenced by Federal natural resources, housing, and transportation programs, as well as by the location of major Government contractors and subcontractors.

Union and Government employment agencies may gear their activities to the manpower implications of budgetary data, especially regional and industrial shifts in Government procurement.

Although the amount of budgetary data available for economic analysis is very considerable, significant gaps still remain.

Consistent with the twofold view of the Federal budget presented earlier, my first several recommendations deal primarily with improvements in the budget as a tool for decisionmaking.

Concentration in the budget document and elsewhere on a single, comprehensive concept of the budget totals would avoid much confusion and provide a better indicator of Federal financial activity.

Over the years, the traditional, administrative budget has omitted a growing number of major governmental programs, such as social security, highways, housing, and agricultural credit.

The emphasis in the 1964 document on the cash budget is an important step forward.

However, the claim that Federal spending, except for defense, space, and interest, is being reduced from fiscal year 1963 to 1964 is made using the administrative budget. On the basis of the cash budget such spending is scheduled to rise—another possible bit of confusion in presenting and using budgetary data.

Even the present cash concept is a halfway house between the net deficit, or surplus, and the grand totals of payments and receipts. Receipts of Government enterprises and agencies might well be shown on the revenue side rather than being deducted from gross expenditures, as Dr. Moor has analyzed in great detail.

Some recent advances in the economic analysis of Government spending programs may well be incorporated into the budget process and the budget document.

Military systems analysis, now being utilized in determining the military budget recommendations, no doubt also has application to nonmilitary programs.

In the area of natural resource development much good work has been done in recent years in developing criteria for evaluating new projects, particularly improved methods for comparing costs and benefits.

In contrast, much of the current descriptive material in the detailed appropriation requests serves no useful analytical purpose. The narrative statements justifying appropriation requests all too often are merely routine recitals of organization and operations in the style of the Government Organization Manual.

The identification of meaningful workload data in the calculation of unit costs would provide a sounder basis for determining and reviewing appropriation requests for many programs.

However, workload figures should not be a fetish, and should not be cited in the absence of a significant relationship between the items of work and the funds requested.

In a tongue-in-cheek remark at a hearing of the Joint Economic Committee I once stated that there is a rule of thumb in Federal budgeting whereby the smaller the item under consideration, the greater the amount of detail made available in justification of it.

Unfortunately, there is more than a germ of truth to that jibe.

We are told more about the $34 million to be spent by the Bureau of the Census, almost seven pages, than the $2.1 billion for missile procurement by the Air Force, a little over one page.

The format should be flexible. Small, relatively routine programs should receive less attention than large, volatile activities.

In recent years the budget document has overemphasized accrued expenditures as the focal point of the budget process. I believe that changes along these lines, although well intended, have been unfortunate and undesirable.

Paradoxically, the suggestions concerning accrued expenditures were made primarily by private accountants at a point in time when very useful and original work was being pioneered in the fields of business budgeting.

Essentially, this new work in the field of private accounting focuses on the early stages of the expenditure process, the appropriation by the company's board of directors for items to be constructed or produced over a relatively long period of time.

The effective points of control over Federal spending also are at the earlier stages of the process—the enactment of authorizing legislation, the approval of new obligational authority, apportionments of funds to the agencies, and the placing of contracts.

Much of the folklore concerning the uncontrollability of Government spending can be eliminated if actions were taken on the basis of a proper understanding of the cycle of Government spending. It is a far greater period than a single fiscal year.

The future implications of current and prospective budgetary decisions need to be made more explicit.

The 10-year budget projections, issued by the outgoing Eisenhower administration, despite limitations of some of the individual estimates, were a landmark in this direction.

Because of the natural reluctance of an administration in office to make such overall projections, this task might be assigned to a congressional committee professional staff, such as that of the proposed Joint Committee on the Budget or of an existing committee.

The next set of recommendations relates primarily to improving budgetary information as tools of economic analysis.

All of the budgetary concepts currently in use—the administrative budget, the consolidated cash budget, and Government receipts and expenditures on national income and product account—are adjusted forms of disbursements.

Under varying underlying economic and political conditions the economic impact of Government expenditures, especially those for procurement of durable goods, may occur during any of the phases of the process, but very often prior to the actual governmental disbursements.

A major gap in our information is the absence of a currently available, regularly issued series on the total contracts let by the Federal Government, and the composition of these contracts.

The annual totals of obligations incurred are now reported in the budget document. This is extremely useful information both in projecting future expenditure levels and in evaluating the economic impact of, and progress on, Government programs.

Yet, this is a broader concept than contracts let, covering such other items as transfer payment and Government employee wages and salaries.

It would be most helpful if each of these types of obligations were separately identified.

Some attention might be devoted to adjusting the current data on new obligational authority and on obligations incurred to make them more consistent with the expenditure concepts.

This would improve their usefulness as lead indicators.

Another major gap in our information is the absence of data on the volume of Government-ordered production, that is, business inventories on Government account.

Such information would aid in analyzing inventory changes, which constitute a major portion of the fluctuations in overall business activity.

Finally, because of the important uses in business planning, it is recommended that a monthly, or at least quarterly, report be made on the distribution of current and prospective Federal purchases.

Such data would represent a major addition to the information available to guide the planning and investment decisions of the wide variety of companies, agencies, and other organizations which are so strongly influenced by changes in Federal expenditures and procurement.

Thank you, Mr. Chairman.

I would like to submit for your consideration a longer paper which I have prepared.

Senator PROXMIRE. Thank you.

We will be very happy to have that printed in the record, too.

Mr. WEIDENBAUM. Thank you.

(The paper referred to follows:)

THE FEDERAL BUDGET AND ECONOMIC ANALYSIS

(By Murray L. Weidenbaum, senior economists, Stanford Research Institute, Menlo Park, Calif.)

(A statement prepared for the Subcommittee on Economic Statistics of the Joint Economic Committee of the U.S. Congress, Apr. 24, 1963)

This paper attempts to review the uses of Federal budget information for purposes of economic analysis and to recommend some innovations which may improve the usefulness of the data.

SUMMARY

1. Essentially, the Federal budget is a tool of management. It is prepared as the primary vehicle through which the President assembles his program for the coming year and transmits his recommendations to the Congress.

2. Although inherently subsidiary to the management aspect, the Federal budget is also a major source of information for economic planning by Government, business, labor, and other groups and individuals.

3. The measures of the budget totals are important for making analyses of the current and future performance of the economy because of the size and the volatility of the Federal sector.

4. The trends in the various components of the budget are essential planning inputs for a very wide variety of regions, industries and organizations.

(*a*) For companies who are major Government suppliers, changes in the amount and composition of Federal purchases are critical planning and market research data, and often strongly influence company investments in plant and equipment and research and development.

(*b*) Companies who are closely related to Government contractors—suppliers, subcontractors, etc.—may be similarly affected.

(*c*) Planning and development of specific regions may be heavily influenced by Federal resource, housing and transportation programs, as well as by the location of major Government contractors and subcontractors.

(*d*) Unions and Government employment agencies may gear their activities to the manpower implications of budgetary data, especially regional and industrial shifts in Government procurement.

5. Although the amount of budgetary data available for economic analysis is very considerable, significant gaps still remain.

(*a*) At the aggregate level, additional data are still required for the stages of the governmental spending process prior to the actual disbursements—obligations incurred, contracts awarded, and private production on Government account—as aids in forecasting and analyzing both budget and national economic trends. In addition, more detailed data on contracts let are needed for analysis by business firms and other elements of the private sector of the economy affected.

(*b*) Concentration on a single, comprehensive concept of the budget totals would provide a better indicator of Federal financial activity. The 1964 budget did emphasize the cash-consolidated budget, but then backslided in claiming a reduction in nondefense spending on an administrative budget basis only.

(*c*) The detailed budget submissions could be improved by a greater use of economic analysis in arriving at program determinations, rather than excessive reliance on routine descriptive material. The addition of unit costs to workload data also would provide a more effective method of arriving at and reviewing the appropriation requests.

(*d*) More effective budgetary control can be exercised at the early stages of the Government spending process—appropriations and obligations—rather than emphasizing accrued expenditures and similar accounting reconciliations.

(*e*) The future implications of current and prospective budgetary decisions need to be made more explicit. Published 5- and 10-year projections, such as those pioneered by the outgoing Eisenhower administration, would be most valuable. Because of the natural reluctance of an administration in office to make such overall projections, the task might be assigned to a congressional committee professional staff, such as that of the proposed Joint Committee on the Budget or of an existing committee.

INTRODUCTION

This paper is based on a twofold view of the Federal budget as an economic document:

1. *As a tool for decisionmaking in economic policy.*—Essentially, the Federal budget is a tool of management. It is prepared as the primary vehicle through which the President assembles his program for the coming year and transmits his recommendations to the Congress. Here the focus is on the requirements of the Congress, especially the appropriations committees, for detailed information to assist them in passing on budget proposals and in controlling the flow of Government expenditures.

2. *As a tool of economic analysis.*—Although inherently subsidiary to the management aspect, the Federal budget is also a major source of data and information for economic planning and analysis by Government, business, labor, and other groups and individuals in the Nation. Here, the focus is on the various concepts and measures of the budget totals and on meaningful "economic" categories within these totals. This type of information is used primarily by economists, statisticians, magazine and newspaper writers, and various other categories of researchers for developing or criticizing economic policy or in other ways relating the budget to the national economy or to specific regions, industries, or firms.

SOME USES OF THE BUDGET DOCUMENT

Rather than exhaustively catalog the various specific ways in which the Federal budget is used, most of which are well known and have been analyzed previously, this paper will concentrate on some of the important uses which may not be apparent to analysts and policymakers who are primarily concerned with trends in the budget totals.

Certainly, the various measures of the budget totals are important for making analyses of the current and future performance of the national economy. The importance is due to both the absolute size of the Federal sector and its tendency often to fluctuate independently of the private economy, to be an exogenous or relatively independent variable in any aggregate analysis.

In addition, the trends in the various components of the budget are essential planning inputs for a very wide variety of regions, industries, and organizations. This very diversity may have escaped the attention of persons mainly concerned with the budget totals.

TABLE 1.—*Industries for which the Federal Government is an important customer*

Industry	*Shipments to Federal Government as percent of total*
Complete aircraft	95
Aircraft propellers	75
Engines for aircraft and missiles	54
Shipbuilding and repair	39
Scientific instruments	38
Rice mill products	30
Radio and TV equipment	27
Electrical measuring instruments	15
Trucks and trailers	10
Optical instruments	9
Primary batteries	9
Electronic tubes	8
Photographic equipment	8
Computing machines	7
Internal combustion engines	6
Machine tools	6
Storage batteries	6
Appliance wire and cord	6
Envelopes	6
Miscellaneous general industrial machinery	5
Mechanical measuring instruments	5
Wiring devices and supplies	5
Boatbuilding and repair	5
Truck and bus bodies	5

Source: 1958 Census of Manufactures (latest year available).

Government suppliers

For companies who are major suppliers to the Federal Government, changes in the amount and composition of Government expenditures which result in purchases from private industry are critical planning and market research data. Table 1 lists 24 industries for which the Federal Government represents at least one-twentieth of the total market (in several cases one-half or more). For individual firms in these industries, the Government may represent a far more important market than indicated by industry averages. Also, the relative importance of the Federal Government as a customer is underestimated in the table, as it is limited to shipments made directly by the manufacturer to the Government and does not take account of the portion of the output of these industries which is purchased by the Government through retailers, wholesalers, and other "middlemen."

In the case of many of the firms in these industries, a very great deal of effort is devoted to developing the maximum relationships between the limited pertinent budgetary data available and the resultant business potential they may represent. In the case of the major defense equipment suppliers, for example, estimated budget expenditures for aircraft or missiles or space systems or ships represent the best available guide as to the very size of the markets in which they are competing. The usual census or other current economic statistical sources generally do not identify Government purchases by industry category. Table 2 shows how budgetary data can be used to indicate market potential. Note that obligations rather than expenditure figures are used, a point that is developed further below.

Because about 85 percent of Federal purchases from private industry is currently for military programs, it may be useful to devote some attention to this aspect.

Of course, Government suppliers require very detailed knowledge as to the particular types of products and services to be procured. Often, the authorization and appropriation hearings by congressional committees provide a wealth of data on specific weapon systems and related items to be procured. The published hearings do not comprise a comprehensive body of consistent data, but are a veritable gold mine of information (the needle in the haystack comparison may be more appropriate).

TABLE 2.—*Market for aerospace systems, direct obligations (millions of dollars), fiscal years 1962–64*

Product category	Direct obligations		
	Fiscal year 1962 actual	Fiscal year 1963 estimated	Fiscal year 1964 estimated
Military aircraft:			
Procurement	$6,276	$6,185	$6,244
Research, development, test, and evaluation	615	689	753
Total	6,891	6,874	6,997
Military missiles:			
Procurement	3,477	4,005	3,895
Research, development, test, and evaluation	2,753	2,446	2,233
Total	6,230	6,451	6,128
Astronautics:			
Research, development, test, and evaluation (military)	785	1,247	1,277
NASA	1,354	2,718	4,520
Total	2,139	3,965	5,797
Grand total	15,260	17,299	18,922

Source: Budget of the U.S. Government for the fiscal year ending June 30, 1964.

Because of the long leadtimes required for the design, development, and production of military weapon systems, often the critical knowledge desired is not so much current procurement plans but those years in the future. Again, current and historical budget data which reveal Federal purchasing patterns and trends provide important starting points or benchmarks for market research and planning by private industry.

A widely used methodology for military market forecasts is based on a threefold process: (1) a long-term projection of the GNP, and Federal revenues and expenditures, (2) a projection of the military budget on the basis of the economic forecasts, and (3) a statistical analysis of the composition of the military budget.[1] Statements made in conjunction with appropriation and authorization justifications are often important qualitative inputs to such projections.

Company investments in plant and equipment and research and development are often strongly influenced by the outlook for overall levels of Federal expenditures, as well as for very specific types of purchases.

Subcontractors and related firms

Companies who are closely related to Government contractors—suppliers and subcontractors, banks and other investment sources, and firms who supply goods and services to the employees of Government contractors—also follow very closely changes in governmental spending patterns. In the case of suppliers of

[1] M. L. Weidenbaum, "The Role of Economics in Business Planning." Business Topics, Michigan State University, summer 1962, pp. 50–51.

major "subsystems," such as aircraft powerplants, missile guidance, or shipboard equipment, the firms involved must essentially go through the entire analytical process as do the prime contractors and then carry the work a step forward—relating the likely purchases of end products to the resultant market potential for the component portions. As in the case of firms selling directly to the Federal Government, these "related" companies frequently adjust their long-range planning and investment patterns to likely trends in the budget.

Regional planning agencies

State and local governmental planning agencies and other organizations concerned with regional development frequently monitor Federal expenditure trends. Federal programs of natural resource development, housing and urban renewal, and transportation have important and obvious implications to regional planning. In areas where Government contracts are or have been a major source of local employment, Federal budgetary trends are studied in considerable detail. The informational (or interpretive) lag here is quite noticeable. Rather belatedly, there has been a growing public and governmental concern with the shift that took place in the past decade in Government contracts from the automotive industry in the upper midwest to the aircraft and electronics industries along the east and west coast, most noticeably in California. Actually, the shift in emphasis that apparently is now taking place is from all of these regions to the emerging space complex along the gulf coast from Cape Canaveral to Houston.

With the growing use of economic base studies as tools of regional planning, detailed analysis and forecasting of the industrial and geographic composition of Federal procurement and other expenditures are increasingly required.

Manpower agencies

Labor unions, State and local employment departments, and other agencies concerned with manpower utilization also analyze the employment implications of budgetary data, especially regional and industrial shifts in Government procurement. Essentially, this type of manpower data must be inferred from the expenditure data. In a more specialized case, the last two Federal budgets have presented an aggregate of the estimated direct Federal employment. Although useful, this type of data is only compiled by agency.

SOME GAPS IN FEDERAL BUDGETARY DATA

Although the amount of budgetary data available for economic planning is very considerable, significant gaps still remain. Recognition should be given to the important improvements which have been made in the budget and the budget process in recent years. In presenting the suggestions below, some attention is given to changes which have been made, partly as an indication of the possibilities for future improvements. The writer is also chastened by the knowledge that it is far easier to point out shortcomings or even to suggest improvements than to put them into effect. Also, the resources available are limited and some "tradeoffs" may be necessary between low-priority current procedures and possibly more useful innovations.

Consistent with the twofold view of the Federal budget presented at the outset of this paper, the first several recommendations deal primarily with improvements in the budget as a tool for decisionmaking.

The budget totals

Concentration in the budget document and elsewhere on a single, comprehensive concept of the budget totals would avoid much confusion and provide a better indicator of Federal financial activity. Over the years, the traditional, administrative budget has omitted a growing number of major governmental programs, such as social security, highways, housing, and agricultural credit. Although the consolidated cash statement has a number of drawbacks, it represents a major advance. Hence, the emphasis in the 1964 budget document on the cash "budget" is an important step forward.

However, it should be noted that the administration's claim that Federal spending (except for defense, space, and interest) is being reduced from fiscal year 1963 and 1964, is made using the administrative budget. On the basis of the cash budget, such spending is scheduled to rise—another possible bit of confusion in presenting and using budgetary data.

Even the present "cash" concept is a halfway house between the net deficit (or surplus) and the grand totals of payments and receipts. Receipts of Government enterprises and agencies might well be shown on the revenue side rather than being deducted from gross expenditures.[2]

The detailed submissions

Some recent advances in the economic analysis of Government spending programs may well be incorporated into the budget process and the budget document. Military systems analysis, pioneered by such organizations as Rand, is now being utilized in determining the military budget recommendations. Within the limits of security, this type of analysis should be drawn upon in providing the public and the Congress generally with an improved basis for reviewing these recommendations.

This entire line of endeavor no doubt also has application to nonmilitary programs. In the area of natural resource development, much good work has been done in recent years in developing criteria for evaluating new projects, particularly improved methods for comparing costs and benefits.[3] This type of analysis might initially be introduced as a method of arriving at the budget recommendations for purely internal administrative use.

In contrast, much of the current descriptive material in the detailed appropriation requests serves no useful analytical purpose. The narrative statements justifying appropriation requests all too often are merely routine recitals of organization and operations in the style of the "Government Organization Manual." Also, many justifications of appropriations are now dressed up with workload data. A rising workload is associated with a higher appropriation request. In the absence of any information on unit costs, this is merely window dressing.

The identification of meaningful workload data and the calculation of unit costs would provide a sounder basis for determining and reviewing appropriation requests for many programs. However, workload figures should not be a fetish and should not be cited in the absence of a significant relationship between the items of work and the funds requested.

In a tongue-in-cheek remark at a hearing of the Joint Economic Committee, I once stated that there is a rule of thumb in Federal budgeting whereby the smaller the item under consideration, the greater the amount of detail made available in justification of it. Unfortunately, there is more than a germ of truth to that gibe. The tendency in the budget documents is for each appropriation account to have about the same amount of space in the budget. As a result, we are told more about the $34 million to be spent by the Bureau of the Census (nine appropriation accounts stretching over almost seven pages) than the $2.1 billion for missile procurement by the Air Force (one appropriation account and a little over one page).[4]

The format should be flexible. Small, relatively routine programs should receive less attention than large, volatile activities.

Budgetary control

In recent years, the budget document has incorporated much of the philosophy embodied in the second Hoover Commission report on budget and accounting with respect to emphasizing accrued expenditures as the focal point of the budget process. While I do not intend to make a blanket indictment of recent developments in Federal budget accounting, I strongly believe that changes along these lines, although well intended, have been unfortunate and undesirable. These changes have resulted in an overemphasis on detailed accounting reconciliations in the budget submissions.

Paradoxically, the suggestions concerning accrued expenditures were made primarily by private accountants at a point in time when very useful and original work was being pioneered in the fields of budgeting, financial control, and capital asset planning in private industry. Essentially, this new work in the field of private accounting focuses on the early stages of the expenditure process. The

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[2] For a complete treatment of the possibilities for a more "gross" concept of the budget totals, see Roy E. Moor, the "Federal Budget as an Economic Document," Joint Economic Committee staff study, 1962.

[3] U.S. Congress, Joint Economic Committee, "Federal Expenditure Policy for Economic Growth and Stability," papers submitted by panelists, 1957, pp. 239–241, 657–667.

[4] "Budget of the U.S. Government for the Fiscal Year Ending June 30, 1964," appendix, 1963, pp. 193–200 and 283–285.

control point is seen to be the appropriation by the company's board of directors for items to be constructed or produced over a relatively long period of time.[5] The parallel to the Federal expenditure process, as described below, is striking.

The effective points of control over Federal spending also are at the earlier stages of the process—the enactment of authorizing legislation, the congressional approval of new obligational authority, executive apportionments of funds to the agencies, and the placement of contracts and other obligating actions by the agencies. Much of the folklore concerning the uncontrollability of Government spending can be eliminated if actions are taken on the basis of a proper understanding of the cycle of Government spending—and it is a far greater period than a single fiscal year.

Budget planning

The future implications of current and prospective budgetary decisions need to be made more explicit. The 10-year budget projections issued by the outgoing Eisenhower administration, despite limitations of some of the individual estimates, were a landmark in this direction.[6] Additional attempts might be made at the basis of such available material as the social security program actuarial projections and the estimates of the cost of the backlog of authorized public works projects.

Because of the natural reluctance of an administration in office to make such overall projections, this task might be assigned to a congressional committee professional staff, such as that of the proposed Joint Committee on the Budget or of an existing committee.

Along these lines, it would be helpful if the impact of an individual appropriation requested for a given year on future years' expenditures and on subsequent funding requirements be shown. This type of information would especially be useful in connection with the undertaking of new programs and projects, the initial requirements for which may appear to be quite small. The eventual cost might be quite substantial and exceed the value of the benefits to be derived.

The next set of recommendations relates primarily to improving budgetary information as tools of economic analysis. Unlike the preceding suggestions, it may not be necessary or even desirable for all of the types of data covered below to be included in the budget document. Certainly, some of them might be appropriately included in the Survey of Current Business, the Federal Reserve Bulletin, or other standard compendia of economic statistics. The Economic Report of the President may be a more appropriate vehicle for extended analyses of the relationship of the budget and of major governmental programs to economic developments and economic policy.

Some leading indicators

All of the budgetary concepts currently in use—the conventional or administrative budget, the consolidated cash "budget," and the statement of Government receipts and expenditures on national income and product account—are adjusted forms of series on disbursements. Actually, the Government procurement and expenditure process generates a flow of activity—Presidential program and budget requests, congressional authorization and appropriation, departmental contract letting, private production, and Treasury disbursements.

Under varying underlying economic and political conditions, the economic impact of Government expenditures, especially those for procurement of durable goods, may occur during any of the phases of the process, but very often prior to the actual governmental disbursements.

The very act of announcing or authorizing a new or increased procurement program can give rise, by affecting expectations, to changes in business and consumer spending. More usually, economic activity will be affected soon after contracts are let with private producers. The private contractor undertaking to fill the order will, at the time the order is placed (or perhaps even before, if intent to place the order has been expressed to him), begin to acquire the resources needed for its completion.

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[5] Morris Cohen, "The National Industrial Conference Board Survey of Capital Appropriations," in National Bureau of Economic Research, "The Quality and Economic Significance of Anticipations Data," 1960, pp. 299–324; Morris Cohen, "An Economist Looks at Budgeting," Business Budgeting, September 1957, pp. 20–25; National Industrial Conference Board, "Controlling Capital Expenditures," Studies in Business Policy No. 62, 1953.

[6] U.S. Bureau of the Budget, "10-Year Projection of Federal Budget Expenditures," January 1961.

It is at the order stage that the governmental procurement action normally will have its initial and often major impact on the markets for labor, raw materials, and financial resources. The actual production on Government order will show up as an increase in business inventories. Only as production is completed and the finished items delivered will the transaction appear as a Government purchase. It also is simultaneously recorded as a decline in business inventories, with no net effect on GNP, the contribution to economic activity having been made earlier.[7]

Data on the various stages of the Government procurement and expenditure process are available in varying degrees. The annual budget document shows appropriations and other forms of new obligational authority on a yearly basis. The absence of monthly or quarterly totals may not be important ordinarily, because the bulk of the funds is appropriated within a few months around the beginning of the fiscal year.

A major gap in our information is the absence of a currently available, regularly issued series on the total contracts let by the Federal Government, and the composition of these contracts. However, this is an area in which significant progress has been made in recent years.

The annual totals of obligations incurred are now reported in the budget document. This is extremely useful information both in projecting future expenditure levels and in evaluating the economic impact of and progress on Government programs. Yet, this is a broader concept than contracts let, covering such other items as transfer payments and Government employee wages and salaries. It would be most helpful if each of these types of "obligations" were separately identified.

More recently, the Treasury Department has issued a quarterly release on the obligations incurred and on unpaid obligations outstanding, by agency.[8] This relatively little known report would be more valuable if the breakdowns were by "economic" categories rather than by agency. Nevertheless, it represents an addition to our current knowledge on Federal budgetary operations. The data are derived from reports which the Government agencies are required to submit to the Bureau of the Budget for budgetary control purposes and, hence, present no additional reporting burden.

Another major gap in our information is the absence of data on the volume of Government-ordered production; that is, business inventories on Government account. A considerable number of problems would arise in obtaining this data and some sampling procedures might offer the most feasible solution.[9] Nevertheless, such additional information would aid in analyzing inventory changes, which constitute a major portion of the fluctuations in overall business activity.

Concerning the measurements of Federal expenditures, this is the stage to which most of the work in terms of fiscal policy and public finance statistics has been devoted. We are in relatively good shape here, although certain refinements were considered above.

Some attention might be devoted to adjusting the current data on new obligational authority and on obligations incurred to make them more consistent with the expenditure concepts. Problems here arise from such items as program revenues which reduce the net expenditure without being reflected in NOA or obligations. A greater consistency among the NOA, obligations, and expenditures series would improve the usefulness of the two "lead" series as indicators of future levels of expenditures.

Federal procurement data

Because of the important uses in business planning it is recommended that a monthly (or at least quarterly) report be made on the distribution of current and prospective Federal purchases.

The Defense Department's Monthly Report on Status of Funds, an important step in this direction, is a widely used tool of market research and planning in the defense industries. Especially useful is the breakdown of obligations incurred

[7] For a more complete treatment, see M. L. Weidenbaum, "The Economic Impact of the Government Spending Process," University of Houston Business Review, spring 1961, pp. 3–47.

[8] U.S. Treasury Department, Bureau of Accounts, "Gross and Net Obligations Incurred and Net Unpaid Obligations of Executive Agencies of the Government" (quarterly).

[9] Cf., "Inventory Fluctuations and Economic Stabilization," hearings before the Subcommittee on Economic Stabilization, Automation and Energy Resources of the Joint Economic Committee, 1962, pp. 170–216.

for construction and for procurement of aircraft, ships, missiles, and other major categories of weapon systems.

These budgetary statistics have certain limitations. They do not differentiate between in-house efforts and obligations incurred as the result of contract letting, or between procurement of routine supplies and wage and salary payments to Government employees, or between compensation of servicemen and the services supplied to them.

Nevertheless, the monthly report could be an important starting point. With the cooperation of the other major procurement agencies, such as the General Services Administration and the National Aeronautics and Space Administration, a comprehensive report on procurement could be prepared. Such data would represent a major addition to the information available to guide the planning and investment decisions of the wide variety of companies, agencies, and other organizations which are so strongly influenced by changes in Federal expenditures and procurement.

Senator PROXMIRE. Now, Mr. Butler, in your statement you say that quarterly estimates are essential for short-term forecasts but present adjustments need to be obtained or made from information published by the Bureau of the Budget.

On the basis of your experience, Mr. Butler, do you think the short-term forecasts have been sufficiently accurate so that you think that even this modest amount of effort is worthwhile?

Do you think that they could be made sufficiently accurate or, perhaps, would be with an addition of this kind?

Mr. BUTLER. Well, it is hard to get a good standard by which to judge accuracy.

I would say that these forecasts have been very useful to the bank in making operating decisions and that while our forecasts of GNP may be off by several percent, I think we have made the right operating decisions more of the time than we did before we had such forecasts.

Senator PROXMIRE. Have you kept any kind of a record over the years to determine whether or not the estimates or predictions have been pretty good?

I do not mean at all to question your own competence as an economist, but I do feel that over the years the economists just have not done very well in looking into that crystal ball for us on any kind of a forecast, short term or long term.

Now, maybe my bias is too strong about it.

Mr. BUTLER. Well, we have a record. I have been engaging in this perilous practice since the end of the war, and I do have a record and, in general, have been making GNP projections once every calendar quarter.

Now, Arthur Okun, at Yale——

Senator PROXMIRE. Yes, he was here yesterday.

Mr. BUTLER (continuing). Did a paper in which he took forecasts made by people who have been so unfortunate as to have been in this business for a long time, and he analyzed this and published the results. This was done some years ago. We gave him our experience. I think there were six others.

And I think that again there are errors in the figures, errors in the projections, but I think the real test is the operating decision that a company makes based on the numbers, and I think I could demonstrate on this basis that we have improved the bank's record in handling its portfolio—primarily that is where it would show up most specifically—and that our forecasts, in general, have been in the right direction but the errors have been in degree.

Now, I would say there are three sectors of the national accounts that have given us the most trouble. One is Government. I mean, we have not been able to see in advance some of the shifts in Government that were big enough to affect the overall total.

Senator PROXMIRE. You mean Federal only?

Mr. BUTLER. Federal, because State and local has been going up steadily, but someday it may not. So we are a little concerned about that.

But I think that the cut in spending, under the Eisenhower administration, for example, we did not foresee in advance and that had a big enough impact to be very significant.

Another very important area of error has been inventory change, which is the most difficult one. Surprisingly enough, in Okun's study the error in net exports was quite a large proportion of the total error, and up until that time we had used that as a sort of a balancing figure.

Senator PROXMIRE. How about inventory?

Mr. BUTLER. Well, inventory I mentioned.

Senator PROXMIRE. I missed that. I am sorry.

Mr. BUTLER. That is very, very difficult.

Senator PROXMIRE. You see, what I have in mind, and I do not want to dwell on this too long, but I just have one more point on it, and I think these are very fine economists—I do not mean to be sarcastic—I think the Government economists are very effective and were, both under President Eisenhower and President Kennedy. But in 1960 they estimated a surplus of practically a washout of $70 million, and we had a surplus of $1 billion 2.

In 1961 they estimated a surplus of $4 billion. We had a deficit of $3.8 million. In 1962, a surplus of 1.4 billion. We had a deficit of 1.4.

Last year they estimated a surplus of about a half a million, and we ended up with a deficit of about $9 billion.

So this is about as bad a record over the years, without any reflection at all on these very able men, as there can be.

What are they predicting? They are trying to estimate the gross national product, the same thing you are.

It is true they have to make certain adjustments, but their records have just been very, very bad and while I am all for predictions I just wonder if the Good Lord really wants us to be accurate, no matter how hard we try.

Let me——

Senator MILLER. If my colleague will permit me at this point——

Senator PROXMIRE. I will be happy to yield.

Senator MILLER. Of course, there is a limit to what people can do as far as estimating what Congress will do.

I mean, it does no good to forecast, let's say, a $500 million surplus if it is premised on certain spending and Congress comes along and——

Senator PROXMIRE. That is right, but the errors have not been on the spending side. They have been on the revenue side, and the error has been pretty consistent in overestimating the GNP, although you are right, too.

I would like to ask you, sir, about your call for a staff within the Budget Bureau to, as you say, keep continuously abreast of fiscal plans in economic developments, and so forth.

How big a staff would this be? What did you have in mind?

How many people?

Mr. BUTLER. I would not think it would be very big. Four or five professional people, I think, could do the job.

Senator PROXMIRE. And what qualifications do you think would be appropriate?

Mr. BUTLER. Oh, I think first, competent economists; secondly, with some experience in government.

Senator PROXMIRE. And hire them at Government salaries?

Mr. BUTLER. Yes.

Mr. NOVICK. Mr. Chairman, there was such an organization in the Bureau of the Budget until roughly 1946 or 1947. It was called the Division of Fiscal Policy, and was headed by Gearhard Colm. It included such people as Arthur Smithes, and was quite a notable group.

It ran afoul, I think, of the 1947 Congress and its appropriations were specifically abolished.

Mr. BUTLER. This is what I have in mind, to more or less reconstitute——

Senator PROXMIRE. Well, I like the idea very much. I am just wondering, however, if maybe in view of the perfectly understandable desire on the part of the Executive Department, to make things come out in a certain way and to give a certain view to the economy, that maybe this bias has been reflected in the estimates made by Government officials.

But, at least, there is a tendency not to be too pessimistic because of adverse psychological conditions and maybe not too optimistic at other times.

Would it not be better for a foundation to do this or some independent agency or some university?

After all, if you only have a few economists involved and it is a matter of a budget of a relatively small amount, such as a couple of hundred thousand dollars a year, do you think this would be a fine service to be performed by an independent agency and that it could do a better job?

Mr. BUTLER. Well, I think they would operate at a disadvantage.

The reason for suggesting the Bureau of the Budget is that the Bureau is in intimate contact with all Government agencies, and I think that they are thus in a much better position to make good and reliable estimates. The staff that Dave mentioned, I think, answered my request at that time for good, intelligent and generally reliable information on what the Government was doing.

Since that staff was disbanded you have had no place to go to get the same sort of advice and counsel, and I thought some about this, and you could place it somewhere else but the Bureau of the Budget seems to me to be the proper place to have it.

Senator PROXMIRE. Senator Miller would like to ask a question on this point.

Senator MILLER. I was wondering what Mr. Butler would think, and also the other members of the panel, about the possibility of having the Council of Economic Advisers within the Bureau of the

Budget in this capacity, because it seems to me, that existing as it does, as a separate office, it can very well go at cross purposes with the Bureau of the Budget, and the Bureau of the Budget is, I think, much more important as far as what we have been talking about this afternoon.

So what about the idea of abolishing the Council of Economic Advisers and setting it up, maybe, as this staff within the Bureau of the Budget?

I am getting at Mr. Butler's——

Senator PROXMIRE. If the Senator will yield——

Senator MILLER. May I say, I understand that there were some differences of opinion in the Bureau of the Budget with respect to the Council of Economic Advisers' projections for this current year.

Now, if you have them in the same house I do not think you would have that disparity.

And the Bureau of the Budget, of course, is the one that has the responsibility.

Senator PROXMIRE. If the Senator will yield on that point, of abolishing the Council of Economic Advisers, if we do that in the field of law we, accordingly, repeal ourselves, because we set ourselves up, too, at the same time.

Senator MILLER. Well, I am sure we could work that law out.

Senator PROXMIRE. Yes, I am sure we could.

Senator MILLER. But I must say this, speaking only for myself, if I thought one of the consequences of having something that would give us better management in our Federal Government would be that I might suffer the loss of a job on the committee, I would not worry about that one bit.

But I do think I would like to get this question answered because it may be that we could have both, but I am just wondering what the possibilities would be and I would like to get your comments on it.

Senator PROXMIRE. Dr. Weidenbaum has an answer.

Mr. WEIDENBAUM. It is my impression that this fiscal analysis staff was not abolished but reduced, particularly when the Council of Economic Advisers was established. In fact, I believe there is still a small fiscal analysis staff in the Bureau of the Budget, staffed by economists, which is charged with analyzing the external environment, doing economic studies relating to the budget, doing and preparing much of the economic materials which are in the budget message.

Senator PROXMIRE. How big a staff is this?

Mr. WEIDENBAUM. Oh, my guess would be about a half a dozen. I should qualify my testimony.

I am one of the less distinguished alumni of that group. So I may be speaking with a little bias toward the activity, but essentially, this was a good part of the effort.

Sentaor PROXMIRE. Yes, but apparently you operate with an anonymity and with a lack of public association so that what you do is made available to the Bureau of the Budget and maybe to one or two other Government agencies, but not to the banks and industrial people who are so anxious to get the facts on which they can make predictions that are so important.

Mr. WEIDENBAUM. Well, of course, in general, with just a few exceptions, the output of the staff which is published is part of the budget document or the midyear review but, of course, this is essentially the role of the Bureau as an assistant to the President.

So most of what comes out comes out under the President's name.

I am sure there would be plenty of opportunity for improving this kind of service in the Bureau, but economic assumptions are prepared for guidance in developing the estimates of both the revenues and expenditures which are used in the budget.

Senator MILLER. Well, how much of a tragedy would it be to just take the Council of Economic Advisers, lock, stock, and barrel, and put them under the Bureau of the Budget, where they would be operating under their policies and guidance, performing the same work, but now they would be in the same house?

How tragic would that be or would it, perhaps, be an improvement?

Mr. WEIDENBAUM. I think it is a question of balance.

I can see some advantages and disadvantages but on balance I think there would be a disadvantage in that we would be losing a strong relatively autonomous economic adviser operation which is now in the Council of Economic Advisers and having that become just a part, maybe a very important part, but just a part of what is basically a management organization.

It would strike me that the President does require, and certainly has used increasingly since the Council was established, this separate economic advisory operation, although it is also my understanding that as the Bureau of the Budget and the Council are part of the Executive Office of the President, that there is a tremendous amount of interchange among both the heads of the agencies and the staff level, so that the economic assumptions which are used in the budget reflect the joint efforts of the economists in Treasury, the Budget, as well as the Council of Economic Advisers.

Senator MILLER. Do you think there is some duplication of effort?

Mr. WEIDENBAUM. Technically, yes; insofar as some of the same ground is covered, but I think—I do not think there is any unnecessary duplication of effort to the extent that I have any present knowledge of.

Senator MILLER. Mr. Novick or Mr. Butler?

Mr. NOVICK. I would just like to pick up on this point of duplication of effort.

I think we usually assume economy and efficiency is achieved by avoiding duplication.

In a black art, such as economics, and particularly the economics of forecasting, duplication can play an extremely important role.

It provides a means of both checking and casting further enlightenment on the points at issue.

With respect to your specific question on abolishing the Council, and putting it in the Bureau of the Budget, I frankly am not prepared to talk to the question.

The Council came into being in 1947 or thereabouts. The Bureau of the Budget had preceded it by roughly 6 or 7 or 8 years. I cannot remember how many.

I think actually they have both developed quite different types of jobs.

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The Bureau of the Budget of 1921, established under Charlie Dawes, bears little relationship to the Bureau of the Budget that was established in the Executive Office of the President under Murphy, of Michigan, in roughly 1937 or thereabouts.

And I think to talk about the Bureau of the Budget as a compiling and listing agency, which is all that it was from 1921 to 1937 and campare it to an analyzing and projecting agency such as it became in 1937 is to talk about dogs and cats.

They are both four-legged animals, but they bear very little resemblance, one to the other. I just do not know.

I think the Council has developed its role of economic advice to the Executive. I think of it as an important agency.

Sometimes I think it has been too vocal, as it was 15 years ago. Sometimes I think it has been too quiet, as it has been in other years.

But I think the need for good, objective, analysis in Government is almost unlimited.

And I think the two problems are quality and objectivity. It is very difficult to establish these kinds of agencies.

It is even more difficult, once established, to continue them.

And I think when you have one that seems to be rather vigorous, as the Council is today, it would be extremely undesirable to do anything that would demote it or demobilize it.

Mr. BUTLER. I would agree with this.

I think it would be a mistake to put the Council under the Bureau of the Budget. I think it has a separate function to perform.

I think it could perform it better, perhaps, than it has sometimes but it seems to me on balance, and it has been a very useful addition to the structure of Government.

The President needs competent economic advice. It would be very hard to get the degree of competence required if it were merely an arm of the Bureau of the Budget.

Its independence gives it a status which is necessary and desirable.

I am not so sure that it should be the function of the Council to prepare the sort of analyses of the budget, and so forth. I think inevitably the Council, being attached so directly to the President—I think it has somewhat more difficulty in being objective about these matters than a staff in the Bureau of the Budget might. It is a matter of degree.

I suppose it could be done by the Council.

Senator MILLER. Well, in reverse, what about taking this staff recommendation of yours and having it performed by the Council of Economic Advisers?

Mr. BUTLER. I think it could be done there. The only reason I thought—well, there were two reasons for thinking of the Bureau of the Budget.

First, the fact that locating it in the Bureau of the Budget I think would be of some advantage in the contacts with other officers of the Bureau of the Budget who are working very closely with all agencies.

This, of course, could be done by a staff inside the Council.

Secondly, I have in mind the experience of the day you mentioned in the early postwar period when there was a large and very big staff which did appear to do more independent work and talk more with outside people than the Bureau of the Budget people have more recently.

I understood that a large part of that staff was dispersed to other parts of the Bureau of the Budget, so that the central staff was reduced.

Mr. WEIDENBAUM. That is right.

Mr. NOVICK. That is right. Their budget was virtually eliminated, and the key people left, and some of the lesser lights remained and took on other roles.

Senator PROXMIRE. Then you do not feel, Mr. Butler, that what remains of this staff, as Mr. Wiedenbaum described it, is adequate?

You would like to have it beefed up or you would like to have it do more than it has done, and you would also like to have it communicate more with the outside world.

Mr. BUTLER. That is right.

Senator PROXMIRE. Now, I would like to ask each of you gentlemen if you could tell me how you would improve this economic forecasting by our Government?

What can we do? After all, the subject is the "Use of the Budget in Economic Planning," and I think your papers are all very helpful in indicating how the budget might be modified.

Do you have any views on what we can do about getting a better record of economic forecasting or is it something that you just have to work on very slowly and gradually, and it takes so many years to evolve?

Mr. BUTLER. I think a lot of progress has been made but more remains to be done, and I think the three critical areas are, first, inventories.

And this is perhaps the most important and some work is being done in this field.

The Commerce Department has a survey asking businessmen what they plan to do about inventories which is now, I think, useful, and with time, I think can become more useful.

The second one, I would say, is the area of the Federal budget and we need to increase the accuracy of forecasts in this area. And I think——

Senator PROXMIRE. And how do you do that?

Mr. BUTLER. Well, I think the only way to do it is to set up the staff I am talking about and assign the responsibility for both forecasting and for research on the question of how to improve the forecasts.

The third area which I think is probably much less important is the net export segment, although that can be important at particular periods of time.

Now, again, a lot of work is being done in this area but it is a very difficult sort of area.

Senator PROXMIRE. But does it not so very much depend on the psychological developments which are very hard to foresee or does it?

For example, the incident that took place regarding the President's attitude on the steel price increases. Then the subsequent stock market drop, and developments that take place on an international basis, maybe a Cuban crisis or a Berlin crisis?

Is this not likely to dwarf these other elements which can be reduced to statistical analyses?

Mr. BUTLER. Oh, certainly. Again, I think the question is how accurate do you have to be to make accurate operating decisions, and again in our case, while we would like to be more accurate, we strive for greater accuracy, and I think that on the whole our foreacsts have been accurate enough to lead to the proper operating decisions.

Now, you cannot say that this is true every day or for every month but, on the whole, I think it has been.

Senator PROXMIRE. I would like to call on Dr. Moor.

Mr. MOOR. To help you, perhaps, in answering the Senator's question, let me ask you this question:

In your statement, you said:

> Publication of quarterly projections in the annual budget, and more frequent budget reviews are needed.

I take it that the accuracy of the forecasts might be improved somewhat if they were more currently revised?

Mr. BUTLER. I think that is true, yes.

Senator PROXMIRE. Did either of you other gentlemen want to comment on that?

Mr. WEIDENBAUM. I would.

Incidentally, just as an observation, if I recall correctly, earlier forecasts of the budget totals, particularly on the expenditure side, I think have been more accurate than the later forecasts.

So I do not know if that gets you far, but so far as the accuracy is concerned, even though we are discussing the budget as an economic document, I do not think we can ignore the fact that the budget is a political document and I say this having served under both Republican as well as Democratic administrations.

Inevitably, at least in the past, political factors have influenced the estimated budget totals both on the receipts and on the expenditures side, and that is a limiting factor no matter how greatly you can improve the quality of the economic analysis which the staff may produce in any agency.

Personally, I think there is more opportunity for improving the quality of the budgetary information for economic planning, as I have tried to indicate in my paper, by attention to the types of information contained in the budget document.

I know there is a lot of attention paid to the relationship of the budget to the GNP but certainly for business planning this is often merely an initial starting point.

There are so many regions, industries, companies, that either depend on or are very heavily influenced by Government spending and Government procurement and more detailed analysis of the future spending and procurement plans of the Government, I think, would be a great aid to business planning for research and development as well as long-term investments.

Senator PROXMIRE. Now, this is what Mr. Novick is calling for on page 4 of his statement, I take it, and I would like to ask Mr. Novick in that connection:

You say, as an aid to economic planners in Government, serious consideration should be given to inclusion in the budget of the expected distribution of funds by industry by regional area.

Now, to what extent can this be done?

What about the steel industry? I can see how you can make a breakdown of prime contracts but would it not take a tremendous amount of analysis and a lot of manpower to trace this all the way back to the ore that you take out of the ground and the effect on transportation or can this be done relatively——

Mr. NOVICK. Well, you have two levels of activity.

One is the planning operation or what I like to think of as the GNP level of abstraction, and the other is the administrative level.

Now, at the higher level of abstraction you can develop factors, and we have all been doing this for a great many years, and you cannot do too badly because if you identify a dollar of military procurement to the Army, to the Navy, to the Air Force, to be sure this will not hold constant over a 10-year period, but over any reasonably short period of time you can get a pretty good relationship between the amount of steel that is involved and the amount of aluminum or the amount of other metals, and the amount of labor that is involved and things of that kind.

One of the difficulties at present is that we really do not know enough about what part of the budget is going to be spent this year.

Essentially, what we know is what new obligational authority you are going to commit. You have a general idea of the unused obligational authority accrued from prior years.

For example, let us say you make an appropriation for missiles this year of $2 billion. This is not going to have much of an impact on the steel mills for at least 18 months or so.

Now, again, you can make leadtime adjustments at this time but it is important to know just what part——

Senator PROXMIRE. Of course, the longer it takes, the more accurate and useful the planning can be.

If you are going to authorize an aircraft carrier which you are going to start construction on in a couple of years, and now it is going to take 4 or 5 years to construct it, it seems to me then you can get a pretty accurate reflection of the effects in 1964, 1965, 1966, and 1967.

Mr. NOVICK. No, no; do not use the word "accurate."

I think "reasonable" would be more appropriate.

Senator PROXMIRE. Well, I mean of this particular weapon, that could be quite helpful?

Mr. NOVICK. Well, all I am saying is——

Senator PROXMIRE. Is it worthwhile to carry it away back throughout the economy?

You talk about industries and regions——

Mr. NOVICK. Right.

Senator PROXMIRE. And I am wondering if you just mean the Norfolk shipyards or whether you mean you would carry it back to ore mine in Hibbing, Minn., and the lake steamers, and so forth?

Mr. NOVICK. Well, I think this would be a question of the degree of local interest.

I do not think the National Government need necessarily do that. Actually, we do make, in our total Government activity, at one place or another, estimates of all kinds of things of this sort.

For example, the Bureau of Mines is continuously trying to estimate the requirements for iron ore. The Inland Waterways and the Maritime Commission are continuously trying to estimate the shipping requirements.

To the people in an area like—oh, I have forgotten the name of the locks that the ore obats go through—but it is very important for them to make an estimate.

I think each of these things require different steps of activity. For example, if the Government showed what part was going to—not just the aircraft industry but broke it out as between various major components of the aircraft industry and time phased it, and this is the important thing, and here you would have to make an estimate of expenditures as opposed to NOA—in other words, someone in Government would have to make a guess as to at what point in time the obligational authority would be translated into contractual activity.

And even that is not very meaningful unless you can time phase the contracts so that you can take a guess as to whether it is going to be 1966, 1967, or 1968.

Senator PROXMIRE. Now, from the standpoint of you as an expert, and Mr. Weidenbaum, as an expert, both in defense procurement, it would seem to me that one of the most useful types of information you can get from this is the availability of scarce materials and particularly the availability of scarce people, personnel.

Mr. NOVICK. Well, people is the real shortage today.

Senator PROXMIRE. Where we need engineers, technicians of various kinds, and we do have them. This kind of thing could be enormously useful.

And where we may have done some of it in defense—I do not know how much—it seems to me we have done very little of it in the area where the Government is spending an enormous amount in health and education.

Mr. NOVICK. Or agriculture or commerce. They all have research and development programs.

They are all employing these same short skills and we really have no way of identifying, with any assurance, what the impact is going to be.

Now, the National Science Foundation has put forth a great deal of effort in this direction. You have the BLS manpower survey.

You have the Bureau of Census' production manufacturing survey. However, both of these suffer from a lack of detail.

Now, a great many people would say they are overdetailed now but one of the difficulties at the administrative level of analysis is to try and get enough detail to be able to get hold of something.

Senator PROXMIRE. Is it practical to do this as a budget or as a part of the budget or as a separate study growing out of the budget?

Is the budget the place to do it?

Mr. NOVICK. Well, Bill Butler and I were workers in a vineyard called War Production Board some 15 years ago—18, I guess it is, now—and at that time we undertook an enterprise that I think bears attention at this time.

We first developed the production requirement plans and then the control materials plan.

The first became operative in the spring of 1942; the second in the summer of 1943.

In this we canvassed, every quarter, every metalworking establishment in this country.

In addition, we canvassed most of the major producers of things like steel, lumber, and anything that was scarce at the time. For example, it was carbon black.

The significance of this operation was that each quarter we sent a schedule to each of the important vendors. We operated on the principle, that is a pretty sound one, that 15 percent of your producers fabricate 85 percent of your product.

If we found a little fellow who was important in aluminum or in lumber or in something else, he was included, too.

But each quarter a form was sent—a questionnaire—not a questionnaire, but an application form was sent out which required the recipient to identify all of his inventory, all of his material consumption of the prior quarter, all of his products produced in final salable form in the prior quarter.

He then had a quarter of turn around, that is, the quarter in which he was filing and he now projected for the next 16 quarters or 4 years, what he expected to do by quarters.

In other words, the manufacturer supplied a statement of his anticipated rate of output, his anticipated requirements in terms of——

Senator PROXMIRE. Now, is this the kind of thing you would expect to have as the raw material for what you propose here in the budget?

Mr. NOVICK. I do not expect to have that.

Senator PROXMIRE. I mean, would you like to have it?

Mr. NOVICK. That is what I would like to have.

Senator PROXMIRE. Do you think it would be too much of a burden on industry to provide it in peacetime.

Mr. NOVICK. No, I do not think so.

Senator PROXMIRE. Would they think it would be too much of a burden?

Mr. NOVICK. I think they would object to providing it.

Senator PROXMIRE. I mean, it would be useful to them——

Mr. NOVICK. Well, I think the one result of that exercise was that for the first time, believe it or not, in 1940 very few companies in this country had sufficient internal control to really know what their inventories were and what their bills of material requirements were.

One major result of that exercise was that in 1946 and 1947 many firms—in fact, I would say the majority of them—installed the system they griped about during the war, as a regular way of doing business.

Senator PROXMIRE. The extent that we have established the cost accounting system——

Mr. NOVICK. It is not a cost accounting system.

Senator PROXMIRE. I should say the comprehensive inventory system and the projection system of what their needs are going to be in the future, to the extent that we have done that, and that this has become customary since then, it might be a lot easier now than it was then?

Mr. NOVICK. I would say it can be done.

For example, any major firm that does any significant amount of planning has to have this type of information.

Any firm that——

Senator PROXMIRE. And you would confine this to the major. You would not impose this on the small businessman?

It would not be necessary, from what you say.

Mr. NOVICK. Again, I have not looked at the figures recently.

Senator PROXMIRE. You said if you found a firm that was significant in aluminum you would require it to retort, and you would take it where you could get it, and if you could do that with 10 or 15 percent of the producers it would be all right.

Mr. NOVICK. Right.

Senator MILLER. Do you know of any of the governments, other governments, doing this today?

Mr. NOVICK. Frankly, I do not, but the last time I looked at the Russian system, which was some 10 years ago, their system was much like this.

Senator MILLER. Which system is that?

Mr. NOVICK. The Russian system.

Senator MILLER. Yes.

Mr. NOVICK. Incidentally, some of the best books on internal management that I have ever seen have been produced by the Russians.

I have not seen any recently, but about 10 years ago there were several of them that had come into the Library of Congress and had been translated and published in this country.

One of the troubles with this type of system is that it bothers everyone who submits a report, because he fears that he is now giving the Government enough information to run his business.

And that, I think, can be a real and justifiable fear.

I think the other side of it is that if the Government does not have this kind of information it may make decisions that are not appropiately oriented to the economic well-being which every businessman seeks.

Senator MILLER. Do you think the Soviets are doing this to a greater degree than we are?

Mr. NOVICK. I am reasonably sure they are, sir, because the system that was written up in book form and was distributed as pamphlets in 1949 or 1950 is likely to still be in place, with certain improvements.

Senator PROXMIRE. Mr. Butler?

Mr. BUTLER. The French——

Senator PROXMIRE. Now, Mr. Weidenbaum wants to comment too.

Mr. BUTLER. The French planning system, too, I think, has developed this information and I have not actually looked at the forms that are filled out, but I have talked with the director of the plan.

And I am sure that they get much of the same sort of information from about a thousand French firms.

They do not attempt to cover all French industry but mostly the larger firms and, in general, about one thousand of the largest French industrial firms.

And there they make projections or they made projections 5 years ago of investment, output, capacity, and use of various key materials.

I think in this country if you could—you would have to have a large number, but I think you could do this very well with a sample of eight or nine thousand firms which would not be unwieldy with the mechanical equipment that we have today.

Mr. NOVICK. Well, aside from the mechanical equipment, Bill, in 1943——

Senator PROXMIRE. I just asked, Mr. Novick, did you have in mind a sample or did you have in mind a comprehensive report from all of them?

Mr. NOVICK. I am not a great believer in samples.

I am willing to take a universe and from that universe extract a sample, and that is actually what we did.

Senator PROXMIRE. But you want to do the extracting?

Mr. NOVICK. That is right. I am a great practitioner of model building, and the mathematical calculus, but I believe that it requires a certain basis in fact before you can get very far. The word "empirical" does not impress me because if you collect a few numbers you may or may not have what is required.

Now, again going back to this War Production Board system, I designed much of it and the first step was a form called PD–275, which was designed to give us an economic inventory, to find out how much we had, where it was, and what it was going into.

We turned out—we questionnaired 28,000 metalworking firms.

We processed those reports with no advance computing equipment.

We used old IBM machines. The Census Bureau was then housed in the Department of Commerce Building.

We processed all the returns in a matter of 3 weeks.

We analyzed them in another 3 weeks.

Now, to be sure, a lot of people worked very hard. There were less than 300 people engaged in the total activity of editing the schedules, punching the cards, running them through the machines, tabulating them and analyzing them.

Now, after that, when we went to the production requirements' plan, which used PD25–A we still were on a universal basis and everybody except users of less than 5 tons of carbon steel, 1 ton of alloy steel, 500 pounds of aluminum, and numbers of that kind was required to file.

This still gave us in the neighborhood of 28,000 firms. We turned that over every quarter for the next 6 quarters and we got the schedules in.

We tabulated them, and we analyzed them in less than 6 weeks.

Now, this is largely a question of how you plan your schedule and how seriously your respondent takes these schedules. The critical point here was that this was not a questionnaire.

This was an application for scarce materials and without an authorization——

Senator PROXMIRE. I see.

Mr. NOVICK (continuing). The respondent could not get scarce materials in the future.

Senator PROXMIRE. You got at lot better cooperation then than you might get under present circumstances?

Mr. NOVICK. Well, furthermore, we had a very important gimmick here, and I would like to take credit for this.

That is, we used an identical document for the collection of the information and the authorization of the action. In other words, what came in went out.

So that everyone could follow it at every stage of the game, not only the basis of action but the decisionmaking and account for the decisions that had been made.

Now, this is a level of information that is not essential to a great many economic planning activities.

However, it is pretty important in the area that you were just talking about, scarce manpower.

Now, today we have very few critical materials problems. By and large the size of our defense effort today, although significant, is not such that it takes all or the major part of materials which are used elsewhere. To be sure, it takes a great percentage of the columbium, the titanium, and the tantalum, but these have little use outside of the defense industry. So that there isn't that kind of pressure at this time.

Senator PROXMIRE. Mr. Weidenbaum.

Mr. WEIDENBAUM. Before we go too far afield in reestablishing the War Production Board to provide us with better economic statistics, I would like to present two relatively modest proposals for getting a lot of the information we need without putting such a reporting burden on industry, or maybe opening up doors of economic regulation that might frighten a lot of people. My two proposals are as follows:

One relates to inventory statistics, which also gets to the point Mr. Butler made earlier. At the present time the Commerce Department does send a questionnaire to a large sample, as I understand, of business firms asking them to report and also to project their inventories. If we could add a question to that existing questionnaire asking the manufacturers to submit their inventories on an estimated basis between inventories for Government contracts, for Government use and inventories, for non-Government use, we would be provided with a large bit of the information we need, that is, we would have a current report on the volume of private production on Government account. If we had a large enough sample, this could be broken down—that is, the replies, without any additional reporting burden whatever, could be sorted by industry as well as by region. So you would be getting a material picture of the geographic and industrial distribution of private production for the Government.

To the extent you had the same kind of question on the forecast, you would also be getting a forecast of it, without again setting up a whole new reporting apparatus and another organization to analyze it.

Incidentally, this is a question we went through at the hearings last year on inventories that Mr. Reuss conducted. I know in the panel I participated in there was a wide agreement on the part of the panelists that this would be a relatively low-investment, high-payoff kind of operation. Our panel actually included a man from the Office of Business Economics. And I would suggest strongly that this be pursued.

The other suggestion: It is my understanding that the Defense Department has or is in the process of moving from what was called the "Aircraft Manufacturers' Progress Report" and also the "Missile Manufacturers' Progress Report," essentially current reporting by major defense contractors, to a composite questionnaire called "Defense Contractors' Progress Report."

Again, it is my understanding that details of this are classified. It would be my suggestion that some effort and attention be given to developing some aggregation of this data so as to avoid disclosing the detailed information which is classified, yet again giving us some industrial and geographic breakdowns of current and prospective private production for our military programs.

Senator PROXMIRE. You see, the difficulty here is, I asked Mr. Novick about determining the availability of manpower. Now, as I understood it, you are telling us—and what you say is very persuasive—that in terms of economic forecasting this inventory statistic program you suggest, and then the "Defense Contractors' Progress Report," that these are the kind of elements that you need now, at least that would be most easily available, to base your economic forecasting on.

But in terms of getting at the real shortages and doing something about what is perhaps the most serious problem that faces us in our defense and in our industry, too, the manpower shortage, this wouldn't climb that hill very far, would it?

Mr. WEIDENBAUM. Again, it is my impression that the "Defense Contractor Progress Report" does ask the contractor to provide a good deal of not only the number of man-hours to be assigned to various categories of production, but the types of manpower—scientists, engineers, as well as manufacturing employees, quality control, et cetera, which again I don't think would answer our questions, but would provide us with more data on the subject of manpower than we have available publicly today.

Mr. NOVICK. Mr. Weidenbaum's statement is correct. However, if you really want to forecast the manpower situation, the data in the DCPR are not adequate. Nor are the data in the BLS survey of scientific and professional personnel. And you have very real difficulties here of a reporting type. These are not quid pro quo reports. They are statistical reports. They frequently are turned out by people in the plant whose sole function is to provide the Government with statistical reports.

Frequently these people are neither particularly well informed, nor have access to the people who might be informed. As a consequence, in the work we have been doing in the last year trying to deal with this problem we have found that there just isn't any data that is worth anything for this purpose.

Now, this again gets you back to the question of, do you want to do gross analysis, or do you want to do refined analysis that permits use of the results in an actual problem involving atmosphere. It is one thing to say that we are short of engineers. It is quite another thing to say where we are short of them, and what the precise shortage is. Is the shortage in Los Angeles, is it in Seattle? Is it because of an overloading of plant A in Seattle as opposed to plant B? Is the skill called machinist class A the same as defined in one union contract as it is another contract? Is one man's scientist another man's engineer?

These are the kind of questions that just beat you down when you try to analyze data into administrative terms.

Senator PROXMIRE. Senator Miller.

Senator MILLER. I would like to ask Mr. Weidenbaum a question or two, and if Mr. Novick or Mr. Butler would care to chime in I would appreciate it.

I was very interested in some of the purposes outlined to which approved budgeting could be put. I am wondering about lining up our budgeting process so that we can see the impact of the programs on the value of our money. Do you think that would be feasible?

Mr. WEIDENBAUM. I may be getting to this at the back door, but this is the kind of analysis that perhaps needs to be pointed up, if I get you right, that is, the effect of the budget recommendations on price stability or inflation.

Senator MILLER. That is right. Because, you see, when a budget is furnished us, all kinds of claims are made pro and con about how much more inflation this is going to mean. And as I understand the present budgeting process, it is pretty difficult to forecast that, it is more a matter of "behind sight" than foresight as to what the value of the money is going to be. But if indeed we want to use the budgeting process to control the value of our money, that is, to keep it stable, and if indeed this is one of the main purposes of the budgeting process, as it is according to Dr. Shoup who appeared here yesterday before us, if this is one of the primary functions and purposes of it, then it seems to me that we have some more refining to do so that we will be able to evaluate the budget in terms of its impact, let's say, within 6 months or 1 year or 2 years on the value of our money.

Do you think that would not be feasible, or do you think that is a proper objective to shoot for in our budgeting process?

Mr. WEIDENBAUM. I think it is an important consideration. And let me say in candor that many economists talk about this in somewhat different terminology, that is, price stability, whereas I think we are looking at the same point from two different points of view, if you have price stability——

Senator MILLER. I think you and I are pretty well together. I would hesitate to use the term "price stability," because I like to think in terms of not only the price of goods and services but also the price of Government, all of those items that end up in this implicit price deflator.

Mr. WEIDENBAUM. I think here—again, this is not as much a question of the economic analysis which underlies the budget, because if I am not mistaken, the budget message claims that this deficit will not be inflationary; i.e., will not reduce the value of our money, and if there is any danger of it, monetary policy will be applied. Here I think we have the role of the private analyst, whether he is in business or publications or universities or other research organizations. This is a subjective type of conclusion. And I really don't see any more analysis in the preparation of the budget, to directly answer the question.

However, indirectly—and this is one of the recommendations I have made for sometime—more attention ought to be given, not just to the flow of expenditures, but to the earlier stages of the Government spending process, essentially the flow of contracts, these obligations, because there have been times where there have been major increases in contracts let at a time where the budget was in balance. And you might jump to the conclusion that the budget is not inflationary because receipts exceed disbursements. At the beginning of the Korean mobilization program in 1950–51 that was the case, the Federal Government operated at a surplus—and you say, well, that is making a contribution to the soundness of the economy. Actually the Federal Government was quite inflationary, because the volume of Government contracts was approximately doubling that year, which was having a tremendous effect—and, of course, we had a very sizable inflation at the time.

So I think to that extent we can get a better picture if we don't just look at the expenditure flow, but look at the volume of orders, the volume of contracts, commitments which the Federal Government, so to speak, is pumping into the economy, if we do that we may get a different picture.

Senator MILLER. Well, that is all helpful, and I certainly wouldn't disagree with you on the objectives that you have just outlined. But suppose that you were given a staff of people and you were asked to draw up a budget-type document or a series of them which would enable us to do a better job of forecasting the impact on the value of our money than we have now. I quite agree with you that in the present type of budget you may have a deficit budget without inflation, you may have a deficit surplus with inflation. And that is a kind of a sad situation, if one of the functions of this budgeting process is to enable us to keep control of the value of our money.

Now, how would you go about devising an improvement in this document, or in the process, which would enable us to have a better estimate of the impact of the budget on the value of our money, so that if it came out with a deficit we would be pretty sure that this was going to have a certain amount of impact on the value of our money, or if it came out with a surplus, we would be able to make an estimate on that much better than we can now?

Mr. WEIDENBAUM. Well, frankly, I wouldn't be capable of developing a budget which would pinpoint the effect of the budget on the value of the dollar, because it is just one of a large number of factors which will influence the value of the dollar. But certainly what we can do is sharpen our tools, as I explained a moment ago, to show the extent to which the budget as, say, submitted by the President, will exercise a more or less inflationary or deflationary influence on the economy. But you have to then couple that with an analysis of the other factors in the economy.

In other words, when unemployment is close to 6 percent, it may very well be that a budget deficit will not have any significant impact on the value of the dollar.

Senator MILLER. And it may be that it will.

Mr. WEIDENBAUM. Yes.

Senator MILLER. So how are we going to improve our present tools so that we can do a better job of forecasting this? And I ask this because of the extreme importance in knowing what is going to happen to the problem of the continued outflow of gold, for example, or to the balance-of-payments problem, or to the potential impact on escalation clauses in labor contracts? I am afraid that we are not doing as good a job in handling our Federal budget as we might.

Senator PROXMIRE. If I might interrupt at this time, isn't it true that if you have an analysis of the budget which indicates the degree to which the Government is bidding for goods in short supply and services in short supply that you might have some indication of the kind of selective inflation, the quality of your inflation, and the degree of inflation that you might get from the Government sector?

In other words, if the Government is expanding its purchases in an area where you have a substantial capacity as it is, and the utilization of that capacity isn't going to be very much affected by the additional Government purchases, then you might make the assumption, given a situation of fair competition, that you won't have much of an increase in price. On the other hand, if you have the Government doing what it is doing in the missile field, the space field, the defense field, in necessarily bidding up the pay of engineers and scientists because they are in very short supply, you know you can have that peculiar and particular kind of inflation.

Mr. WEIDENBAUM. Here is what I would tend to do at two levels. At the aggregate level, if I were charged with this responsibility, given the best economic advice in, say, the Executive Office, if this activity were there performed, what I would do would be to develop a picture of the total economic outlook, our best evaluation—and this is a series of successive approximations—that is, estimate what the consumer sector of the economy is likely to do, given your tentative budget, what business investments, what other levels of government, what foreign trade, and add that to your Federal Government sector and see what sort of economy is in the offing. Is the recommended budget in conjunction with the outlook for the rest of the economy going to result in price stability, in stability in the value of a dollar, or will this total picture indicate inflation, deterioration in the value of a dollar? In that case, then, considerable consideration should be given to either the revenue or the expenditure side both to reduce Government demands on goods and services and to reduce the amount of funds the Government is pumping into the economy. But I don't think you can look at the budget in isolation and say it will or will not affect the value of the dollar. I think what you can do—you can look at the budget in isolation and only say it will tend, everything also being zero, to increase or decrease the value of the dollar.

Senator MILLER. You are talking about the budget as we have it. How about as we can devise it?

Mr. WEIDENBAUM. I think, Mr. Miller, you are now getting to the so-called economic budget, the national economic budget. And I wouldn't say that is the budget for a moment—which is really a statement of the receipts and expenditures of the various sectors of the economy, and adding them together.

Senator PROXMIRE. In other words, you are not talking about a Federal Government budget, you are talking about a national economic budget that covers the whole economy, is that what you mean?

Mr. WEIDENBAUM. Yes, a GNP type of budget—which incidentally was developed in this old Fiscal Analysis Division of the Bureau of the Budget, and it appears, unless it has been changed recently, it appears in some form in the very first page of the economic indicators.

Senator MILLER. Let me say that I like that idea, too. But what I had in mind, for example, is a change in our budget so that if there is indeed a deficit budget that is being presented, let's say, of $10 billion, that it will be required that that will be accompanied by a statement of how this will be financed, how much will be handled by Government bonds, how much will be monetized debt, and the estimate of the impact on the value of the dollar as a result of this financing of the deficit.

Now, that might not take much space in the budget, but it could take a tremendous amount of research and study and evaluation. And it would seem to me that it might be very helpful for Congress to know that some of these requests for obligational authority are going to end up being monetized, and some of them are going to be handled by Government bonds, or some of them will be handled by back-door financing, so that Congress can elect wisely in the way these projects or programs are going to be financed.

Senator PROXMIRE. If I may interrupt at this point—I have to go, and I am going to ask Senator Miller to preside—I know that Mr. Butler, who is, of course, an expert in this field, the monetary field, wants to continue on this question. So Senator Miller will chair the meeting.

I want to thank you gentlemen for what I think is a very informative and stimulating afternoon. I have learned a good deal. And I think you have made a real contribution.

Thank you very much.

Senator MILLER (presiding). Mr. Weidenbaum.

Mr. WEIDENBAUM. It strikes me in looking at both Democratic and Republican administrations, that except for periods of war, World War II and the Korean war, that essentially the budget message usually says that this recommended budget will contribute to price stability and will not further deteriorate the dollar. I think that any more detailed analysis, frankly, is not a task for the Executive, because then you will be asking, in a sense, for a self-serving declaration, because I don't think he would want to say—and it certainly hasn't been the experience of any, outside of the wartime period—"I am recommending an inflationary budget."

I think this is a job for a committee just like the Joint Economic Committee. And I think this is the discussion that the committee does get into in reviewing the President's economic report.

Senator MILLER. Granted that it would be a self-serving declaration, if it was proved to be very erroneous, this would have very powerful political implications. And it would be my hope that something like that would not be used for that purpose, because of the danger of the error hanging over the policial heads, and that it might instead serve as a disciplinary measure with respect to the budgeting.

Mr. WEIDENBAUM. Again, sir, I really don't mean to be an apologist for any administration, but if, say, the President recommended a budget and said, "Well, this will not be inflationary," and in fact considerable inflation did ensue, and considerable deterioration in the value of the dollar was measurable, I would find it difficult, I think, to pinpoint the blame, because for all we know consumers spent far more than the budgeteers estimated, or business invested more, or State and local governments spent more, or our export promotion policy took a hold and we exported much more than expected.

Each of these might turn out to be the culprit or one of the culprits.

Senator MILLER. What you are really saying is that even under the present setup a statement accompanying a budget message that it is not expected to be inflationary is meaningless because of these other outside factors you just referred to.

Mr. WEIDENBAUM. I will put it this way. I think the statement only has meaning to the extent that you relate it to the other developments in the economy.

Senator MILLER. I agree with that. My hope was that we might be able to find some tool that we could add to the budget, possibly a statement regarding the means, the ways and means of financing a deficit budget, which would or could be used as a better method of evaluating the impact of the budget on the value of the money than we have now.

What can we crack into this budgeting process that will be an improvement?

As a matter of fact, I can see where, if we had certain measurement devices that were put into the budget, it might be helpful to whomever is going to send that budget message over in evaluating whether it will have an inflationary impact. It could be hedged in by pointing out that if other government agencies, State and local, are going to get into this picture, this could, of course, have a bearing on it, too. I can see where it could be hedged about. But I would think that people like you and certainly people like us here in Congress would like to have a better management tool than we have now.

That is why we are having these hearings. And the value of the money is an extremely important part of this. So how can we improve this process and give us a better control over preserving the value of the money.

Mr. Butler, you wanted to comment on this overall program. didn't you?

Mr. BUTLER. I would agree with what Murray said. It seems to me the problem here basically comes down to a problem of general forecasting, and to know at any point in time whether a budget is going to be inflationary depends on the accuracy with which you can forecast the future of the whole economy, of which the budget is one part. The difficulty with trying to lay down in advance the way you will finance a deficit is basically the difficulty of forecasting. You can't tell 18 months in advance or even 12 months in advance or often even 6 months in advance how conditions in the money and credit market are likely to be with a high enough degree of accuracy to commit yourself as to particular forms of deficit finance.

It has to be a very flexible operation, and in this connection, it seems to me that there is real need for two sorts of things in the budget mechanism.

One is a longer term look than we now have to get some idea of how trends are likely to operate. And another is a very much shorter term look than we now have. I think there needs to be a quarterly review of the budget and its impact on the economy and the methods of financing whatever deficit has to be financed, or handling whatever surplus appears. And this, in view of our inability to forecast with precision a year in advance, I think we have to have enough flexibility to adapt during the year, which could very well be done on a quarterly basis. And these two things, I think, would go quite a long ways toward getting more overall control of the impact of the budget on the value of money.

Senator MILLER. Now, if that is so, then does it really make much difference what kind of a budget we have, whether we have the present budget or whether we have a capital budget, as long as you have the quarterly system and the long-range forecast process?

Mr. BUTLER. Well, I wouldn't say it didn't make any difference. Again, for this particular purpose—I think for other purposes you have to have a budget of a different sort, but for the purpose of seeing the impact on the value of the dollar, all you need really is total Government expenditures and total Government receipts. The detail is useful in making more accurate forecasts of what is going to happen to Government receipts and Government expenditures. If you are given just these two totals and somebody's projection of them, you could not place great reliance on this in the current state of the art. You need all the detail to make the projections and try to make them as accurate as you can.

Senator MILLER. Thank you very much.

Now, Mr. Novick, and possibly Mr. Weidenbaum, what about the use of the budget or improving the budget process as a means of improving our forecasts with respect to, (*a*) Government employment; and (*b*) overall employment?

Mr. NOVICK. I think the first step that is required here is to get a longer range plan, which is the basis of the budget, and to include in the budget message the implications of this plan as measured in financial terms. As it applies to employment, again we are back to the question of gross measurements as applied to refined measurements.

Obviously, even a large Federal budget need not have much of an impact in West Virginia. Even a rather small Federal budget could have a major impact in Los Angeles if most of it was for armament and space vehicles.

So that we need to have two things, first, a longer range projection on a year-by-year basis, which immediately requires longer range planning, and then a translation of this into its fiscal implications.

Senator MILLER. What I am thinking about is this. Suppose that we are presented over here with some new programs with a request for obligational authority. Now, it seems to me that we ought to know what the employment implications are, or from the standpoint of additional employees on the Federal payroll, and what kind, and whether they are available, and also the impact on overall employment. It would be nice to find it out on a pinpoint basis as far as West Virginia and other areas are concerned, but it might be that this would be impossible because of Government contracting procedures.

But I can see where it might be helpful in evaluating that request for obligational authority to know the implications from a Government employment standpoint, and also from the standpoint of overall employment. Would that be an improvement? Would that be feasible?

Mr. NOVICK. Before you could get that, you would have to distinguish between the various kinds of activities that enter into the budget. For example, the budget of the Department of Interior is one type of budget as it applies to, let us say, the Bureau of Mines, where essentially we are employing personnel, and most of it Government personnel. They have an occasional project, or an occasional processing plant which the Bureau of Mines finances, sometimes it contracts out for the manning of it, and sometimes it provides its own manning.

But essentially the Bureau of Mines budgeting relates to inhouse Federal Government expenditure. On the other hand, when you get to some of the activities in the Bureau of Reclamation, or the Bureau that deals with power dams and things of that kind, we are now likely to be in a quite different situation. Much of the money will now be for contracting out, and it will be for contracting out for quite different kinds of activities. Some of it will be major construction, such as large dams. Some of it will be for the maintenance of certain types of activities that were created in the past.

I think what we are really saying is that a total budget, or even a departmental budget, is not very meaningful until we identify the end objective for which the money is to be spent. When we have identified the end objective, we then start to identify the kinds of labor, the kinds of industry, and by and large the localities.

Now, what I have suggested in my statement is that what we need is essentially two budgets. We need a program budget such as has now been presented for fiscal year 1963 and fiscal year 1964 by the Department of Defense, which aggregates the activity toward an end purpose. For example, in the military this happens to be relatively simple. But even there we did not identify all of the activities that went into strategic defense by the Air Force and the Navy prior to the fiscal year 1963 budget. The Polaris missile, which was a strategic weapon, was in the Navy budget, where it competed with carriers, submarines, and other types of naval vehicles.

The ICBM's and the long-range bombardment aircraft were in the Air Force budget where they again competed with other types of activity—for example, the defense electronic system, and the defense interceptor systems.

Now, each department of Government has a great many different kinds of activities. For example, in the Defense Department they have defined this as eight major programs. However, as you know from the statements of Secretary McNamara and Secretary Hitch, they have pointed out that the general purpose forces, the general support forces, which are very large parts of the total, require major refinements, so that better identifications of these types of impacts can be made.

Now, let us take a rather simple budget and a small one, let us say the Federal Aviation Authority. They perform at least a half a dozen different functions. Part of their work goes into airway safety. Part of it goes into airports. Part of it goes into developing equipment that will be used for beacons, radar, and things of that kind. I think in each of these cases what we should try to get before the Government and before the economic analyst is better identification of the program objective for which these appropriations are sought.

Then, given that, I think you have to go beyond the concept of NOA, or new obligational authority. I think we have to deal with these objectives in terms of expenditure flow, because one kind of new obligation such as pay of civilian personnel will be used up in the year for which it is authorized, and another type such as that for a power dam or a reclamation project in the Department of Interior may not even get started for 3 to 5 years. In the latter cases the expenditure flow will then be over another period of 3 or 5 years.

Furthermore, the rate of acceleration and deceleration of these expenditures will be quite different.

And then finally, to conclude, I would again like to repeat that I think it is very important to distinguish between one time outlays, such as investments in power dams or reclamation, and the recurring annual expenditures. And this need not get us into the capital budget concept that people get excited about. All we have to do is identify the expenditure, as a one-time outlay, such as R.D.T. & E., or an investment in a power dam, or as a recurrent expenditure such as manning an ICBB or manning the wildlife service.

Senator MILLER. Thank you very much on that point. I think you gentlemen all have provided a great deal of guidance and light. I don't happen to be one of those who is excited by the capital budget. But I am glad to have this type of discussion which I would hope would be persuasive, that we ought to try to get into long-range forecasting and try to refine it by program.

Now, what I had in mind on this employment situation is this. The President, for example, last week made the statement that if you cut Federal expenditures by $5 billion, you would cut a million people off of employment, and they would end up on the unemployment roles.

This raises the question of how practicable it is for us to evaluate a budget in terms of employment impact. And I come back to my original question, what can we do in our budgeting process that will enable us to make some accurate estimates regarding the impact on not only Federal employment but also on employment in the overall. I would guess that the President has had the benefit of some economic advice before he made a statement like this. And I for one as a Member of Congress would like to have the benefit of some kind of tools that would enable me to evaluate a budget from this standpoint.

Mr. Weidenbaum.

Mr. WEIDENBAUM. First of all, in response to suggestions and recommendations made by various people, the last two budgets have aggregated—and this is the first to my knowledge—the volume of direct Federal Government employment implicit in the budget estimates. The detailed appropriation submission certainly show, at least according to Civil Service classifications, the number and types of employees to be directly on the Government payroll under that appropriation. The Civil Service classifications may be of only limited use for our purposes. However, I think the first step forward has been taken, and that is to aggregate these.

However, they have only been aggregated by agency. They have not been aggregated by type of employment, that is, engineers, scientists, clerical, et cetera. That might be very well a logical second step, again based on data that is already in the appendix of the budget. That initially might not require any additional data, just summing it up and classifying it. However, once this was done, it might point out to some deficiencies in the basic data, and we might get an improved reporting system on the direct Federal employment.

The sticky part, I believe, is the employment in the private economy which is funded by Government contracts. And here, I think we again have to realize that roughly 85 percent of the Federal Government procurement is in the defense area. So if we can get a handle on the employment of the defense contractors, we will have about 85 percent roughly of the total employment in private industry under Government contracts.

And as I suggested earlier, I think an approved version of these defense contractor progress reports which do include employment might be an important guide, both historically as well as in the future, as to the direct effect of the budget on employment.

Now, that is still only part of the problem. We have people on the Government payroll and we have people working for companies who are contractors.

The third and much stickier one is the employment generated by other Federal Government expenditures, transfer payments, grants in aid, and things like that. I don't have any quick solution to that one. But I think if we can tackle the first two parts we will be way ahead of where we are today, and be in a better position to know whether congressional reductions of appropriations of "X" amount will reduce employment by "Y" amount.

But I don't think we will get to the point—and we shouldn't—where we do this in total terms. In other words, it is not a $5 billion reduction in the budget generating a 2 million or 1 million reduction in employment, it is a reduction of this type of program tending to reduce employment of this type of person in this type or region or industry.

Senator Miller. Thank you.

I would like to get on one more point. This is not directly on the budget, but it is so closely allied to it, as Mr. Butler pointed out, that I do think we might talk about it a little bit. And that is his matter of gross national product. Somebody comes out and says, gross national product went up $30 billion. Maybe it is good, and maybe it isn't. Maybe it is meaningful, and maybe it isn't. And you start to break it down, in order to try to trace where it came from, and you may find that it contains elements of inflation.

So when you reduce it by relating it to 1961 prices or 1960 prices, maybe instead of a $30 billion GNP you only have a $20 billion GNP. And then you start looking at the debt situation and you find that State and local governments have increased their indebtedness, and the Federal Government has increased its indebtedness, and private debt has increased, and consumer credit has increased. And then you find that there are offsets in the form of additions to savings accounts, and the like, and purchases of Government bonds.

What can we do to this GNP that will give us something that is more meaningful?

Mr. Butler.

Mr. Butler. There has been invented a new system called the flow of funds system which now pretty well geared into GNP, although there are still some problems. But we, for example, have a system where we take a GNP projection and translate it into what it means for the whole financial flow side, I mean how much more debt will be required to support this given level of GNP, what kind of debt, and the flow of savings in relation to the debt requirements and what is this likely to mean in credit markets, and to interest rates. And we attempt—and I think with some success, although we have got a lot to learn—to work through this system and come up with specific projections in various sectors of the credit market, and what it means for interest rates.

So I think the flow of funds is a great addition to the gross national product mechanism, and enables you to go a lot further in tracing the effects of a given change in gross national product on financial markets, savings, debt, interest rates, and prices also.

Senator MILLER. Do you think the flow of funds when it is perfected will enable us to have a pretty accurate measurement of true economic growth?

Mr. BUTLER. Well, the purpose of the flow of funds is to show the impact of changes in the economy on financial markets. I think it is the gross national product to which you look to determine growth. And the problem is to perfect the GNP figures for that purpose.

Senator MILLER. That is right. And that was my point, when you start breaking this GNP down to try to find true economic growth, you end up with a lot of questions. And you think that the flow of funds information that is being worked on today will enable us to evaluate GNP satisfactorily from that standpoint, so that we will be able to have a fairly consistent basis for measuring true economic growth?

Mr. BUTLER. I think the flow of funds is of some help. But I think the major problem lies in improving the GNP figures themselves, and getting better deflators than we have today, in getting better information on the sectors of the economy where our coverage is quite inadequate. One very small example is farm investment. We have virtually no current figures on farm investment, and we get this once a year, and very, very late. So we have to make an estimate in this field. And in other cases you are forced to make rather heroic estimates.

I think the main answer here lies in twofold: first, better underlying data on production for GNP; and second, more work on the problem of deflating to take out the effects of price changes. And these two things would give you better measurements of growth.

Senator MILLER. Thank you very much.

Dr. Weidenbaum.

Mr. WEIDENBAUM. I would like to add to that.

First of all, when I look at a newspaper headline and I see "GNP Rose $0.2 Billion Over Last Quarter, Hitting a New All-Time High," I find that meaningless. I put it in the same category as "corporate profits hit a new all-time high," "population hits a new all-time high," or my age hit a new all-time high.

I think there are two ways of getting around this. There is one measure of economic growth economists like to use, and that is real growth per capita, which does two things. First of all, it takes account of the fact that we have inflation, and boils out inflation.

And secondly, it takes account of the fact that we have more people, both producing and consuming, and makes allowance for that. I think that in itself is more meaningful.

The other approach——

Senator MILLER. Before you get to the other, I would like to ask you a question on that very point. That sounds fine to me, but how do you refine the figure or the pie or the melon that is going to be allocated among the number of heads, how do you refine that, quite apart from reducing the inflation out of it? What do you use as the melon?

Mr. WEIDENBAUM. Personally, even though I might pick on individual pieces, I think that given the kind of information we have, given the kind of money we want to put into it, the Office of Business Economics and the Commerce Department which generates the GNP statistics does quite a good job of generating GNP. Certainly we have a better so-called system of national income and product accounts than almost any other country in the world.

Senator MILLER. Then you would take the GNP increase and spread it around among the entire population and pull out the inflation?

Mr. NOVICK. And divided by the latest Census Bureau estimate of population.

Mr. WEIDENBAUM. I concur with Mr. Butler that we can improve on individual reporting. But I doubt if this would affect the percentage we get as to our growth rate significantly.

Senator MILLER. This is the problem. And let me reduce it to a real simple situation. Suppose GNP goes up $30 billion, and you trace through these funds that Mr. Butler was talking about, and you find that they are all about the same from one year to another, except just one thing, we add to the national debts $30 billion and we had an increase of $30 billion in Government purchases of goods and services.

Now, it would seem to me that that is a meaningless increase in GNP, because you just increased our indebtedness on the one hand and you spend it on the other. Is there anything we can do to refine the GNP figures so that we can get a pretty accurate measurement of true economic growth as distinguished from art's figures growth.

Mr. WEIDENBAUM. Of course, there are various definitions. In other words, another measure would be, let's say, well, business investment is just a means toward an end, the end being a better standard of living. Government expenditures are either unproductive or again a means to an end. So let us look at consumer expenditures. And let us take consumer expenditures deflated per capita and see how they have been increasing over time, as a measure of economic growth or economic welfare and improvements in economic welfare.

Personally, I include, not just because the data are prepared that way, but because I believe that they should be, I include Government in GNP, because if I look at the amount of production—I think we need to recall that the bulk of the part of the GNP that is Federal Government purchases of goods and services, the bulk of that is goods and services produced by private industry and bought by Government. And just because they are bought by Government doesn't, to me, mean these weren't goods and services that were produced by the economy. They might have been wasted, but they still were produced.

Senator MILLER. Let me say that I agree with you on that. And I hope you didn't think I was using that example because I disagreed. I was merely trying to give you an example of what I am trying to seek in this GNP, that I think we are all trying to seek. I can use an example finding that the only change over the previous year was $30 billion more of consumer purchasing. But it was offset by $30 billion increase in consumer credit. So you wonder whether you have had any real increase in economic growth. One offsets the other.

Mr. WEIDENBAUM. You have. I think a related question might be the balance sheet of the Federal Government and of the consumer. But here we are in effect talking about a profit-and-loss statement or a production statement rather than the balance sheet. In other words, GNP is not a balance sheet, it doesn't offset—it doesn't show the liabilities or the sources of financing of the production, when we break it down conventionally.

Senator MILLER. May I suggest to you, though, that in the economic indicators you can find GNP, and you can reduce out the inflation part of it. And you can find that we have increased Government debt (State, local, and Federal), and you can find an increase in consumer savings. You can find an increase in consumer debt. You can get several things which tie into this flow of funds that Mr. Butler was talking about.

But you still are left dangling as to how meaningful has been the GNP increase. I don't have any trouble at least in taking a GNP increase of $30 billion, and if the implicit price deflator shows that we have $10 billion of inflation, coming up with the conclusion that $20 billion at the most is meaningful. But it is from that point on which I have difficulty with, and I am wondering what we can do to clear that up.

Dr. Novick.

Mr. NOVICK. I think we are failing to distinguish between the purpose for which the debt is incurred. If it was for the building of schools, power dams, new industrial facilities for the Government, that I would call productive debt. If on the other hand the debt was simply incurred to meet current payments, it is a quite different kind of debt.

In the one case if it is investment debt, it gives you a potential major expansion in GNP for the future, and does not have quite the effect that you are attributing to it. And again, I think this means that one of the major things we have to identify is the kind of expenditures we make.

Mr. WEIDENBAUM. However, we still cannot equate either revenues or debt issuance in general with any particular category of expenditure.

In other words, in practice, with a few exceptions like earmarked receipts and trust funds, basically our income taxes, corporate, individual, or excise, customs, and miscellaneous receipts, go into the general fund of the Treasury. The revenues from borrowing also go into the general fund of the Treasury. Checks are issued to cover the various expenditures. But as a practical matter, you can't say, this expenditure was financed by the income tax, and this expenditure was financed by debts.

Mr. NOVICK. No, and you don't have to, anymore than you have to identify which nut went into which automobile. But you should be able to identify from your statement of objects every expenditure or purpose of expenditure whether they were in fact capital expenditures or current consumption expenditures.

Mr. WEIDENBAUM. But you couldn't tell whether they were financed by debt issuance or general revenues?

Mr. NOVICK. Right. But you could get a better idea of the extent to which your expenditure imbalance will be created by large construction account expenditures, for example.

Mr. WEIDENBAUM. No, I don't think so, because I don't think you can pin point any one item of expenditure and say, that is what caused the debts.

Mr. NOVICK. Obviously not, because you have got a total that we are spending. For example, did you as an individual go into bankruptcy because you bought an automobile or because you bought food? But at some point in time you could analyze this and determine whether food was the dominant expenditure item, or whether capital equipment like an automobile was.

Senator MILLER. Are you gentlemen really saying, then, that this GNP figure is not meaningful unless we know the purposes for which the expenditure——

Mr. NOVICK. No, I think you are misconstruing the objective of GNP. And I would like to hear Bill Butler on this, because Bill is a much better informed scholar in this particular area.

Mr. BUTLER. I have always looked at the GNP this way, that it is very useful if you don't believe it entirely. But the purpose of GNP is to measure our total production of goods and services valued at market prices, I mean, it is what the economy produces. I think obviously you are always interested not only in the quantity of what you produce, but its quality, and we have to be concerned as much about the quality of the production as its quantity. But then from the GNP breakdowns you can get a lot of detailed information about the quality of what we produce. You can get, from the flow of funds, data statements, consistent statements as to how it was financed in aggregate, who saved, who borrowed, who invested, how the investment was financed.

In overall terms in this economy it is true that you have to go into debt to have prosperity. And there is a very close relationship between the increase in debt and the increase in production. And if the private sector doesn't go into debt, then the Federal Government has to go into debt. I think the best situation is when the private sector is going into debt, because then I think——

Senator MILLER. Within limits, though.

Mr. BUTLER. But the rate at which it goes into debt can get dangerously out of hand, or it can be too slow. But there is a very direct relationship between debt and prosperity.

Again, I think we have a system of accounts which is now a pretty good system, with the GNP, the income side, production side, and flow of funds account, we are developing a national balance sheet of periodic measures of our national wealth which I think is a very useful addition to this system of accounts.

As Murray says, it is a far and better way than that of any other country, and incredibly better than many, where they are just made up out of thin air. We have recently been looking at the GNP figures for Latin America, and these are almost a joke the way they are put together. They have no meaning. I think there are probably errors in our figures, but they are probably small, relatively small.

Senator MILLER. I wonder if we could summarize this way, by saying that we could improve on GNP figures: (a) By improving the price index data; (b) by improving the implicit price deflator data, which includes what I have just mentioned; and (c) by taking out the inflation part of the GNP and by putting it on a per capita basis.

And that, you would say, would give us a more meaningful GNP.

Mr. BUTLER. Plus improving the basic data. There are areas of the accounts where estimates have to be made on the basis of very inadequate data. And we need better data. Our construction figures could be improved a lot. I discovered a few years ago, I am not sure that this is still the case, that all the estimates of private pension funds were based on a 1-percent sample of the 2,000 companies reporting to the SEC, and in at least half of that sample the companies didn't fill in the extension part of the report. So this had to be an estimate based on extremely inadequate information.

Senator MILLER. Thank you very much.

Dr. Moor, do you have any questions you would like to ask?

Mr. MOOR. I have two quick questions of each of you on the panel.

Senator Miller was asking a question earlier about the possibility of getting into the budget ideas about the effect of the Government on inflationary measures and increased price levels. We had an interesting suggestion yesterday which I would like to hear you comment about. What would you think of having, as part of the budget, data regularly reproduced on a full-employment level, projections as to what the budget would be on a full-employment level, with the idea being (1), as suggested yesterday, that these were somewhat easier to predict than actual changes, and (2), that changes in the net deficit or surplus position of the budget as shown in this full-employment projections might give us some first approximations to the inflationary or deflationary pressures of the Government?

Mr. NOVICK. Are you describing a national economic budget rather than the Federal Government?

Mr. MOOR. No, a Federal budget based on the assumption of continuing full employment, however defined; let's say 4 percent under unemployment, what would the Federal budget be in 1963, 1964, and 1965?

Mr. NOVICK. Doesn't this immediately introduce a requirement for identifying the purpose of Government expenditures?

Mr. MOOR. That is right; how they could change.

Mr. NOVICK. And this then implies that we have plans that are changeable or susceptible to change with these variations in GNP?

Mr. BUTLER. I think in the current state of the arts this would raise more questions than it would answer. And I, at one point, wrote a rather critical review of Mr. Okon's work on making estimates of full employment GNP, et cetera. And—I am sure this is not politic—I would even raise questions as to the 4-percent unemployment, the use of that as your goal, and the assumption that you can get there without a considerable amount of inflation. So I think you would get a whole lot of debate over the calculation, and I think it would just not be useful at this time. And I think this is the thing on which research ought to be done.

I think we are in a stage where we are developing some concepts. But I think we are too far away from having them well enough developed to use them as a basis for public policy decisions.

Mr. WEIDENBAUM. I certainly agree with Bill. One of the things that would worry me is that, in effect, you haven't given us enough information to determine the solution; that is, saying the economy will be at full employment still gives the estimator a tremendous amount of leeway as to what the role of the Government will be in achieving full employment, tax reduction, a tremendous increase in expenditures, some change in the two—I don't think you can point to any one budget level and say, "That is the budget that we would get if we had full employment." That is one of the budgets. It might be an inflationary budget, it might be a deflationary budget, it might be a low-tax, high-expenditure budget—I think it would be so subject to political manipulation that it would be unfortunate, given the state of the arts, as Bill pointed out, to put us in such a position.

However, it is a fertile field of private research.

Mr. MOOR. Senator Miller was asking about Federal employment, and I want to follow up on that. One of the questions that you have to ask if you look at the budget in terms of its economic usefulness is the economic effectiveness of the Government in using the resources which it has. What, shortly and specifically, might you suggest to include in the budget document that we don't have now with respect to measuring the efficiency with which resources are being used by the Federal Government directly?

Mr. WEIDENBAUM. Essentially, as I say in the paper, and as David Novick has said so clearly at the hearing, we need to incorporate into the whole gamut of budgetary review, the kind of detailed systems analysis and choice among alternative uses of Government funds and resources which has been pioneered in the military. There is one area where I think quite a bit has been done. In my formal paper I cite work published by the Joint Economic Committee a few years ago. That is the area of natural resource development. I don't think it is generally realized that the economists who have studied this subject—and surprisingly, I think they could be characterized more as liberal than conservative—say that a more accurate statement of the costs of and benefits from Federal resource projects would result in a far lower level of Federal resource expenditures than we have at the present time, that is, in so many cases the costs exceed the benefits, which is clearly an uneconomical use of resources. I think more of that type of analysis belongs in the budgetary process.

Mr. NOVICK. This committee 2 years ago in its report on the budget made the same recommendation, if I remember correctly. I think there is a very major role for—let us call it cost effectiveness analysis or cost benefit analysis—and this immediately requires that we detail rather specifically the object of expenditure in program terms. And I want to reemphasize this point made in my paper and which I have made repeatedly.

I think the most important change in the budget would be the identification of the objectives or final purposes—and by this I don't mean personnel—but the purpose for which the personnel will be employed, or the purpose to which the expenditure will be put. And even though in my opening statement I used the word, "recreation" in that I was guilty of the same error of which I am accusing the budget. Recreation is rather meaningless. Do we mean recreation in the form of fishing, do we mean recreation in the form of art, do we mean recreation in the form of highways available for people to go away on weekends? These all must be identified separately as parts of the recreation package.

Mr. WEIDENBAUM. We have a step toward that direction which has been taken over the years, and that is going from an agency to a functional classification. In parts of the budget document we do have the various programs of the various agencies which fall under the same category, that is, promotion of transportation, whether it is a Maritime Commission, or the aviation agencies, the promotion of natural resources, conservation of land and water resources, whether it is Interior, or Corps of Engineers, or the TVA.

However, Congress generally at the Appropriations Committee level does not break up the budget by a functional program classification, but by the agency classification. So you don't have an instrument for comparing alternate programs which would serve the same function or general purpose.

Mr. NOVICK. I think actually your use of the word "function" there is appropriate, because the functions as they are now identified are too broad to be very meaningful. Again a phrase like national resources or transportation is much too broad. Each of these in turn has to be subdivided to become meaningful.

Senator MILLER. And on that good word "meaningful" we will adjourn the subcommittee until 2 p.m., tomorrow afternoon, at which time we will take up the subject of the application of State budgets. On behalf of the subcommittee I thank you gentlemen very much for your time and the benefit of your fine experience.

(Whereupon, at 4:35 p.m., the subcommittee adjourned to reconvene at 2 p.m., Thursday, April 25, 1963.)

THE FEDERAL BUDGET AS AN ECONOMIC DOCUMENT

THURSDAY, APRIL 25, 1963

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMIC STATISTICS,
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 2:09 p.m., in room AE-1, U.S. Capitol, Senator William Proxmire (chairman of the subcommittee) presiding.

Present: Senators Proxmire and Douglas.

Also present: Roy E. Moor, economist, and Hamilton D. Gewehr, administrative clerk.

Senator PROXMIRE. The subcommittee will come to order.

The hearing today will be on the "Application of State Budget Practices," and we are delighted that you gentlemen could be here and we are very grateful to you for coming and honored that we have such a distinguished group of budget directors.

Mr. Bell, it is my understanding that the ground rules are 10 to 15 minutes on the opening statement. If you can keep it to that we would appreciate it.

Your statement seems to run a little bit longer, but you handle it any way you wish.

STATEMENT OF GEORGE A. BELL, BUDGET DIRECTOR, STATE OF VERMONT

Mr. BELL. All right. There are parts that I might be able to cut out of here.

Mr. Chairman, we certainly appreciate the opportunity of being here today, and hope that we can truly help the committee in its deliberations on the subject of the Federal budget as an economic document.

We have sort of exchanged notes among ourselves. I think I can tell you now that I would subscribe to everything that my colleague will say after me, and that there is nothing in basic disagreement among us, I think.

Senator PROXMIRE. In other words, in order to get a real clash of views, that will be up to me and my colleagues?

Mr. BELL. Right.

The purpose of a State budget is to provide a plan for the operation of State programs stated in financial terms. This plan is for a stated fiscal period and is related to the source of revenues through which the expenditures will be financed. In many States, the administrative organization for budgeting and the procedures to be followed are stated in the constitution. The Vermont Constitution was adopted in 1791 and is very difficult to amend—therefore, we do not have any constitutional revisions on this matter—and partly for this reason contains no such provisions. By law, passed in the 1960 special session, the budget is recommended to the general assembly by the Governor-elect, who is assisted by the budget and management division of the department of administration.

Our State, in common with most others, runs on a July 1 to June 30 fiscal year. The legislature meets biennially in January of the odd years. Therefore, in July of even years, we begin preparation of the budget to be presented in January.

We send out budget request forms to agencies in July asking for their return in September. We spend October and November reviewing budget requests and in the middle of November take our recommendations to the Governor-elect. The Governor-elect holds hearings, makes his decisions, and we prepare the budget document for submission to the legislature in January.

Note that the budget is that of the Governor-elect and not of the outgoing Governor. Since the Governor of Vermont serves a 2-year term, the Governor's budget review follows immediately after an election. The legislature has unlimited authority in acting upon the Governor's budget, and the house appropriations committee traditionally drafts the appropriation act. In some States, the bill is drafted by the budget office.

The State budget typically contains revenue estimates for the coming biennium, the appropriation request of each agency, the Governor's recommendations, the Governor's budget message and summary tables. A State budget, similar to local budgets and the budgets of private individuals, must normally be balanced so that there is money in the treasury to meet the recommended expenditures.

State budgets have seldom been used consciously as tools in the development or measurement of the State economy. When the Governor-elect considers the budget, he must, of course, see that projects in which he is particularly interested and programs he supported during the campaign are included.

One Governor, for example, might stress the needs of higher education and recommend the expansion of State colleges to handle the expected influx of college students in the years to come. Or he might stress the development of a mental health program to place greater emphasis on the prevention and cure of mental illness through training of psychiatrists and establishment of community mental health centers. Or, the Governor might be interested in expanding State aid for elementary education and revising the formula so that aid will be distributed on the basis of need.

The reasoning behind these decisions will be partly economic and partly social in nature. For instance, the Governor might be interested in enlarging and expanding the activities of the development department to attract more tourist trade or promote industrial development in the State.

On the other hand, emphasis might be given to developing programs for the mentally retarded. While good programs of this sort may be economically justified in the long run, the primary justification is humanitarian, to make life more comfortable and useful for the afflicted person.

Another factor in budgetary considerations is comparison of State taxes and services with those of other States, especially neighboring ones. Vermont, for instance, often compares itself with New Hampshire and Maine, its two northern New England neighbors, who are relatively close to Vermont in population and personal income.

The Vermont budget is a tool primarily for expediting the appropriation process. It does not, however, contain capital improvement expenditures for land and buildings.

We have a different procedure, however, for handling that.

The capital improvement budget, under our law, is recommended by the board of State buildings. This board utilizes the staff of the division of State buildings, which is part of the department of administration, the same as the budget and management division. We keep each other informed, but the timing has been such that the operating budget is sent to the general assembly before all decisions are made on the capital budget. The capital budget in Vermont has generally been financed through bond issues.

Appropriations of specific dollar amounts have been made for the bulk of State agencies operating with general fund money, mostly derived from income, inheritance, cigarette, liquor, franchise, and other tax revenues. The general fund supports agencies with general governmental, educational, health, welfare, and most conservation and protective functions.

Not supported by the general fund are the highway department and highway regulatory agencies, which are supported from the high way fund, derived from gasoline and motor vehicle taxes. Also separate is the fish and game department, supported by hunting and angling licenses.

Beyond these are agencies receiving authority to expend special receipts with no dollar limit imposed, such as the public service commission from charges to regulated utilities, the liquor control board from the markup on liquor sales through State-owned stores, and the medical, cosmetology, and many other professional licensing boards.

The operating budget, therefore, contains information on general fund budget requests, most Federal fund requests because they are related to other appropriated amounts, highway fund and fish and game fund requests. It excludes the special funds which are not specifically appropriated. Budget totals do not include revolving funds or funds which are transmitted through the State treasury, such as social security payments from local governments to be submitted to the Federal OASI office.

The budget contains amounts needed for paying the State's share of premiums to the State employees' and the teachers' retirement systems, but does not show the impact of the benefits paid by these systems to retired individuals within the State.

The use of budget figures to show economic impact is further vitiated because the total appropriated budget may not all be expended within the State. While we have never calculated the amount of out-of-State contracts, our purchasing division believes that in dollars nearly three-fourths of the purchaes made by the State of Vermont are from out-of-State firms.

Of course, these firms spend money within the State in maintaining stores, warehouses, and offices, but we really have no idea of the impact of these expenditures on the State economy.

Other State financial documents are not designed to show the economic impact of State expenditures. The finance division of our department issues an annual financial report showing the status of appropriation accounts and all other accounts authorized by law, the funds for which are maintained in the State treasury.

This report intermingles totals for custodial accounts, revolving funds, and public enterprise funds with regular operating expenditures. The new finance director, who took office in March, plans to establish his accounts in categories which will be more meaningful to us in analyzing the effect of expenditures on the economy. In 1963, for the first time, we have summary tables in the budget document segregating all operating expenses of the State whether or not appropriated.

The finance division has kept a total of expenditures by object category, but this does not appear in the annual report either. Of a total of $116,960,000 expended in 1962 in all funds, 17 percent was for personal services and 24 percent for other operating costs.

Grants and fixed charges amounted to 31 percent and building maintenance and capital costs, 27 percent. At least half the grant expenditure went to local units of government, especially for highway and education. Another one-quarter of the grant amount was for welfare benefits for individuals. Presumably, most of this stayed in the State of Vermont, but many expenditures for capital construction, supplies, and equipment were expended out of the State.

The information I have presented illustrates my earlier observation that the State budget in Vermont, which I believe is fairly typical of most States in this respect, is not designed to be an economic document. Certainly, some budgetary decisions are made with an eye toward improving the economy of the State, but these decisions are made in a fragmentary way concerning individual programs only. Furthermore, in our State, as is true in some others, we budget and appropriate for 2 years at a time. It is difficult to estimate correctly the economy for 1 year in advance, let alone 2. We can often make budgetary decisions which will turn out to be in contradiction to economic needs. Vermont does not publish, as Mr. Moor's report suggests should be done, a revised budget once the legislature has acted. Nor are there quarterly reports of an economic nature concerning budgetary impact.

Little work has been done in Vermont, and I daresay in most States, in developing precise analyses of the economic and social effect of State programs. New or expanded programs are recommended because they are expected to contribute to the economic or social well-being of the State. It certainly would be helpful to develop benefit-cost analyses for all programs as is suggested in your staff report, especially for the programs at issue.

I recognize the difficulty in developing such analyses, but if we are to improve the basis for decisionmaking, the attempt must be made. Decisions on expanding government programs always involve two contradicting factors: the value of the program, and the cost to the taxpayer.

The people of this country still retain a traditional suspicion of government, borne partly of a belief that the tax dollar is a drain on the economy. A demonstration of the economic effects to both the

State and private economy of proposed programs in relation to costs would go far in answering objections based solely on tax costs points of view.

The present Governor of Vermont, the Honorable Philip H. Hoff, has been greatly concerned with the lack of information on the impact of State programs on future State expenditures and the economy. He feels that the State has moved into new programs and new construction without adequate consideration of future effects.

He also feels that little has been done to ascertain and develop proper organizational and administrative arrangement between the State and the local units of government, especially in the face of demands for better schools, roads, and other services while our rural population and tax base are declining.

As a result, he has established a study committee to take an inventory of State resources, determine the real needs of the Vermont economy, determine the proper organization to meet this need, and the best source of funds for financing the government's role in meeting the need.

The study will cost $350,000, of which $234,000 will be obtained through a Federal urban planning grant. This is an exceptional situation in which an urban planning grant is used for statewide planning, but Vermont has less than 400,000 population, smaller than many of our cities. This study could lead to greater efforts to use the State budget as an economic tool.

We should recognize, of course, that State budgets have much less impact on the total national economy than does the Federal. In 1961, the total of State and local expenditures combined equalled 14 percent of personal income in the United States, split approximately 7 percent State and 7 percent local, whereas Federal expenditures were over 20 percent. Within the State of Vermont alone, State expenditures are 11 percent of personal income; local expenditures are 7 percent, for a total of 18 percent.

The impact of State-local governmental budgets in Vermont then, is greater than in the average State. Senator George D. Aiken has reported that $148 million was spent on Federal programs in Vermont during 1962, exceeding by $46 million the amount of Federal revenue collected in the State. Of the $116 million reported as State expenditures, nearly one-third, or $40 million, were obtained from the Federal Government.

The role of State expenditures in the national economy is fragmentary, split among 50 States. The effect of local expenditures is even more widely spread among thousands of governmental units. All these units of government, State and local, make their budgetary decisions relatively independently of one another.

State budgetary decisions are greatly affected by Federal legislation, especially that related to grants-in-aid. Changes in the terms of Federal grants forces changes in the allocation of State resources. For example, congressional statutes related to aid to dependent children, in effect since 1935, were recently amended to provide for the acceleration of preventive social services designed to get people off the relief roles and make them economically self-sufficient.

This is a highly desirable objective, but considerable money is required to strengthen social services work. Even with the Federal

Government providing 75 percent of the funds, compared to the present 50 percent, the new program will cost the State of Vermont money.

Yet, apparently, under the law, if we do not participate in the accelerated program by 1967, we will be ineligible for further aid to dependent children grants. As desirable as the new aid to dependent children program is, there are other competing and equally desirable programs in the State.

Yet, we do not have a free choice of priorities in this situation, because if we fail to follow the Federal aid to dependent children program, we will lose the Federal aid we are now receiving.

As I mentioned earlier, State and local budgets must generally provide for sufficient revenue to meet expenditures. Every major program decision is inevitably tied up with a question of revenue source. States cannot use their fiscal powers to borrow or print money the way the Federal Government can.

This situation created a problem in the great depression of the thirties. With the sharp decline in the private economy, the Government had to prime the pumps. However, State and local governments were cutting expenditures just as private business, so the Federal Government had to counteract the drag created by the reduction of State and local expenditures.

We can hope a similar depression will never hit us again, but it might be well to have a system in effect to pump money into the States, if necessary, to prevent reduction of State expenditures at a time when all government expenditures should be increased to compensate for losses in the private sector.

Beyond this, I doubt that under our Federal system and tradition of local independence we can feasibly coordinate budgets and expenditures at all levels of government to help accomplish the economic roles of the President and Congress.

However, through cooperation among Federal and State budget and tax research officials, now much in evidence through such sessions as annual revenue estimating conferences, it may well develop that State budget decisions will be based on the same set of predictions as the Federal.

This liaison can perhaps never be wholly effective because many State and Federal budget decisions will be based on other considerations than the economic. But Federal-State budget officer cooperation does promise a possibility of greater coordination of Federal-State decisionmaking than we have ever had in the past. This, coupled with refinement of economic analysis of State programs as a basis of State budget decisions, should help improve use of State budgets as economic tools.

Senator PROXMIRE. Thank you very much.

Mr. BELL. Thank you very much, sir.

Senator PROXMIRE. Now, our next witness is Mr. James Bibb.

STATEMENT OF JAMES W. BIBB, BUDGET DIRECTOR, STATE OF KANSAS

Senator PROXMIRE. Mr. Bibb, you are the budget director of the State of Kansas; right?

Mr. BIBB. Yes, sir.

Senator PROXMIRE. We are very happy to have you. You go ahead.

Mr. BIBB. Thank you.

I am also president of the National Association of State Budget Officers.

Senator PROXMIRE. Yes, indeed. I should have mentioned that.

Mr. BIBB. I, too, want to express my appreciation to the subcommittee for the invitation extended to State budget officers to participate in the hearings of the Subcommittee on Economic Statistics on the Meaning of the Federal Budget.

It has seemed to me that there has been too little communication between State budget officers and the Federal Bureau of the Budget, the staff of congressional committees, and the congressional committees themselves throughout the years.

In recognition of this problem at the 18th annual meeting of the National Association of State Budget Officers in August 1962, in Denver, there was established in cooperation with the Federal Bureau of the Budget a Committee on Federal-State Budgetary and Fiscal Relations.

This Committee has been working to improve the relationships between the State budget officers and the Federal Bureau of the Budget, to open avenues of communications on problems of joint interest, to facilitate the interchange of information from the States to the Federal Bureau of the Budget and from the Bureau of the Budget to the States.

The establishment of this Committee is, I believe, a recognition on the part of the States that, regardless of our personal feelings about them, the various Federal-aid programs are an integral part of our Government and we must work together to make these programs more effective in their implementation.

It represents a recognition of the fact that there are certain areas where the State must work within the areas of defined national policy. It is not enough to say that we should eliminate Federal aids in our budget when we know that this is not going to happen. Instead, we need to seek out ways to make the administration of the present programs more effective.

The traditional channels of communication between the States and the Federal Government have been through the program areas, program personnel of the State with program personnel in the various agencies of the Federal Government.

There has been no channel through which the State officers such as the Governors and budget officers can communicate with their Federal counterparts on overall problems of State and Federal programs.

It is hardly necessary for me to comment on the effects on our State budgets of the Federal budget and the Federal economic policies. A few comments might be pertinent, however. The estimated Federal funds for the fiscal year 1964 in our Kansas State budget totals $96.6 million in the budget submitted by the Governor of $399.4 million or in excess of 24 percent of the total.

In passing, I might note that these estimates of the receipts of Federal funds are in most cases made by State agencies prior to the time that we have any certainty as to what the Federal aids actually will be because Congress has not yet acted on the programs.

Yet, it is necessary for the States to plan the operations of each of its State agencies and to assure adequate financing for carrying out their programs. This means that we must, in the State, assume certain continuing levels of Federal aid and certain requirements for Federal matching.

While this hearing is not directly pertinent to the problem, I would point out once more the need for a greater degree of certainty in the planning of Federal grants and for a greater degree of flexibility to the States in fitting these Federal grant programs into the States' fiscal operations and into the administrative organization of the States.

Perhaps more pertinent to the subject of this hearing is the requirements of the State budget officers and State governments in projecting their future receipts for as much as 30 months, as in the case of our own State. I do not need to stress the importance of such indicators as gross national product, personal income, and other measurements of economic activity, all of which depend upon the activities of the Federal Government and the effect of the Federal budget.

I might comment that the matter of time is important in obtaining this material as the budget cycle in State governments parallels the Federal cycle. The States are not able to wait until the Federal budget is submitted to Congress to make their estimates of revenues for future years.

In addition, many States are restricted from borrowing so that accuracy in revenue estimating is required. We are working with the personnel in the Federal Bureau of the Budget to explore this avenue to see if more pertinent data cannot be made available from the Federal Bureau of the Budget to the States early enough to enable us to take Federal policies and spending levels into account in arriving at our State revenue estimates.

The fact is that we need the information on the general economic assumptions being used in the Federal budget at the same approximate time that the Federal Bureau is developing it and evaluating their Federal budget program.

In addition to the obvious impact of Federal spending on gross national product, in many of the States the impact of Federal programs and plans is one of the most significant aspects of State economic planning. This is certainly true in Kansas.

A few quotations from the 1962 Report of the Governor's Economic Development Committee "Economic Development for Kansas—An Action Program" will indicate the impact on a State such as Kansas of Federal programs. The following statements are pertinent:

> A report prepared by the U.S. Government shows that Kansas had 30.2 percent of its total manufacturing employment engaged in defense production in 1960. This was the highest percentage of any State in the Nation.
>
> Kansas, in 1960, had 35.7 percent of the total military population of the west north central area. During the past 8 years (1952–60), Kansas military population has declined 20.5 percent while that of the west north central area has declined only 3.9 percent.
>
> Actually, the area showed an increase in military population of 5,000, while Kansas lost 9,000. The percent lost in the area was therefore caused by the Kansas decrease.

These two statements give some indication of the importance of Federal programs in arriving at the behavior of the economy in Kansas, and I would assume that this would be true for any other State.

Briefly, in passing, I would mention the action of our recent legislature in establishing in our State government an office of economic analysis with a chief economist, council of economic analysis and an economic research advisory committee. The agency will coordinate and use its resources and functions for the purpose of encouraging a maximum of economic growth and development and provide the people of the State with "extensive and, insofar as possible, integrated knowledge about the economic performance and the prospects for the economic growth and development in the State."

One of its specific duties will be to "appraise the impact of Federal programs and activities of or in other States as they affect the economy of this State, and to advise the Governor of such appraisals and evaluations."

Again in passing, I would like to point out to the committee the research in State budgeting being conducted by the Committee on Budget Research of the National Association of State Budget Officers which may be of value to this committee and others interested in comparing the State budget processes with that of the Federal Government.

In reading the excellent report prepared by the Subcommittee on Economic Statistics "The Federal Budget as an Economic Document" I noted that the committee staff had to correspond with various States to obtain information on the capital budget procedures in State government.

The Committee on Budget Research of the National Association of State Budget Officers has been functioning for several years and has been encouraging universities and other research organizations to do research in the area of State budgeting. Prof. James W. Martin, of the University of Kentucky, has issued two monographs on State budgeting procedure (No. 1, "The Organization, Role, and Staffing of State Budget Officers," and No. 2, "Preparation, Review, and Execution of the Operating State Budget").

Dr. Martin now is working on a report on capital budgeting. In addition, the committee, through the Council of State Governments, will publish in the near future a manuscript by Prof. A. M. Hillhouse, of Cornell University Graduate School of Business, on "State Capital Budgeting."

I am sure this publication, as well as the publication of the University of Kentucky and other research studies sponsored and encouraged by the Committee on State Budget Research, will add to our knowledge of State budgeting and hence will be useful in reviewing whether some of the techniques used by the States will be applicable to the Federal budget process.

As president of the National Association of State Budget Officers, I would like to extend an invitation to the staff of the Joint Economic Committee, as well as to the members of the committee if they should be so inclined, to attend the annual meeting of the National Association of State Budget Officers, August 18–22, 1963, in Portland, Maine.

Some of the topics that will be discussed at this meeting include such subjects as (1) "Strengthening Our Federal System Through Improved Intergovernmental Relations"; (2) "Establishing Liaison Between State Budget Officers and Federal Program Agencies"; (3)

"State Capital Budgeting and Planning"; (4) "A Workshop on the Liaison Program With the Federal Bureau of the Budget," and other similar topics.

As your committee expands its work participation by the committee staff in the deliberations of the National Association of State Budget Officers might well prove valuable to the committee in their understanding of the role of budgeting in the States and the interrelationships between the Federal budget and the State budgets.

It would be presumptuous for a State budget officer to come before this committee and indicate that he could change the format of the Federal budget to improve its utilization as an economic document. Some observations, however, may serve as a basis for discussion and further study.

Our Kansas budget, and I believe most State budgets, have been converted from budgets dealing with new obligations (or new appropriations) into expenditure budgets in which we attempt to project the rates of expenditure by programs for the ensuing periods.

Because our State is not able to borrow to meet obligations, we are required to project our expenditure rates and our revenue receipts by months and quarters to assure adequate operating balances. We have found many advantages in using expenditures instead of "new obligations" as the basis for our budget. I would feel that a change in the direction of expenditure budgeting might have merit. It is not the new obligations that affect our State's economy but the total expenditures of our State agencies that determine the level of agency programs and the effects of these programs on the economy.

Let me point out, however, that in placing our major emphasis on expenditure budgeting, we have not eliminated the use of information concerning new appropriations (or obligations). In fact, for some purposes of analysis the information on the level of new obligation authority is a better basis of measurement, for example, in planning the capital budget. No one method, no one schedule or index, can supply the information required to make intelligent decisions on the budget.

Long-range budgeting, both for operational expenses and capital projects, is becoming more necessary to plan the State's fiscal programs. We are all experimenting in this field. We, in the States, are following with interest the efforts of the Federal Bureau of the Budget in this regard.

Budgeting by the phases of the moon, the 100-yard-dash system of budgeting, is becoming less than adequate to meet the planning and programing needs of modern government. The full impact of electronics on this problem is one of the fascinating frontiers that is before us. Whether it is a "New Frontier" I do not know.

The distinctions between operating budget, grants-in-aid, and capital budgets found in many State budgets perhaps may be applicable to Federal budgeting to an extent not now utilized. While the staff report of the committee did not take a position on this proposal (a current budget and a capital budget), the inclusion in the report of an extensive appendix dealing with the subject would indicate that the committee may be interested in further work in this area. The studies that I mentioned before may be of help to the committee in this connection.

Most of all I would like to see more projections, either in the budget or in additional publications of the President's Council of Economic Advisers projecting the national income and product accounts, not only for the budget year but for more extended periods in the future. These studies would be helpful to the States in their efforts in long-range forecasting.

I would say, in passing, that much of the development of more meaningful economic statistics and forecasts may be better placed in an agency other than the budget officers. The pressure of the budget cycle on a budget officer at either the Federal or State level is such that some analysis must come after the budget is published.

We tend to expect too much from our budgets. But the room for improvement in our budgets is sufficiently large at either the Federal or State levels.

The use of economic forecasts are so much a part of the budget process that budget offices cannot divorce themselves completely from either the development or use of economic statistics—my point is simply that there is more to the problem than the production of the budget document. Budgeting is a process of which the budget document is only one phase.

The State budget officers, through the National Association of State Budget Officers, stand ready to cooperate with this committee and its staff in any studies that can be undertaken which will improve either the Federal budgeting program or the States budgeting programs. You have only to call on us.

Thank you.

Senator PROXMIRE. Thank you very much, Mr. Bibb.

The next witness is Mr. Fred Schuckman, director of the budget of the State of Wisconsin—I mean, Connecticut.

If I am going to make a slip that is a good one to make.

STATEMENT OF FRED A. SCHUCKMAN, DIRECTOR OF THE BUDGET, STATE OF CONNECTICUT

Mr. SCHUCKMAN. Mr. Chairman, I once lived in Wisconsin.

Senator PROXMIRE. Well, that is appropriate then. We would like to have you there now.

Mr. SCHUCKMAN. It is an honor and a privilege to be invited to testify before this subcommittee. It also is a responsibility which, in my case, I have interpreted as being primarily that of a State budget officer reviewing the recent developments and proposals with reference to the format of the Federal budget as they might affect State budget procedures.

However, in commenting briefly upon the specific changes recommended in chapter 9 of the excellent study paper prepared for your subcommittee last year, as it has been suggested I do, my role probably should be construed as that of an interested citizen who has done some teaching in the fields of government and economics, was one-time staff member of the Bureau of the Budget, and has had some contact with budgeting in foreign countries, rather than simply that of a State budget officer viewing Federal budget concepts as they directly bear upon State budgets.

I would like to say at the outset that I came here with some confusion as to exactly what it was that was expected of us.

Whether this was to be more in the nature of a critique of a study paper that you people prepared last time, and proceed from there, or whether it was in an effort to perhaps suggest some things that we in State budget work do that might be applicable to the Federal Government, I was not entirely sure.

I made a few assumptions, knowing my colleagues would be here and knowing the kind of statements that they would present, and I will not repeat what they say.

One assumption was whether we could really contribute something.

Senator PROXMIRE. I think that was an intelligent assumption, too, and the objectives that you mentioned are appropriate and desirable.

Mr. SCHUCKMAN. With reference to the first, to the study paper that was prepared last year, I would simply like to say that each of the 14 specific recommendations contained in chapter 9 of "The Federal Budget as an Economic Document," as well as the two general proposals, would, if adopted, make the Federal budget a more meaningful document. However, insofar as making any particular contribution to State budgeting is concerned, only a few of the recommendations would, in my opinion, be significant.

It so happens that my State operates under a biennial budget with biennial legislative sessions. As we begin the budget cycle we are looking 3 full years into the future. Our first real position fix in submitting a tentative budget to the Governor must, by law, be made almost 8 months in advance of the beginning of the biennium to be financed. Again, by law, the Governor must submit his recommended budget to the legislature some 4½ months before the beginning of the 2-year period covered by his recommendations.

Coupled with this is the legal requirement to submit a balanced budget as well as to take every step possible to avoid a deficit as the result of the biennium's operations. Further, in the case of the State, any deficit which may exist as of the close of any fiscal period automatically becomes a prior lien against the revenues of the succeeding fiscal period. Thus a failure to achieve balanced operations usually requires the imposition of new or increased taxes immediately. The State cannot defer action in such case. "The moment of truth" must be faced then and there.

Senator PROXMIRE. May I interrupt you here to ask this question? Does this mean that you were not to incur debt for a period of a year or two?

Mr. SCHUCKMAN. Not for operations; no. We may incur debt for capital projects but we are supposed to maintain a balanced budget and, as I say, if we miss at all in preparing a balanced budget the deficit must be taken care of——

Senator PROXMIRE. Is that a constitutional requirement?

Mr. SCHUCKMAN. It is primarily statutory. and then custom, but we are not legally able to indulge in deficit financing as a policy.

It is true that occasionally——

Senator PROXMIRE. When you say "legally" that means that any session of your legislature could change it?

Mr. SCHUCKMAN. They could; yes.

Under such circumstances, the adequacy and realism of both revenue estimates and expenditure requirements become really critical. The impact of the Federal budget upon the national economy on the one hand and upon various Federal program areas on the other must be interpreted by the State budget officer and, hopefully, be translated into the probable effect upon his particular State.

Unfortunately, the matter of timing seems an almost insuperable obstacle to the use by the State of the Federal Budget itself in an effective way. We, for example, start our budget projections in the early fall of each even-numbered year. Our work on the State budget for the biennium beginning July 1 of each odd-numbered year must be almost completely wrapped up by the time the Federal budget is released.

As far as revenues are concerned, we do participate in the revenue-estimating conference in the fall at which various Federal officials, including Bureau of the Budget representation, are in attendance. These, of course, are helpful, but there usually is something less than complete unanimity among the experts and the Bureau people cannot, nor can we expect them to, make any commitment as to the particular estimates which will be used in the Federal budget to be submitted the following January.

And this is in line with one of the recommendations made in your study report.

Nonetheless, it would be most helpful to have, even belatedly, not only the projections in the budget document but also the economic assumptions underlying them.

Useful, also, would be the incorporation of executive agency data on economic impact, as suggested in your study document. Estimates of economic impact of new policies by calendar quarters projected for 2 years certainly would be of value. Most certainly, the publications of current data at least quarterly to indicate any changes in Government fiscal policies or assumptions would be most welcome.

Turning for a moment to the expenditure side of the coin, I would like to point out that present Federal budgetary and appropriation practices with reference to grants can pose real problems to State budget officers. Some, but I would hope not all, such problems may be inescapable.

Nevertheless at least passing reference to a few of them may be in order. Perhaps the chief problem lies in timing. At the time when they must adopt their own budgets, including programs or functions for which Federal matching funds are or presumably will be available, States normally are in the dark as to actual State requirements.

Where full initial financing must be by the State with the Federal contribution coming later as a reimbursement, the difficulty is compounded. And for those States which adopt budgets only biennially, the situation becomes even worse. If some greater degree of predictability could be introduced, as has been done for highway grants, States could do better and more intelligent planning of their own fiscal affairs.

A second general area upon which comment was invited by your subcommittee was the applicability of State budget practices to the Federal scene. Frankly, I am not at all certain that much of value can be offered by me. There are certain rather basic differences which can be noted and there may be elements of transferability. The full implications of any possible changes should, however, be thoroughly explored.

One point of difference worth noting is one commented upon in your own study paper, that is, the lack of distinction in the Federal budget between capital and current operating items. No position was taken in your study upon this point although a rather lengthy appendix on the subject was included.

My feeling is that the Federal budget would be a more comprehensible document were some such distinction to be made and that its value as an economic document probably would be enhanced.

I would like to add I certainly would want to make it clear that, at least to me, a capital budget and borrowing are not necessarily synomyous.

This apparently is a feeling that many people have and one that was expressed, I believe, by one of the first witnesses to appear before your committee in this series of hearings.

A second point involves the number and type of funds and a corollary question of the extent to which expenditures must be authorized by appropriations. In my own State, for example, we have made every effort possible to reduce the number of operating funds.

While we have not yet achieved the status of one or two of our sister States in getting down to one, we have moved over the past few years from almost 200 to a bare handful. The only operating fund of any consequence now outside our general fund is the highway fund which enjoys dedicated revenues which apparently are sacrosanct.

The elimination of the previous myriad of special funds has made our budgeting and fiscal operations generally much more understandable and manageable. Incidentally, it was accomplished, in some instances, in the face of the strenuous opposition and the dire threats of certain of the program people in some of the Federal agencies.

I might add that none of the dire threats have really come to pass when we faced up to them, but a lot of people had a considerable amount of timidity injected in their approach to this.

One of the byproducts of this change, initiated largely for administrative and management reasons, has been the much more effective scrutiny now given many of these functions and programs by the legislature. By putting practically all operations, except highway, in the general fund, we also have substantially achieved the situation where all appropriations are gross, not net.

This, of course, was another one of the points that was made in your study paper.

A major point of difference between the Federal approach and that of most, if not all, States is the use at the Federal level of the obligational authority. We operated upon essentially a cash basis. Although future requirements may be projected, no authority is granted to make any actual commitments except through the appropriation process. In this connection, the State practice of separating current operating and capital requirements must, of course, be recognized together with the use in many cases of bond authorizations to finance major capital projects.

A major difference also lies in the legislative handling of the budget. We seek to have the budget include all executive recommendations for expenditure. It is, therefore, a unified and complete plan as submitted. The legislature handles it in the same manner.

While we also use subcommittees of the appropriations committees, which incidentally normally meet and hold hearings jointly, separate appropriation bills are not reported. The entire budget is handled as a single appropriation bill, all subcommittee reports and recommendations having been integrated by the full committee in executive session. Further, any spending proposals involving spending introduced outside the Governor's budget, may be heard initially by subject matter committees but then are referred, together with the hearing transcript, to appropriations.

Normally no final action is taken on them individually, such action being reserved until consideration has been given them all. The usual practice then is to consolidate all those given committee approval into a single appropriation bill which we call the "baby" budget.

The net result is that very few spending proposals are considered or acted upon singly or out of context.

If a budget is truly to serve its fundamental purpose it should represent a complete, balance, and integrated plan. Regardless of how well a budget may be formulated by the executive branch, what actually emerges will be no better than the legislative treatment accorded it.

The present piecemeal manner in which the Congress handles what was presented as an integrated fiscal plan almost inevitably, in the opinion of myself and others, negates to a considerable degree one of the basic concepts of sound budgeting. This is the more surprising and regrettable since the desirability of congressional consideration of and action on the budget as a whole was so clearly recognized in the Reorganization Act of 1946. In closing I would like merely to observe that in the matter of legislative budgetary action the practice of my own State, for example, conforms much more closely to the precepts of the Reorganization Act adopted by the Congress than does that of the Congress itself.

Senator PROXMIRE. Thank you very much.

STATEMENT OF PAUL WILEDEN, BUDGET DIRECTOR, STATE OF MICHIGAN

Senator PROXMIRE. Our last witness is Mr. Paul Wileden—is that correct, sir?

Mr. WILEDEN. "Wileden."

Senator PROXMIRE. Mr. Paul Wileden. I beg your pardon.

And, Mr. Wileden, you are the budget director of the State of Michigan?

Mr. WILEDEN. That is right, sir. I am also assistant controller and director, budget division, Michigan Department of Administration.

Senator PROXMIRE. We are happy to have you here.

Mr. WILEDEN. Thank you, Mr. Chairman. It is a great pleasure to be here.

The subject of this congressional hearing is, indeed, I think, an important one. This fact is underlined by the highly qualified group of witnesses who have thus far appeared before you and are yet to testify.

It is a privilege to join in contributing some observations from the viewpoint of State Government regarding the influences of budget processes on the national economy.

As end man on this afternoon's panel group, I feel my role has two apparent characteristics.

One can be brevity and the second, summarization, perhaps by coincidence, of the main points already made by my colleagues in their earlier presentations.

Therefore, the following comments will center around three main points: first, the relative significance and role of State budgets in our economy; second, utility of presently structured Federal budgetary data to States; and lastly, some comments on economic development at the State level. It is hoped that there is a minimum of overlap or duplication of earlier presentations by my colleagues from the other State budget offices.

At the outset it is well for us to note the relative significance in the economic fabric of governmental finance at the sub-Federal level. According to a recent count there are some 100,000 governments operating within the framework of our national economy including, of course, the 50 States. In the past decade these "other governments" have expanded dollarwise more rapidly than gross national product, increasing from less than 7 percent to more than 10 percent of GNP.

During this same period nondefense Federal spending has decreased in percentage relationship to GNP although, we all recognize, total Federal spending, of course, represented a considerably larger proportion of GNP than did State and local governments.

Within the State and local government sector we should also note that, while governmental expenditures in 1950 split almost evenly between the State level and local units, the States have now dropped somewhat behind the total expenditures of local governments. Thus, State budgets today, while still relatively important, in dollar terms are not experiencing a rate of growth as rapid as that of our local governments.

And I think this represents a rather interesting indicator of our local governmental economic fabric.

Turning now to State budgets as economic policy tools, it is generally recognized that they have serious limitations. First of all, a State does not represent an adequate economic entity; its share of the total economy is too fragmented and small. Further, the States possess neither the legal powers and responsibilities nor the fiscal capacity to exert a very effective impact on the distribution or stabilization of income and employment. There are other limitations on the States capacities to coordinate in any extensive manner as countercyclical fiscal forces.

A recognition of these State-level limitations makes it vitally important that advantage be taken of every opportunity at the Federal level for implementing or contributing to economic policy objectives which, of course, are becoming increasingly world oriented.

Yet, so long as we have multilevel government, attention must be given to the implications of political federalism for effective fiscal and economic policy. About the most which may be contributed by the State budget process is to be reasonably in phase with the promotion of national goals.

For many State purposes, data now in the Federal budget can be generally helpful.

At least we, in Michigan, use it a great deal.

In broad terms, the information on gross magnitudes of Federal spending and functional distributions, as well as shifts in program emphasis, is of value to State budget formulation. Numerous technical schedules, such as the special analysis on Federal aid to State and local governments, also serve specialized needs within limited applications at the State level.

In general, a major drawback for greater usefulness of these data centers on timing factors. For one thing, the short-range value of only a 1-year budget period does not prove a fully adequate basis for comprehensive program planning and implementation.

An indication of projected levels of near-term program activity and objectives, within which the annual budget fits, would be of material value. At the same time near-term objectives are developed it would be extremely useful if they could be identified with available measures of the social wants to which the Federal budget formulations relate.

Another timing shortcoming stems from the frequently protracted delay in final enactment of the Federal budget—and, as Mr. Schuckman pointed out, it is a rather fragmented process—leaving agencies and programs at all levels without positive assurance of ultimate disposition until after the related fiscal year is well underway.

The impact of such occurrences can take several forms of irretrievable social loss, not to mention the administrative complications induced by the uncertainty and delay.

There are, moreover, a number of limitations on the Federal document in terms of economic characteristics. Experience has demonstrated that an ideal budget system to meet multivariate user interests, and keep it in one bookshelf, at least, may not be readily achieved. Those of us who have been engaged in the field of public budgeting are painfully aware of these complications as well as of the complexities and limitations to progress and desirable change in the budget process. Yet the possibilities for improvement in any endeavor are always worth further consideration as situations change.

As now constituted the Federal budget is largely input, rather than output, oriented. And aggregate data are not available in terms of types of expenditures—that is, payrolls, equipment, and capital outlays—or of sectors of the economy—that is, agriculture, manufacturing, et cetera—within even broad areas of geographic distribution.

Such economic characteristics would be of significant value in the development of a much needed system of economic information for subareas such as States or regions.

In other words, it would be an element or a component of a gross State product.

One immediate practical application for this type of information relates to the more sophisticated attempts to refine budget revenue estimates through the construction of state or regional econometric models.

We have experimented in Michigan, and we find that there are some potentials here but we are hampered by the lack of data.

To a certain extent, the urgency for achieving more comprehensive economic data increases with each new advance in automatic data processing. With these tremendous new tools the whole scope of economic analysis appears destined for great change within the relatively near future.

The rate of progress will depend greatly upon the availability of adequate detailed data to feed into electronic computers in order to project vital information needed for informed future economic decisionmaking.

In this connection, leadership by the Federal Government in the use of economic character classifications for budgetary and fiscal policy purposes certainly merits mention. While State and local governments may have only limited need, or use, for these classifications, which rest on national income accounting, the approach seems to hold considerable promise for formulating economic policies of stabilization, capital formation and better living standards.

Although having some limitations and presenting some problems, an economic character classification for gaging the impact of the Government's budget on the economy can be particularly useful in analyzing the consequences of public policy decisions in terms of claims on the various sectors.

As component parts of the national economy, the States naturally have an interest in the contribution which this type of budgetary classification may make to improve public policy decisions through better appraisal of the impact of governmental activities.

A rising interest in economic development has been reflected in postwar State budgets despite some of the obvious limitations cited earlier. In part, these results from an awareness that a vibrant economy is of fundamental importance to the social well-being of all, and that while State government by itself cannot provide true and lasting economic expansion, an efficient and effective public administration constitutes a major requisite condition for economic development.

I think we all recognize that abundant resources (natural, human, material or fiscal) do not, of themselves, assure successful development of any enterprise. In large measure it is the manner in which these resources are managed that steers the course to success or something less than the desired goal of avoiding economic waste through under- or over-utilization.

At this point, of course, we are faced with issues which center on normative values and extend well beyond the scope of the present discussion.

State governments have a very important responsibility to increase the effectiveness of the determinants of economic growth consonant with accomplishments of society's overall goals. Organizationally, this leadership is reflected and implemented through the budgetary process. Functions include conserving and developing natural resources, providing a proper environment for production as well as stimulating and assisting the private sector to develop properly and adequately.

Through these broad functions State governments can contribute either positively or negatively to the long-run advancement of the economy. The prime challenge is job creation through a favorable economic climate, governmental financial integrity, creation of a strong consumer market attraction and establishment of a forward-looking, modern governmental structure.

And I might inject that Michigan may be in a position of a potential leader here in view of the fact that a new State constitution has been adopted as of April 1, which will require, under this new document, the restructuring of our administrative organization into 20 principal departments.

There is great need at top levels——

Senator PROXMIRE. How many departments did you have before?

Mr. WILEDEN. We had a little over 100. It is hard to get a precise count.

Senator PROXMIRE. Nobody knows?

Mr. WILEDEN. It depends on the definition, sir.

One of the concluding points that I would like to observe, and it was pretty well covered before, is that there is great need at top levels of State government for enlightened policy decisions in terms of adopting an orderly program for economic progress.

Thank you very much.

Senator PROXMIRE. Thank you. I noticed that you omitted your last sentence.

Mr. WILEDEN. I'm sorry. I was omitting it unintentionally. I will put it in the record.

The challenge is, as John Galbraith notes in his "Affluent Society," how to break with the conventional wisdom of the past and accept change as well as overcome apathy.

Senator PROXMIRE. Very good. I think that is a good sentence to end on.

Mr. Bell, in your presentation, you begin to discuss something that I think all of you gentlemen referred to, and that is the problem of timing.

I served in the State legislature in Wisconsin briefly, and I ran for Governor several times but never made it, but I was very conscious of the fact that, as you say, the budget has to be made up, I imagine, by budget directors in the summer of an election year or at least of the even year, and then the Governor-elect, who has just finished a hard campaign and has, in many cases had no State experience at all, and in some cases very limited State experience, comes in and it is his budget.

This is common, I think, in our country. I know it is true in our State, and in most States this is the case.

He then goes to work on his budget and the next few weeks before the legislature convenes he has to decide what he is going to do for the next 2 years, including part of his second term or his successor's term.

WHY IS THIS A FEDERAL PROBLEM

Is not the principal problem a state problem of somehow working out some more rational approach to this situation?

The Federal Government, as I see it, can contribute better than it has perhaps in the way in which some of you gentlemen have suggested, but is not the basic problem, that you do start in July to work a plan to take effect over a period of 30 months, as it has been said, in advance?

Mr. BELL. Yes.

Senator PROXMIRE. Thirty-six months.

Mr. BELL. Pretty close to it.

Of course, the Governor elect himself has quite a problem, however, I think it is comparable to the Federal in that the, as I understand it, Federal budget is presented by the outgoing President every 4 years.

In 1961, as I recall it, President Eisenhower delivered a message and submitted a budget and 2 weeks later he was out.

At some later date then President Kennedy, I believe, made some——

Senator PROXMIRE. That works pretty well. That works pretty well, it seems to me, here.

Either of these things have their weaknesses. You can say people choose a new party or choose a new man, and they want a new policy but it is just so extraordinarily hard to have any kind of efficiency with this arrangement, and if the new man wants a new program, especially with the honeymoon he can usually get it.

I mean, if he wants to make changes in his predecessor's budget.

So that the first Kennedy budget would be, after he has had a chance to get in and work for several months——

Mr. BELL. I guess that may have some advantages.

Of course, the Governor usually has relatively few changes he would make.

Senator PROXMIRE. Well, in Vermont I suppose that that may be true but in some of the two-party States we have a pretty drastic difference or shift in opinion.

I am sure Vermont is a two-party State——

Mr. BELL. We have a two-party State now, yes.

Senator PROXMIRE. Yes. We always think of Vermont in that immortal phrase of 1936 "As goes Maine so goes Vermont," when those two States alone remained faithful to the Republican Party.

Mr. BELL. I tell you, it is still primarily Republican, but we do have a Democratic Governor, and I think he particularly felt this problem when he came in.

But the problem he hits is as you say, he is trying to make some decisions very quickly, and it possibly could be that the State's budget cycle should be delayed somewhat so that the budget is submitted to the legislature perhaps in April or May.

However, traditionally, all State legislatures by their constitutions meet in January and many of them have very limited sessions.

Legislatures are allowed, by constitution, in many States to meet only 60 days or 90 days or something of this sort. Vermont happens to be unlimited in this respect.

They can go on as long as they want. But this is one aspect that ties into the whole constitutional structure.

The setup of the legislature, I think, goes back to the days when legislators came into town during the winter because that was when they did not have to plow the fields, and the whole cycle of elections and taking office, and so on, I think, is affected in this process.

But I agree with you that it is an irrational process now.

Senator PROXMIRE. And the prime correction has to be in the State, although the Federal Government can do a number of things that can be of some value——

Mr. BELL. Concerning our discussion of the Federal-State relationship, I do not believe you were thinking of this particular aspect, although possibly—we know Congress does not make its decisions often until August and——

Senator PROXMIRE. Last year it was October.

Mr. BELL. If it could be changed, it would be better, but this would necessitate a recycling and a rethinking of the entire State legislative process.

Senator PROXMIRE. Mr. Schuckman, did you want to comment?

Mr. SCHUCKMAN. Well, I think on this, that this matter of the timing we concede is awkward.

However, there have been some advantages and I think an effort has been made to get some kind of integration of fiscal year periods because of the way a lot of these programs are run.

I think it would cause some problems if States, most of which use a July 1 through June 30 fiscal year, as does the Federal Government, try to change very drastically.

But I think there are a couple of things that might be considered.

I know, in putting together these comments, I found myself, for example, in somewhat of a dilemma at one point. There is talk about the obligational authority of the Federal Government, and many people look upon this with some trepidation, as confusing the issue and letting things get a bit out of control. Yet looking at it from the State's standpoint, for instance with respect to grant programs the place we would have the least difficulty would be where the obligational approach is used.

For example, the highway program is much more predictable because of its being set in advance. So at this particular juncture one finds himself torn between a point of view with respect to the efficacy of something from the Federal standpoint and a contrary feeling as to the effect upon the State, but I do think that there is one thing that perhaps would help.

This is something which has bothered me for a long time. It bothers me somewhat in the approach of this study committee and others. This has been what appears to be some confusion of a budget and an accounting statement or a report.

Now, I do not think we can expect that the Federal budget cycle is going to be changed very drastically. There are certain things that are not going to be nailed down until the budget is presented; in fact, even subsequent to that, until the Congress has acted.

There are some things, as a matter of information, which might be of use to a State in trying to do its work that perhaps could be released somewhat earlier. Certainly insofar as any of the economic data are concerned upon which decisions or conclusions would be reached, that would be true.

I do not know that the answer to that is trying to include all of these things in the budget document which, according to the calendar again, is not going to be presented by the President until sometime in January.

Senator PROXMIRE. Now, the economic data on which predictions are made, that is on which you make your assumptions and on which you base what your taxes or your tax rates are going to bring in——

Mr. SCHUCKMAN. Yes.

Senator PROXMIRE (continuing). Now, this is something that, of course, is reported regularly in the economic indicators and in the publications by various agencies independent of what the Congress may do or what the budget may do.

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Is that not correct?

Mr. SCHUCKMAN. Well, this is true except that I cannot help but have a feeling that in the eyes of some people at least the inclusion of this, in one single document, namely the Federal budget, is a goal to be sought.

I think some of these data will have to be handled outside of the budget as a document.

Senator PROXMIRE. Let me ask you gentlemen if, in the estimates that are made of revenues, if a great deal of reliance is placed or can be placed on them in view of the timing of the report of the Council of Economic Advisers, the President's economic report?

Now, that comes out in January of each year. Would it be helpful if there were a second report?

We have discussed the possibility from our standpoint of having a second report around July 1.

Would such a second report in July be helpful?

Mr. SCHUCKMAN. I think they may be, but there again you start out with any budget making certain assumptions which may or may not prove out to be accurate.

At least, however, you can identify the assumptions upon which you make your projections and then you know how far you have to qualify the projections as actual experience develops against which to check the assumptions.

You know the extent by which you are likely to be off, and the sooner you know this the more quickly you can try to make whatever adjustments are possible so that you can come out as close to a balance as you are able to do.

Senator PROXMIRE. All right.

Now, Mr. Bell, in your statement, you say "The use of budget figures to show economic impact is further vitiated because the total appropriated budget may not all be expended within the State."

This is indicating that in Vermont you cannot give very great weight to the economic impact of your budget since what happens in Massachusetts or in New York and so forth, may be more important to your economy.

Mr. BELL. That is true.

Senator PROXMIRE. Does this mean that any estimate made of the effect of State spending on the State economy in a State the size of Vermont would be of little value?

Mr. BELL. I think it could be made.

How closely, I am not sure. I think I pointed out here that we have just not made any such estimates, so that we are just vaguely aware of these effects and while I mentioned the impact of the State budget on the total State economy is not as much as the Federal, it is fairly substantial and would have some effect on it.

Yet, we do not have the statistical information, in our State at least, to really determine what that effect is, and it is just one of these areas—I mean, I think your whole study points out to me things that we ought to be thinking about, too, in terms of improving our own statistical information and economic analysis.

Senator PROXMIRE. I imagine that one of the programs in all States that would have the most direct and largest economic impact would be the highway program and, of course, there it depends on what is brought in by gasoline tax, what the Federal Government provides with its share——

Mr. BELL. But even there you do not know how much of that is expended within the State.

In other words, Vermont being such a small State, I think on the interstate program we have not had one Vermont contractor obtain a contract even though there had been a definite attempt to get them by keeping the job, in highway miles, small for each contract.

And yet the contracts have been going to Canadian firms or to Massachusetts or to some other place.

Now, these people hire local labor and they buy some materials locally and some outside and I just do not know how much impact there is, but all of the money does not stay in our State.

And so we cannot measure that effect.

Senator PROXMIRE. How about the educational programs?

Mr. BELL. Well, certainly most of that is salaried—aid to the local schools would be, of course—I would say the big majority of it would go to teachers' salaries.

Senator PROXMIRE. Well, then, when you either substantially increase the number of teachers or increase the teachers' salaries, is there consideration given to the effect this will have on the Vermont economy?

Mr. BELL. No; there hasn't been.

Senator PROXMIRE. Except the negative aspect, that it means more taxes.

Mr. BELL. Right. But at the same time, the other aspect, we need better schools.

Senator PROXMIRE. Now, along the same line, you say—

It is difficult to estimate correctly the economy for 1 year in advance, let alone 2. We can often make budgetary decisions which will turn out to be in contradiction to economic needs.

Give me an example of this.

Mr. BELL. I don't have a concrete one of what has actually happened. I am thinking in terms of—supposing the State did make an economic—a budgetary decision, say, for school construction, and possibly consciously based this on the fact that there was a predicted downtrend in the economy, that we ought to step up school construction over the next 2 years.

Possibly during the second year of that biennium, the upturn would come in, and we are predicting a downturn, and we are spending more money for the schools than we needed to to provide a boost to the economy.

Senator PROXMIRE. I see.

So that in this particular example that you give, you not only would be boosting the economy, but saving the Vermont taxpayer money by waiting until the drop in economic activity, when you could probably get what you want a little cheaper.

That would be a consideration.

Mr. BELL. Yes.

Senator PROXMIRE. Well, it might be the side effect. But it would be the consideration that probably would motivate you. Isn't it doubtful that you would be motivated in your budget decisions by the desire to help promote national economic goals? Since the viewpoint of public officials in Vermont is that the State is so small, that you cannot have a serious effect on the national economy, and not a very great effect on the Vermont economy.

Therefore, you would decide to build a school, when you can borrow money most cheaply, and when other cost factors are at a little lower ebb.

And in doing this, of course, you would be contributing to the economy, too.

Mr. BELL. I would say in practice the decisions are made on these factors you mentioned, plus, you might say, almost the emotional desire for better schools, better education.

The economic factor is not really used very much. I think perhaps if we developed statistics and projections on the effect of State programs on the economy, perhaps we could make more decisions partly on an economic base.

Senator PROXMIRE. That is interesting.

If you can get that kind of an attitude in a State your size.

Mr. BELL. We don't have it yet.

Senator PROXMIRE. Now, you talk about Governor Hoff's program, and you talk about inventory of State resources.

Would this include manpower skills, facilities?

Mr. BELL. No. To some degree—I mean in certain areas like agriculture, as to what are the resources there.

It doesn't go down into all the occupations. But in a broad area, such as industrial facilities and educational facilities, highways, population trends.

Senator PROXMIRE. The purpose of this is so that various firms that might move into Vermont would know what the resources were that are available there?

Mr. BELL. This may eventually develop. However, the original purpose is to try to develop a picture of the trends of the whole economy which we hope will tie in with governmental structure—governmental structural needs, such as sizes of school districts and the administration of highways.

This is, I would say, the immediate purpose.

The Governor is trying to get something done in his own term, 2 years.

So he has an immediate purpose of trying to do something structurally, and call a special session next year to take up these problems.

However, over the long run this 701 program would provide the information along the lines you mentioned, too—urban planning grants.

Senator PROXMIRE. There is no similar overall Federal program?

Mr. BELL. No, not that I am aware of.

Senator PROXMIRE. This would be carried into the budget, your Vermont budget?

Mr. BELL. Not consciously at this point.

Senator PROXMIRE. No. But this is what you would have in mind eventually.

Then one other question. You say:

referring to the aid to dependent children program—

> We do not have a free choice of priorities,
> in this situation, because if we fail to follow on the Federal aid to the dependent children program, we will lose the Federal aid we are now receiving.

Just how do you solve this? What do you suggest, so that you will have more discretion? How do we change this?

Mr. BELL. Well, I suppose here is a question of—in fact, I don't know whether I can propose a good solution. But you have an objective.

Of course, the State also has an objective of carrying on many programs, of which ADC happens to be one.

Now, I would think here that the State should be allowed, if it wished, to continue ADC on its current level—probably try to improve, as we always are trying to improve the administration of it; but not necessarily stepping it up to the criteria which the Federal agency is proposing to be established.

And in other words, we would be able to continue this on a 50–50 basis without stepping up our own program.

As it is now, we either—as I understand it, this is what they keep telling us—I haven't checked it out in detail—but it looks like if we don't go all the way, we lose all the grants that we are now entitled to.

In other words, we have to step it up in order to continue the program, is what it amounts to.

The point is the Federal grant in aid programs are always geared for program A or B or C. There is no coordination among them and with all the other State activities where the State people want to make or decide their priorities, as to which they would rather do.

Senator PROXMIRE. Dr. Moor wants to follow that up.

Mr. MOOR. Just one question, which stems from the point which you made in the paper.

Let's say that a new Federal grant in aid program was introduced, or there was a change in an existing program, and that the change by the Federal Government stimulated you to make some changes in your State expenditure programs generally.

Could you then at some subsequent point inform the Bureau of the Budget or some Federal agency as to the nature of the change which you had to make in other expenditure programs in order to go along with, let's say, the ADC program, or the new Federal grant in aid program?

Mr. BELL. I don't believe you could say concretely, because when it comes to, say, a budgetary decision by a Governor 2 years from now, it might be very difficult to say that we cut one program out because of another.

Mr. MOOR. I take it the rest of you would agree with him.

Mr. BIBB. I would say so.

Actually, this gets down to, when you are putting a total package together, why did you leave the last item out?

There are a lot of variables in the total package. I am sure you could not identify one project that was left out related to any additional requirement.

I think most of us know this occurs.

Mr. SCHUCKMAN. Of course, I would simply like to say this: I think the very nature of State programs and of State operations generally, has to be taken into account.

We, I don't think, for the most part have as much potential flexibility in some of these things as perhaps the Federal Government does.

For example, a very large part of our State budget is for institutional care, for operating institutions.

These are not things that you can jump up and down very readily. You have commitments that make it very difficult. So that when you are faced with a situation of this kind, there are not many places from which you can pick up extra dollars.

There are very few things that you can really drop.

So, as I say, there is a degree of rigidity in that sense in a good many of our operations that precludes any easier adjustment.

Another thing is common to most of our States—I suppose we are all in the same boat to some extent in a degree. For example, in Connecticut right now, we are not the worst in this respect—over 60 percent of our total general fund budget goes into fixed charges, so-called, grants to towns and other things over which there is relatively little control, certainly practically none by an administration.

And even with only great difficulty by a legislature in changing a great many of the ground rules.

Now, when you have as big a chunk of your total resources tied up in something like this, and then most of the remainder, as I say, in institutional care, it doesn't give you a great deal of latitude in which to try to maneuver.

Mr. MOOR. Mr. Schuckman, you will be interested to know that one of our witnesses on the first day said that the Federal Government had virtually no latitude in its expenditure programs, except possibly in some public works.

And I think this is an interesting commentary when you begin to ask what the Federal Government can do in a fiscal policy role to stimulate or deter the economy.

Mr. SCHUCKMAN. Of course, I can only just add this: I don't think that a State budget is even potentially the kind of instrument of fiscal control or planning that the Federal budget is, because we just don't operate in the same sphere at all.

There is a limit to how far we can go.

Also, most of what we can do to try to improve our own economy, for example, with State action, is inclined to be more or less long range, it is more or less developmental, trying to attract new industry, this kind of thing.

We don't have the same possibilities of the pump priming sort to give an immediate boost to things that you have on a broader basis, because we are operating in a smaller area and without available to us some of the monetary and other kinds of fiscal control that the Federal Government, for example, has.

Senator PROXMIRE. Actually the fact is, though, that ever since 1945, the real stimulating impact on the economy in terms of governmental expansion, other than fluctuations in the military expenditures, has come from the States and local governments.

And here is where the real, the enormous increase is.

In our own State we have had a regular—every biennium a regular increase, it seems, of about 20 percent.

I don't know how common this is nationally. But no matter who the Governor is, Republican, Democrat, no matter what position he has taken on the economy, spending more money, having more programs, there is always a 20-percent increase.

Mr. SCHUCKMAN. That is true.

We have the same kind of thing. It is one of the distressing things from the standpoint of trying to put a budget together—also the type of revenue structure you have makes a difference, too.

There are certain kinds of revenue structures that are much more sensitive immediately to economic changes.

One of our problems basically, and I suppose other States may share this—is this inevorable upward march of expenditures, a great many of which are built in. It goes at a pretty constant rate.

In terms of our national augmentation of revenue, from population and economic growth, without changing taxes or rates, there is a very steady rate, over a period of time, too. The trouble is that the expenditure rate of increases is almost exactly double that of the other.

So at any time you wind up with a balanced budget, you almost automatically are confronted for the next biennium with the need for a new or increased tax.

I don't imagine we are unique. I suppose other States are experiencing the same general kind of thing.

Mr. BIBB. I just wanted to comment.

I think this is to be expected when you realize, as Fred indicated earlier, that the expenditure programs at the State and local level deal with such things as education and mental health that is related to population. The population is skewed on two sides. On education, at the younger level, and programs and problems——

Senator PROXMIRE. Enormous increase in the the postwar population.

Mr. BIBB. Plus the skewing of the older population and the small working force.

In our State it is more dramatic because we have a larger percentage of older people to total population than the normal State.

But with these two factors working, these being the factors that affect most of the costs in a State budget, we are just confronted with the fact that we do have kids coming to school and wanting to go to school.

Senator PROXMIRE. Aggravated by the fact that we, I think, have properly and wisely, but nevertheless with great burden on our State governments, have increased higher education, and participation in higher education proportionately much more.

And, of course, in coming years that is going to be a very heavy burden.

It is interesting in the President's Economic Report—I mean manpower report—as I recall—and the figures shocked me—something like 70 percent of the increase in employment over the last few years has been in State and local government, much of it or most of it or most of it in teaching.

And, of course, this is a great investment from the standpoint of the quality of our economy, and from the standpoint of developing human skills, and so forth.

But it is a terrific burden on State government.

Mr. BIBB. It is even more dramatic, I might add, in the area in the western—west of here, at least, excluding these eastern ivy league colleges, where most of the public education is in public-supported schools.

The increase in population is at the doors of the tax-supported institutions, and the impact is tremendous on the budget.

Senator PROXMIRE. Well, you have already, I think—I was going to ask you about your statement, Mr. Bibb, where you say—

the need for a greater degree of certainty in the planning of Federal grants and for a greater degree of flexibility to the States in fitting these Federal grant programs into the States fiscal operations—

I wondered how you felt Congress could do it.

But I take it unless you wanted to add some more.

Mr. BIBB. No. I would just reiterate the position of Mr. Schuckman again, that something in the nature of the highway grants gives us a greater degree of certainty.

We are making appropriations on the assumption that Congress is going to pass a Hill-Burton fund.

You have a certain degree of insecurity when the bill hasn't passed, and you are basing the construction of a building on the fund to be matched with so much Federal funds.

Senator PROXMIRE. Now you raise a point that affects Kansas more than any others. I am sure it affects Connecticut very strongly. In the past it has affected Michigan a lot. I doubt if Vermont quite as much. This is the Federal military procurement program.

Here it seems to me that more than a matter of trying to give some kind of information on the basis of economic statistics, or economic data on what is going to happen.

It is a matter of decision by the Secretary of Defense.

I can remember in 1961 when Secretary McNamara decided we would stop production of B–52's. It meant closing down the Topeka assembly line—or Wichita—I know it was a Kansas city—involving thousands and thousands of jobs.

Well, this was a decision that was obviously a military decision, no way you could predict it in advance.

It seems to me you know, when the Secretary made the decision, pretty much, although Congress kicked it round a little. It passed the House and passed the Senate.

And as I recall, it was in the appropriations bill, so it became law.

But the Secretary just didn't spend it.

This is the kind of thing that really affects your economy, doesn't it, in a big way?

Mr. BIBB. It really affects our economy. It is a degree of uncertainty we have had in our revenue estimates for sometime.

Senator PROXMIRE. There is nothing you can really do about that.

Mr. BIBB. No, there isn't really anything you can do. Except at the State level, I think we need more data that we will have to obtain on our own as to just what impact these programs have on our economy, and what we can do to counteract the effect of potential decisions that the Federal Government might make that would have impact on these various areas where we have a high percentage of Federal defense spending.

Senator PROXMIRE. The Government is anxious to do what it can to stabilize in various areas of the country by providing compensating work.

I suppose that is awfully difficult in a specialized plant like Boeing, in Wichita.

Mr. BIBB. We have some Boeing contracts now. But we were all I think surprised at the extent of the impact of Federal programs on the State's economy. It indicates I think what the States can do through the development of better measurements of economic activity within the State, a better understanding of the economic forces that play in the State.

I certainly was not aware, until the recent study, of the degree to which we were tied to various Federal spending programs.

Senator PROXMIRE. Now, you say:

> We have found many advantages in using expenditures instead of new obligations as the basis for our budget. I would feel that a change in the direction of expenditure budgeting might have merit.

You are suggesting this for the Federal Government? And I am wondering how the Federal Government goes about this. Is this a matter of emphasis on a cash budget?

Mr. BIBB. I was suggesting that it would seem to me that as a matter of emphasis, the emphasis on the cash budget would appear to me to have more significance in the development of economic statistics.

I certainly did not mean to discount the need for information on new obligations.

Senator PROXMIRE. Isn't is necessary to have really three or four budgets—the administrative budget, the cash budget, the national income budget, and perhaps at least some kind of conception of a capital budget, even if we don't work it out in great detail?

You would put more emphasis on the cash budget in terms of economic impact. Or more on the national income account budget?

Mr. BIBB. Well, of course, I hate to put orders of priority. The commerce figures are certainly more useful to us. Developing a cash budget or expenditure budget would seem to have, or emphasis on the expenditure programs of the Federal Government, would appear to me to have more meaning in terms of analyzing the effect of this total Federal program on the State.

Senator PROXMIRE. Of course, this is exactly the kind of thing where the obligational budget indicates what the future effect is going to be, and in view of the fact you have to make plans, it would seem to me perhaps that obligational implication would be more useful in terms of planning.

It would seem to me it is when the obligation is incurred that you are more likely to get the kind of action you can predict on the part of manufacturers who would go to work in hiring and building up facilities, and so forth.

Mr. BIBB. Well, this would be true, I think.

The program budgets have to be tied to a total picture, I think, of the program of the agency, which gets you into, I think, of necessity—into this expenditure side.

As you indicated, Mr. Chairman, all of these are significant indexes for analyzing the budget.

I don't think any of them could be eliminated.

Senator PROXMIRE. Now, yesterday Mr. Novick, who is the head of the cost analysis department of the Rand Corp., made the same kind of suggestion that you make today toward the end of your statement where you say:

> Most of all, I would like to see more projections, either in the budget or in additional publication of the President's Council of Economic Advisers, projecting a national income and product accounts.

I take it projecting the effect of programs. He was talking particularly about projecting the real impact of these programs that come before Congress over a period of 5 years, not 1 year.

Now, of course, the difficulty from a realistic political standpoint is that if you project it, and you have a mass transit program which you can say is going to cost you $500 million or $375 million the first year, you know perfectly well you are going to have a growing program, and you project it accordingly and it becomes a several billion dollar program, and probably doesn't pass.

Mr. BIBB. We had this experience I think quite recently in the State when we had a highway need study.

Unfortunately, the press treated this—the total expenditures of 10 years that would be required to complete it. This is a rather staggering figure. They neglected to say the figure for the last 10 years hasn't been too far off that.

I understand what you mean.

Yet to plan intelligently State budgets, we have had to look to the future to design a revenue structure on 10-year projections at least twice in the last 10 years, feeling that we could not make intelligent decisions in the State without attempting to project into the 10-year periods, both on revenues that we might expect from existing sources, and on the expenditure side, as to what we might expect in college enrollment, and so on.

Senator PROXMIRE. At any rate, it would be useful to you to get as much projection as you can, and then assurance.

None of us are here for more than 6 years—at least can count on being here for that time—unless we come from Vermont and Mississippi.

And even then, unless your name is George Aiken, or something like that.

Mr. BIBB. We like to have company when we go out 10 years in the future.

We like to base it on something other than our own opinion.

Mr. MOOR. Just thinking as part of this, Mr. Chairman, it is indicative that 10-year budgetary forecasts were made by the Bureau of the Budget in the Eisenhower administration.

They were made just before the Eisenhower administration went out of office.

Senator PROXMIRE. Mr. Schuckman.

Mr. SCHUCKMAN. Of course, I think when you are talking about projections, there are two kinds of things that we are involved in.

One, our projections as to the impact on the general economy, or the whole operation, which certainly will have an effect upon a State in an indirect sort of way, perhaps.

And there are also program projections where the impact is going to be much more direct, where this is not necessarily going to contribute to the general well being of the country in which you hope the State will participate, but is going to involve specific expenditure requirements or things that are on the other side of the ledger.

Of course, projections in either direction, either area, certainly are helpful.

But I think in one case it becomes more or less indirect, and it is part of the general environment in which you are trying to operate your State government.

On the other, it is something that more specifically is going to have to be taken account of in your own State budget directly.

When I said before our rate of expenditure doubles our rate of natural increment from economic growth in our particular tax structure—certainly some of these Federal programs have augmented to some extent the rate of growth on the expenditure side.

Mr. BELL. On this matter of long-range planning, Mr. Chairman, I have gotten involved a little bit in the past.

I was the assistant budget director of Missouri, prior to going to Vermont, and followed with interest the planning going on in Kansas a little bit ahead of our time there.

But I see one big problem occurs. What kind of a projection are you making? Are you simply projecting what you are now doing? This is one type of projection.

In other words, given a current level of service, predicted population increases, and project on that basis.

But there is another type of projection which when you get the department people involved inevitably comes in, and that is, let's increase this program, let's improve the quality of service, or let's add a new program.

When you start projecting all these, then we get these astronomical increases that you referred to earlier, and they get even more astronomical when we throw this type of thing in.

And yet we know from history that new things do get thrown in every so often.

The question of the projection is how do we project these—on the same rate of growth as the past, or do we try to project on a basis purely of our current level of service?

Senator PROXMIRE. Mr. Schuckman——

Mr. MOOR. Just one further point on this.

I take it as part of your problem of forecasting, which is tremendous, and I think you have indicated it very well here today—would you also agree, or would you not, that it would be useful not only to have somewhat longer range forecasts of Federal budget expenditures and taxes, but also to have perhaps more regular revisions of these forecasts, perhaps on a quarterly basis, so that you could find out how things were, in fact, changing through the course of the year, especially where your schedule of budget forecasting comes in the middle of our year. Is this a general consensus?

Mr. SCHUCKMAN. Yes.

Mr. BIBB. Yes.

Senator PROXMIRE. Let me ask you, Mr. Schuckman, at the bottom of your—of the first page of your statement you say:

> The impact of the Federal budget upon the national economy on the one hand and upon various Federal program areas on the other must be interpreted by the State budget officer and, hopefully, be translated into the probable effect upon his particular State.

Now, is this done in a systematic way in Connecticut? Do you sit down, take the budget, and work it out in terms of what effect it is going to have probably on your State's economy, as well as on the revenues that you hope to derive?

Mr. SCHUCKMAN. Yes; we attempt to do this. I must confess, in all honesty, that we haven't yet gotten this thing to anywhere near the place we would like to have it.

One of the difficulties, of course, is that a great many of the available statistical series are national in their nature. They are pretty well proven, pretty accurate, and pretty reliable.

But when you try to translate this into what it means in a particular State, in the absence of the kind of statistical resources that the Federal Government has at its disposal to develop for a State, a State gross product, or something of the kind, becomes a little difficult.

Senator PROXMIRE. Well, unless you are doing it in terms of precise programs of the Federal Government—for instance, the mass transit bill might have a very substantial effect on the Connecticut economy.

Mr. SCHUCKMAN. Yes.

Senator PROXMIRE. The agricultural legislation would have a terrific effect on the Kansas economy.

Now, in that way I can see how you can work out a pretty good analysis.

But if you do this on the basis of overall economic amounts—in other words, take the gross national product and see if predictions come out, roughly what will this do to a State the size of Connecticut, with your proportion of the gross national product, it would seem to me that would be much less satisfactory.

Mr. SCHUCKMAN. Well, it is. As I say, I don't think w eare anywhere near a satisfactory solution to this. We are struggling with it, testing things out.

For example, certain of the indicators, certain of the components of some of these national series would seem to be a little bit more directly applicable and important than others.

Not having an income tax, income level is not quite as important to us perhaps in terms of tax revenue potential as is going to be consumer spending, since we have a sales tax. It is this kind of thing, where we try to take certain of these apart, and see whether we cannot fit them into some kind of a logical pattern which we can begin to prove out, some of it pretty much on a trial-and-error basis.

I may say we are now toying around with this newer concept of data processing, and having some fairly sophisticated equipment available to us now—we are trying the building of some statistical models, and so forth.

I think this is something that we of necessity have to try to do. I don't know that any of us have been unqualifiedly successful in finding the key to this riddle.

But I think—for ourselves, we feel we get a little glimmering of it, and we are making slow progress.

Senator PROXMIRE. Two more quick questions. The other members of the panel may want to comment on the first one, at least.

You say a pretty serious thing on page 3. You say:

> This action was accomplished in some instances in the face of strenuous opposition, and the dire threats of certain of the program people in some of the Federal agencies.

I am wondering how common is this strenuous opposition or dire threats, this kind of conduct on the part of Federal officials. And in your judgment, does this reach the proportions of interference with your sovereignty or your rights?

Mr. SCHUCKMAN. Well, I don't know that it has gotten quite that bad. I can say this: one occasion, the first one that we ran into, was in the field of some of the health grants.

We were trying to consolidate and get away from this myriad of funds we had. And we had some predictions as to what would happen, that we would jeopardize grants, and so forth, if we were not very careful.

In this particular instance, I will say this: We got hold of the auditors who were involved, the Federal auditors of the region, sat down and had a talk with them, and they apparently didn't feel quite the same way about it as some of the program people themselves felt. This one was resolved, and with no great pain on this particular occasion.

We also ran into it again when the university came in, and they had documentation, they had letters.

If you have been around, you know how they get them. I know they ask the question of the people down here, "We can't do this, can we?" Although we didn't see the letter they wrote, we saw the reply, and the answer was, "You can't, you would jeopardize the grant."

Here again, it was resolved, but not by the program people. We came down and talked to the fiscal people in agriculture. They saw our point, seemed to be all in favor of it, thought it made good sense, and couldn't see any great problem about the thing.

I don't believe we have yet encountered a complete impasse that could not be resolved. But it is an annoyance.

And also psychologically it poses some sort of a roadblock. There are many people at the State level who don't like to get into controversy and possibly get crossways in really testing this thing out to see quite how it will go.

One of our problems, of course, is inevitable. When you have two lines of authority, you have program responsibility, and you find that the program people in the State and the program people at the Federal level have their own means of communication, and talk the same language, and aid and abet and encourage one another.

And I realize that we all know full well that the fiscal and other people at the Federal level sometimes have the same problem vis-a-vis their own program people as we do vis-a-vis ours at the State level.

But I guess with a Federal system and the way we operate, this is almost inevitable. At least there is always this possibility.

Senator PROXMIRE. You think this is more of a human problem. Let me put it this way: It is more of a problem that involves the understandable and really commendable dedication that people have to their program.

It comes right into conflict with the position that you have to take as an overall officer of your State responsible to the Governor, and responsible for a program with different and distinct fiscal limitations.

You just have to say no, although they want to fight and die for it, and this is what makes a good person often in that program—for what they believe in, whether it is a welfare program or what it is.

Mr. SCHUCKMAN. Oh. yes.

Senator PROXMIRE. You don't think there is anything, then, that Congress can act on to modify this.

Mr. SCHUCKMAN. No, I don't think you really get that far. I think there have been and are and undoubtedly will continue to be many cases where to some of us at least the congressional intent behind a program would seem to be reasonably clear, but where the trouble begins to come sometimes is in the administrative interpretations or rules and regulations laid down with respect to it, on which I might say there can be legitimate differences of opinion, as to whether these are really implicit in the charge originally or whether they are something else.

But I think most of these things work out.

My feeling is that most of them are more a matter of annoyance and some harassment and slowing down efforts to do certain things than they are an inevitable roadblock that you are never going to be able to get around, no matter what you try to do.

I think most of them finally are resolved.

But they don't make the task any easier.

Senator PROXMIRE. Just one more question, Mr. Schuckman, for you.

You say:

> The present piecemeal manner in which the Congress handles what was presented as an integrated fiscal plan almost inevitably, in the opinion of myself and others, negates to a considerable degree one of the basic concepts of sound budgeting.

And you point out, as I recall, that Connecticut and other States have perhaps done a better job in keeping in accordance with the 1946 Reorganization Act than Congress has.

Be a little more specific on this in terms of what Congress isn't doing that it should do.

Mr. SCHUCKMAN. Well, I think—naturally the Reorganization Act didn't apply to us.

Senator PROXMIRE. I know. I didn't mean that.

Mr. SCHUCKMAN. We actually seem to be operating more along the lines that I think were contemplated by this act, which is again simply this.

Where you have these competing claims for the available resources, in the course of trying to put a budget together you do your best, whoever has to do this, to accommodate these things, keep them somewhere near in balance, and, within the possible overall total, fit them all in. If you begin to consider or take action on these things individually, without all the way along being completely sensitive to and cognizant of the fact that the aggregation of these individual actions somewhere is going to come up to a total which may or may not be quite what you were shooting at, this gets away from the general approach and concept of looking at the whole thing as a more or less integrated package.

And in this respect, I think that there are some advantages to not taking final appropriation action on individual pieces prior to really exploring thoroughly what the requirements and demands are going to be in other areas, because once you get these pieces in there, you are not going to back off from them very readily.

Senator PROXMIRE. The Budget Bureau does this.

But there is no agency in Congress, like a proposed committee on the budget, a joint committee of the House and Senate, to have an overall program, apart from the appropriation process, which almost has to be piecemeal.

And the Appropriations Committee breaks down into subcommittees of course, and each has their own responsibility.

And as you say, there is no opportunity for Congress to take an overall look at what the whole spending and taxing process is going to do.

The Joint Economic Committee does a job on the economic effects, but not on the many other implications of this.

Mr. SCHUCKMAN. Yes. But the fact that these appropriation acts come seriatim more or less—you pass one before real consideration perhaps is given all the others—is all I was trying to get at.

Now, I realize as far as workload and all the rest of it is concerned preceding this, that subcommittees are logical and obvious.

The point of distinction here, however, is that it seems to me that some of the States have done two things which, as I recall, were more or less indicated, pretty definitely indicated in the thinking behind that Reorganization Act.

One is to try to take the overall view. The second is, to have the committees of the two Houses act as joint committees.

Now, in the case of some of the States, we have accomplished, I think, much more in both of these directions than perhaps has been done here.

First of all, as I say, we have subcommittees too. But no reports come out of those subcommittees that go anywhere except to the full committee.

And then the full committee attempts again to take this as a whole package and view the whole thing.

Senator PROXMIRE. That is what the Appropriations Committee does, theoretically.

Mr. MOOR. You will recall, I am sure, Mr. Schuckman, that after the Reorganization Act, actually this was attempted once in the so-called omnibus budget.

Mr. SCHUCKMAN. I know.

Mr. MOOR. And it fell flat on its face, just because of the sheer volume of Federal operations.

I think we all sort of agree with the general approach that you are expressing, of being able to weigh all the marginal choices against all the others.

We would sure welcome any specific suggestions, as to the procedure by which we could draw the budget together more closely.

Mr. SCHUCKMAN. Well, I tried to indicate—and one of the few things I hedged I guess was indicating there may be a limit to the transferability of these procedures.

And I realize you have got to look at each one of them. I don't know this can ever be accomplished completely satisfactory.

And I don't know any State has done it 100 percent.

We still have a few loose pieces. But at least we try to hold them to a minimum.

And the basic things to a considerable extent are brought in where you get a view of the whole thing rather than a piecemeal.

Now, I certainly realize there will be difficuties here. I don't know any easy answer for this thing.

I think this is something to which attention might be directed, however, to find out whether you could not successfully go a little further in that direction than you have up to now.

Mr. WILEDEN. May I just put a footnote in there, Mr. Chairman. An interesting feature of our new constitution in Michigan is that among the actions of the legislature in adopting the annual budget as presented by the Governor, is that one of the appropriations measures shall contain the officially adopted revenue estimates as the legislative committees have reflected them in their decisionmaking.

It is a rather unique feature.

Senator PROXMIRE. Yes.

Along that line, I don't know if your State has this.

Wisconsin now has a provision in which everytime any member introduces any legislation, if it is a spending measure, there is an official estimate of how much spending will be required. It is by an official State agency. If it is a measure to effect the revenue side. The tax department estimates how much the proposal will reduce revenue—usually it is a tax cutting measure, of course.

And it seems to me this information procedure is a constructive and very helpful provision, too.

Mr. SCHUCKMAN. We were discussing that at lunch, this fiscal note procedure.

Incidentally, I think you people kicked this thing off. Some of our legislators went to conferences, and came back with this fiscal note business.

I think frankly it is a good idea. One of our problems, and this is going to be true in some other places—is our own procedures. Maybe they are more or less unique—I hope for that matter they may be. We have to accord a public hearing to every bill introduced. I guess there are something over 4,000 of them.

Appending one of these analyses to every bill that comes along that directly or indirectly involves spending becomes a pretty ponderous task.

I have been asked my opinion on this fiscal note procedure and I am in favor of the general concept. But I have suggested that it be limited somehow to bills on which there is a real likelihood of some serious consideration—let's not use the shotgun deal here, because we would need an army of people just to try to run this thing down.

Mr. BIBB. I was going to put another footnote on. We tried an experiment this time we found rather interesting. We programed in on our machines the major summary schedules out of the budget, and then we picked out different stages in the legislative process where a bill would become significant—for example, upon introduction by the appropriating committee—and would post in the changes plus or minus from the Governor's budget, and reprinted the schedules.

So we had in the appropriating committee's reprinted schedules daily or as bills came out. We did this on the revenue side, too, with measures that affected revenues—as the bill cleared one or the other House, we picked these up at a later time—just as an experiment to keep this information where a legislature stands in relationship to the total program.

Mr. MOOR. I would like to ask two questions on that.

One, the data on a day-by-day or week-by-week basis was publicly available?

Mr. BIBB. It was publicly available. The press had access to it.

Mr. MOOR. And secondly, you attempted to make these changes with respect to the total aggregate of expenditures?

Mr. BIBB. Total aggregate of expenditures, and by fund—by tax and nontax funds.

This fund problem is unique in our State. I mean, within the same degree of detail as in the budget schedules.

Mr. BELL. I was going to say, I think the States more or less are forced into this approach of comparing or preparing a unified budget, primarily because of the revenue expenditure structure.

In many States you cannot even go into debt. It is provided by law in many cases and sometimes the constitution. You have got to fit the proposed expenditures within estimated revenues.

This is a problem I think Congress has not had to be faced with.

Of course, another thing that affects the problem is that—Congress, of course, is not unfamiliar with pork barrel. Every State has it, too.

But in many of our States most of this would be in the capital budget, which would be quite separate from the operating budget, and is frequently financed differently, by bond issue.

So that your operating budget will balance but you may find quite a lot of funny things happening in the capital improvement budget which may not be anywhere near what was submitted by the Governor to begin with.

Of course, I think a third problem in the whole area—you ask if we have any suggestions what Congress might do.

Of course, you recognize in Congress I think there is more structural rigidity in the organization of Congress in terms of the seniority system and all this, which does not exist to anywhere near this degree in many of our States.

In State governments you frequently find a man has been in the legislature 1 year or 2, and is suddenly rising up to a point of leadership, which in Congress is a very rare thing.

Senator PROXMIRE. Mr. Wileden, you talked about a new bill, new proposal on your constitution which would require annual revenue estimate as part of an appropriation measure.

Mr. WILEDEN. Yes.

Senator PROXMIRE. What appropriation measure would that be?

Mr. WILEDEN. Well, in Michigan we don't have this omnibus appropriation bill pattern which Mr. Schuckman referred to.

We have a series of functional appropriation bills. Any one of these then becomes a vehicle for the reflection of the official legislative revenues they are in effect considering a part of their budgetary decision.

Senator PROXMIRE. How would that differ—I suppose the Governor makes a budget report to the legislature just as the President makes his report each year.

Mr. WILEDEN. Right.

Senator PROXMIRE. Wouldn't that contain his estimates?

Mr. WILEDEN. Well, the point of distinction here is that the executive budget submitted to the legislature is subject to any type of modification that the legislature wishes to make, either on the revenue estimates themselves or on the appropriation side itself.

Senator PROXMIRE. I see.

So in this case, as the legislature makes its modifications, you modify——

Mr. WILEDEN. They make it a matter of record by incorporating it in one of their appropriation bills.

Senator PROXMIRE. You say, in talking about the difficulties, the serious limitations, as you put it, of economic policy emanating from the State, you say:

> A State does not represent an adequate economic entity; its share of the total economy is too fragmented and small. Further, the States possess neither the legal powers and responsiiblities nor the fiscal capacity to exert a very effective impact on the distribution or stabilization of income and employment.

You say that as a Michigan man. And this is certainly one of our biggest States, and one of our States that has a great deal of income, and so forth.

Isn't this legal power and responsibility—you are talking about State-imposed, self-imposed limitations?

Mr. WILEDEN. Well, No. 1, borrowing power is limited.

Senator PROXMIRE. You just passed the constitution—does that affect that?

Mr. WILEDEN. It is raised slightly. But it is still not unlimited.

Senator PROXMIRE. That is self-imposed limitation?

Mr. WILEDEN. That is right.

The constitution itself sets up certain rather independent operations in terms of legal relationships which makes it difficult to have the type of coordination and integration which would be necessary to have a fully effective economic impact.

And thirdly, of course, we are only a part of many interstate relationships.

And legally here we have some limitations that are inherent in our Federal structure, it seems to me.

Senator PROXMIRE. You say at the end of that paragraph, and I think that it is very optimistic—I hope it is right. You say:

> About the most which may be contributed by the State budget process is to be reasonable in phase with the promotion of national goals.

I wonder if you can even go that far in terms of economic goals.

That is, maybe you were not talking about economic goals. But if the President and the Congress feel that we should stimulate the economy by a tax cut or by increasing spending, can the State pay much attention to that really, can the State increase its spending?

It certainly cannot modify its revenues, because it has to have a balanced budget, as you say.

In terms of the fiscal concept the economists have been hitting us with for several years now on the Joint Economic Committee of a deficit to promote economic activity, the State is just impotent, isn't it?

Almost by constitution you cannot do anyhing.

Mr. WILEDEN. It is very limited certainly. I don't know if it is totally impotent, because I think the main point is to have recognition of what these goals are, and in the degree to which it is possible——

Senator PROXMIRE. Well, the national goals of improving education.

Mr. WILEDEN. This is what I mean.

Senator PROXMIRE. You are not talking about the economic goal of stimulating employment, or providing greater economic activity overall, by spending more than you take in and taxing.

You just cannot do that.

Mr. WILEDEN. I think you are right. Except to the extent pointed out here.

Once you get outside of the operating budgets you do have a certain amount of the capital area that you can adjust.

Mr. SCHUCKMAN. Yes, but even that is pretty limited. Because again, there is a limit, sometimes a debt limit.

And even with or without a debt limit, there is a practical limit of marketability of bonds, and so forth, that gets involved.

One of the sad things of this—I don't know what the answer is—the way the whole State government concept is, and the structure, it seems that not only is it difficult for the State to contribute. It is almost inevitable that it is going to be countercyclical—in this sense.

I mean, in many ways State and local governments are forced to move in exactly the opposite direction than the Federal—from which the Federal Government would like to see them, because the things can't go along pari passu. They go in opposite directions.

As I say, I think we all are cognizant of this. And I think all of us perhaps in a way regret that maybe this is the way it has to be.

But short of a complete rethinking of our whole governmental structure, it just seems to be almost inescapable.

Senator PROXMIRE. We had that happen in Wisconsin in 1933. In 1932 President Roosevelt was elected, and Governor Schmedaman of Wisconsin was elected.

Governor Schmedaman promised he would cut spending. President Roosevelt did, also.

They both said they would cut spending 25 percent.

President Roosevelt didn't do it, of course. Schmedaman did.

The result was the Democratic Party in Wisconsin—he was a Democrat—was dead for the next 20 years. The Democratic Party nationally enjoyed almost 20 years of national leadership.

Mr. Wileden, you say:

> As now constituted, the Federal budget is largely input, rather than output, oriented, and aggregate data are not available in terms of types of expenditures (payrolls, equipment, and capital outlays) or of sectors of the economy (agriculture, manufacturing, etc.) within even broad outlines.

Mr. Novick had the same kind of criticism of the budget, and suggested that we ought to work in this direction.

Certainly, though, as far as agriculture is concerned, there is a broad indication of the contribution of the Federal Government to the agricultural sector, isn't there?

Mr. WILEDEN. Right.

Senator PROXMIRE. In manufacturing, to the extent procurement is isolated, and so forth, it is not too hard to pick out the contribution.

Mr. WILEDEN. No. That is right, sir.

My remarks were primarily directed to desirability of having this broken down by the impact in the various geographic areas of the Nation, so that we can tie these into these models, which, hopefully, we see some utility for use in States.

This was my prime point. Not so much the classification of it, but its relationship to geographic areas.

Senator PROXMIRE. How much of a statistical job is this? I think all of us would like to see it broken down to maybe congressional districts, or at least to States.

Mr. WILEDEN. I think this is something which these new data processing facilities are going to provide an opportunity to do that has never feasible statistically before.

And that is why I am rather hopeful that in the near future we will see this type of development.

And I am sure it would be extremely valuable.

Senator PROXMIRE. That is the kind of thing you had in mind on page 4 when you said:

> The rate of progress will depend greatly upon the availability of adequate detailed data to feed into electronic computers.

Mr. WILEDEN. That is right.

Senator PROXMIRE. Well, I want to thank you gentlemen.

Mr. MOOR. I just have one question.

Senator Douglas was here. But had to leave before questioning.

He is very interested in this general subject of capital budgeting.

And without going into the particular procedures of relating capital expenditures to debt financing, I think we would be very interested if you had any specific comments concerning the nature of capital analysis, which you make in your individual States that we might be able to pick up in the Federal Government.

If any of you have any specific comments you would like to make.

Mr. WILEDEN. Would you like to elaborate a little more about what you mean by the analysis you have in mind?

Mr. MOOR. Two things. One, the nature of the costs of capital expenditures, how you handle them?

And secondly, the extent to which you assess at all the nature of the benefits that you obtain from capital expenditures.

Mr. BELL. I think the answer is we do very little in this respect.

As to what the capital improvement will do for us in the future, I think usually has been thought of in terms of social gain.

When you need a better treatment program for mentally ill, you have better wards constructed or medical facilities, this sort of thing. The same for education and all these other matters. I don't believe any real attention is given to the long-range economic impact.

Senator PROXMIRE. You know about the Corps of Engineers cost-benefit ratio, of course.

Is anything like that applicable for projects in your State?

Mr. BELL. I believe they are applicable. I have often thought of it. We get all excited sometimes about the problem here—shall we put the money in education, or shall we improve our security institutions, for examples. In other words, improve the correctional program or the education?

Most people think there is more money involved in the long run for the State if we throw it into education, because this has a more direct effect on improving the ability of people to earn money, and to get jobs and presumably improve the economy of the State.

Whereas a correctional program, nobody is quite sure what will happen. You may help some of these fellows. Others might graduate into the more big-walled institutions. And the direct economic benefit is not nearly so great.

These are things we have not measured. But I do think that probably they could be, if enough effort were given to gaging the results of these programs—measure the past, and so on.

We just have not done it.

Senator PROXMIRE. Mr. Bibb.

Mr. BIBB. Well, first, of course, growing out of the work done in the Federal Government, our water resource planning uses these cost-ratio factors.

In our other capital improvement programing, we are looking at such things as future impact on operating costs, relationship to program needs.

And depending on the project, of course, analysis of alternate cost factors.

For example, will we generate our electricity at a college or buy it commercially.

I mean, these factors enter into decisionmaking.

Obviously, we have not developed, I think, the measures of social gain, social loss, from doing or not doing certain projects.

I think if we had these measurements we might make a little better decision sometime.

Mr. SCHUCKMAN. I can't add very much to this, except perhaps just to point out again that we are perhaps talking about or involved in somewhat different kinds of things.

Until fairly recently, at least, it seems to me that most State capital expenditures were for things that were directly State operated facilities, institutions, and things of that kind. And they were not the same, I don't think—the same kind of thing that some of you people may have in mind when you are talking about a capital expenditure from the Federal standpoint. We are coming closer to your concept of course, in many respects. Water resources for example—we also are into this.

We right now are considering a proposal for a rather extensive open space program in Connecticut based upon the Whyte report. This is quite a challenging program. Such programs and, of course, urban renewal and housing and housing for the elderly—this type of thing I think gets more into the type of capital expenditure where you can try to measure economic benefits.

But this, I think it probably is fair to say, is a relatively new facet, as far as most States are concerned.

Up to now it has been mostly building prisons or institutions, mental hospitals, and this sort of thing.

The approach has not been so much that of economic impact as, Mr. Bell indicated, just a question of needing a treatment facility, and this is what you do.

So that I would hope that more would be developed. I don't know as at this point, certainly from our experience there is very much we could offer in the way of any concrete suggestions that have proven out.

Mr. BIBB. One other area that should be mentioned in States where this is done is in the highway program.

Senator PROXMIRE. Mr. Wileden?

Mr. WILEDEN. I think it has been pretty well covered, Mr. Chairman—except that in Michigan particularly on the costing we have taken into account alternate utilization of our resources, whether you are going to spend these dollars now or whether you are going to postpone this particular investment and take your chances on offsetting inflation costs, for instance, or whether you are going to gain socially by having these facilities available earlier, and meeting some essential needs in these terms.

These become hard to put into dollar and cent terms. But we try to relate them on a long-range plan which we have.

On a 5-year capital outlay budget that is revised each year by the agency, submitting their anticipations and needs along these lines.

Senator PROXMIRE. Does the interest rate have much effect on your decision?

Mr. WILEDEN. Interestingly enough, we have noted that if we had built certain facilities, say, back when they were first identified as being fairly urgent needs, we could have had them in use, and the operating costs would have been about saved by the difference.

Senator PROXMIRE. If interest rates are higher, you are more likely to postpone it?

Mr. WILEDEN. Right.

Senator PROXMIRE. This is a specific consideration. You don't just go ahead regardless of cost of money, or do you?

Mr. WILEDEN. Well, I think it depends on the urgency of the need. In other words, it has only a certain weight in the whole consideration.

Senator PROXMIRE. It is part of the consideration.

Mr. SCHUCKMAN. We very definitely try to gear this thing insofar as possible. I don't know how common this is. But in Connecticut we get bond authorization through the general assembly, through the legislature.

But no bonds can be issued unless the bond commission, which is another body headed by the Governor and comprised of a number of officials, approves.

So that there is a very definite rather day by day intimate control of the timing of this.

We have had bond authorizations on the books approved by the legislature, in some cases for a considerable period of time without any real action on issuance having been taken.

One of the big considerations has been the money market, among a number of other things.

We, of course, have borrowed a tremendous amount of money for a small State, largely for highway and turnpike purposes.

But from a situation where we had no debt in 1945 we have gone to about $1\frac{1}{4}$ billion worth now—a lot of it for revenue-producing types of things it is true.

But in the money market—this all adds up. We have been very cognizant of that.

And I think those people who have been charged with this responsibility have done a pretty good job of making their moves at about the right time as far as the money market was concerned.

Except, of course, obviously as Mr. Wileden has said, there are some things you cannot postpone forever.

But where there is any option, we have tried to take that pretty thoroughly into account.

Mr. BELL. In other words, I guess the situation must be true there as in Vermont and I think a lot of other States, where the State treasury is simply one kitty. All kinds of funds may be in it. But the treasurer can pay cash out for any kind of payments—money may have come in from Federal funds or highway revenues, or general revenues or bond revenues.

If he has money in the treasury, he will go ahead and pay for bond projects, before he has issued the bonds.

In other words, the construction projects will go on. And the timing as to the selling of the bonds themselves is quite independent of the starting or the project.

Senator PROXMIRE. What I had in mind was the effect of monetary policy.

Mr. BELL. I don't believe that is considered in most cases I have seen.

Senator PROXMIRE. If interest rates are higher, maybe you would retard investments.

Mr. BIBB. In Kansas we don't issue general obligation debt. We do some revenue bonding for dormitories. We have built a turnpike out of revenue bonds.

But we stay on a cash basis. So it won't affect us a great deal.

Mr. SCHUCKMAN. I don't know that this would be a major consideration, but I think certainly it would be an element that would have some bearing on what a good many States, including Connecticut, would do.

Senator PROXMIRE. Thank you, gentlemen.

This has been an extremely informative and educational hearing for me.

I am sure the record you have made will be very useful to the committee.

Thank you.

The committee will convene at 10 o'clock on Tuesday.

(Whereupon, at 4:25 p.m., the committee recessed to reconvene at 10 a.m., on Tuesday, April 30, 1963.)

THE FEDERAL BUDGET AS AN ECONOMIC DOCUMENT

TUESDAY, APRIL 30, 1963

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMIC STATISTICS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommitte met, pursuant to recess, at 10 a.m., in room AE-1, the Capitol, Senator William Proxmire (chairman of the subcommittee) presiding.

Present: Senators Proxmire, Douglas, and Miller; and Representatives Bolling and Curtis.

Also present: Roy E. Moor, economist; Donald A. Webster, minority economist; and Hamilton D. Gewehr, administrative clerk.

Senator PROXMIRE. The committe will be in order.

This morning the committee will consider the nature of the 1964 budget and possible future changes, and we are very pleased and honored to have Mr. Charles L. Schultze, the Assistant Director of the Bureau of the Budget.

Mr. Schultze, you may go ahead in any way you wish. Do you wish to summarize or abbreviate any part of your statement? The whole statement will be put in the record.

STATEMENT OF CHARLES L. SCHULTZE, ASSISTANT DIRECTOR, BUREAU OF THE BUDGET (ACCOMPANIED BY SAMUEL COHN, DEPUTY FOR FISCAL ANALYSIS; AND CARL TILLER, CHIEF, BUDGET METHODS)

Mr. SCHULTZE. I think I will read it, if you have no objection.

I would like first to introduce my two associates, Mr. Sam Cohn, Deputy for Fiscal Analysis; and Mr. Carl Tiller. Between them they have 30 years of experience in the Budget Bureau, compared to my 7 months, and those questions I can't answer I am fairly sure they can. I am pleased to be here today, with this kind of assistance.

The President and the Bureau of the Budget share with the Congress and with this committee in particular, a common interest in making the Federal budget as informative and useful as possible.

Roughly 20 percent of the Nation's gross income currently flows through the Federal Government's taxing, borrowing, and spending activities. The budget is the one central document which brings together in summary form an accounting of our stewardship over these funds, and presents an agenda of actions for the year ahead.

The more accurately and clearly the budget presents the accounting for the past and plans for the future, the easier it is for the administration and the Congress to formulate, and the general public to evaluate, public policy.

We welcome, therefore, an examination of the current budget presentation and the new suggestions which spring from such sources as the report by the staff of the committee on "The Federal Budget as an Economic Document," and this present series of hearings.

Great strides have been made in improving the budget document since the enactment of the Budget and Accounting Act in 1921. Before that time, the Secretary of the Treasury was required to "receive, index, print, and transmit" the estimates of the various departments. This business occupied one Treasury employee.

In the budget for 1923—the first budget transmitted under the new law—President Harding recommended grand total expenditures of $3.5 billion, and receipts of $3.3 billion. In many appropriations, the numbers and salaries of employees were specifically listed. For example, the Department of State appropriation for salaries provided for a "private secretary to the Secretary (increase of $500 submitted), $2,500." That budget did, however, also include tables showing totals of receipts and expenditures and proposed public debt transactions for 1921, 1922, and 1923.

The Government today is vastly altered from what it was 40 years ago—in size, scope, and complexity—reflecting the changes which have taken place both within our country and in the international situation. During this period, there have been many innovations in the budget process and the budget document to meet the needs which have arisen as a result of these changes.

Improving the Federal budget is not a partisan matter. Each administration, particularly since World War II, has made its contribution to this process. One of the major steps forward was a shift in emphasis from the number of jobs, the amount of travel, and other objects of expenditure, to the concept of performance budgeting, that is, to the programs planned and accomplishments expected.

While this shift has been taking place gradually over a period of time, it received a major impetus in the 1951 budget, in which statements on programs and performance appeared for the first time for each appropriation requested. Additional classifications and summary tables have been added from time to time to provide more adequate information on the budget totals and the overall effect of the Federal budget.

PURPOSES SERVED BY THE BUDGET

The President's budget is expected to meet the needs of a variety of users—the Congress, executive agencies, individuals, organizations, business firms, and the public at large. Essentially, however, the budget must serve two major purposes:

First, it must present to the Congress and the public the proposed overall plan and program for the Government for the coming year, including recommendations concerning both existing and proposed new Federal activities. As a program statement, it also contains the most complete reporting available on stewardship of the past fiscal year and the revised outlook for the current fiscal year.

Second, it must present the basic information necessary to evaluate the impact of the Government's program and finances on the overall national economy.

In evaluating how well the budget serves these major purposes, four important considerations must be kept in mind.

(1) No single budget total is appropriate for all purposes. Each of the three current totals—the administrative budget, the cash consolidated budget, and the Federal sector of the national income accounts—has its own important function to serve, for each total gives us important, though different, information.

(2) In evaluating the program content of the budget it is obvious that details are more important than totals. But even in evaluating the overall impact of the budget on the national economy, details are important. For example, the effect on gross national product of Federal expenditures differs, depending on whether the expenditure represents the purchase of goods and services, a transfer payment, a subsidy, or a loan. Just as the mere knowledge of the size of gross national product doesn't get us very far in evaluating the state of the economy, a single figure, however well conceived, on Federal expenditures, receipts, or the Federal deficit, does not enable us to judge the economic impact of the budget.

(3) The effect of the budget on the economy takes place in successive stages. Very often expenditures are merely the last stage in that process. New obligational authority is made available, obligations are incurred, goods and services are delivered, and expenditures are made. Understanding the Federal budget process as it affects economic activity requires some knowledge of these various stages.

(4) Finally, it is important to remember that the Federal budget document is a summary. To be useful it cannot be so encumbered with detailed data and evaluations on each Government program that it loses its value as a document which gives a broad picture of the Federal Government's programs. We must, therefore, balance the value of additional detail with the value which flows from a compact summary. Neither extreme would serve the public. Relevant information, which is too detailed for inclusion in the budget document itself, should, of course, be made available to the Congress and the public in other forms—for example, in appropriation hearings or in special studies, separately printed.

Over the years, there has been increasing awareness of the multiple needs and uses for budgetary information, and efforts have been made on a continuing basis to improve the document in serving its basic purposes. I would like to mention some of the most recent innovations and improvements.

MAJOR RECENT IMPROVEMENTS IN THE BUDGET

In the past 2 years, we have made a number of changes in the budget, perhaps the most obvious of which was its redesign into a compact, book-size volume, of some 431 pages. This innovation was directed toward making the document simpler, more understandable and easier to use. For those who need a great deal of detail, there is still available the large appendix, but for most regular users we believe the new budget should prove adequate in providing the information desired. We hope also, that a wider audience will be reached, and that public understanding of budgetary issues will be increased, because the present document is less awesome in terms of both size and price than was previously the case.

Other innovations or improvements made in the last 2 years represent steps toward making the budget more meaningful in terms of the two major purposes I noted earlier.

PRESENTING THE GOVERNMENT'S PROGRAM

With respect to presenting the Government's program and aiding in its evaluation, we have made two major changes.

(1) Reorganization of the budget document: Starting with the 1963 budget document we have substantially rearranged the presentation of budget data in a manner intended to improve, sharpen, and clarify the material. The President's message has been reduced from a 70–80 page discussion to a more readable 25 pages, hitting the highlights of the Government's program and finances. It includes, among other things, a summary of the overall economic outlook, fiscal policy and budget totals, important program trends, and major legislative proposals including those affecting revenues. It provides an across-the-board view of the proposed activities of the Government and their financial expression.

The Government's revenue outlook and program plans are then presented in greater detail in parts 3 and 4 of the document. Estimates and proposals related to revenues are summarized in textual and tabular form in part 3. Part 4 is devoted to a discussion of Federal activities in terms of programs, with the focus on outputs, in terms of services and performance, rather than on inputs of personnel, equipment, and so forth. Related to the activities to be performed and the results to be achieved are the estimated requirements in terms of dollar payments or new obligational authority.

(2) Tabular presentation of program requests, by agency: The Congress must act, not on expenditure estimates, but on requests for new obligational authority. As the second major change, therefore, we have developed a new presentation—one which we might call the action part of the budget—to set forth the Federal program by agency with emphasis on the requests for new obligational authority. This section of the budget, part 5, contains a listing of every appropriation account for each agency of the Government, indicating the appropriations requested and presenting a brief explanation of the increase or decrease proposed for the fiscal year ahead as compared with the amount provided or estimated for the current fiscal year. There are 1,100 tabular accounts with a description. The Budget Bureau finds this most useful as a very handy summary reference, because it does cover each agency and each appropriation.

EVALUATING THE ECONOMIC IMPACT OF THE BUDGET

The next major purpose of the budget is evaluating the economic impact of the budget. We have also made some changes in recent years.

Assessing the overall influence of Federal fiscal policy on the economy is, of course, a key function of this committee. In the past several years, a number of innovations have been introduced which, we believe, make it possible to undertake a more fruitful economic evaluation of the budget.

(1) Economic assumptions: The Congressman or individual citizen who is interested in evaluating the budget from an economic standpoint must know the economic assumptions upon which the budget was formulated. This is so not merely because Federal revenues and, to some extent, expenditures depend upon the level of economic activity, but more importantly because Federal fiscal policy can only be judged in the light of economic conditions. A budget ideally designed for an economy with high unemployment would not be appropriate if a general labor shortage and strained plant capacity were expected to prevail. An economic analysis of the proposed Federal budget, in other words, must consist of two parts: first, a judgment about the economic assumptions under which the budget was formulated; and, second, a judgment about the appropriateness of the proposed budgetary policies in the light of those assumptions. The 1963 budget for the first time contained, and the 1964 budget continues, an explicit and quantitative statement of the underlying economic assumptions upon which the budget estimates were based.

I should hasten to add that, in all fairness, it had been the case for some time for the Secretary of the Treasury, and in some cases the Director of the Budget, to indicate some of the economic assumptions in the press conference which accompanied the budget some years before 1963.

(2) Consolidated cash statement: A second change which has been introduced is more emphasis on the consolidated cash statement.

The 1964 budget places much greater emphasis than earlier budgets on the consolidated cash statement as compared to the administrative budget. The latter concept continues to be clearly identified in the budget in view of its usefulness as a guide to executive and legislative program planning, review, and enactment. However, the current budget recognizes that the cash concept, which includes nearly $30 billion of trust fund receipts and expenditures, provides a more complete measure of the economic impact of Federal financial transactions on the economy. It is also valuable for determining Government financing and net borrowing requirements. Throughout the document, therefore, the tables and text provide information on trust fund transactions in addition to information on an administrative budget basis.

(3) National income account statement of budget receipts and expenditures: This committee is the last group before whom I need emphasize the importance of presenting budgetary data on a basis consistent with our national income and product accounts. Federal receipts and expenditures on a national income accounts basis—for the forthcoming budget year as well as prior years—were included in the budget document for the first time last year. Moreover, the estimates distinguished between Government purchases of goods and services, transfer payments, and other expenditures. Users of the budget document can now incorporate such estimates directly into quantitative analyses and forecasts of gross national product and national income.

The three major budget concepts—the administrative budget, the cash-consolidated statement, and the Federal sector of the national income accounts—are briefly discussed, and the differences reconciled, in a special analysis included in the budget document.

(4) Federal obligations: In evaluating the impact of most Government programs on the economy, two fiscal measures are of particular importance—obligations and expenditures. While the budget has always presented information on Government expenditures, the 1963 budget was the first to include a table summarizing obligations incurred by agency in the past fiscal year and estimated for the current and upcoming year. Prior to this, obligations for each agency were shown in the budget separately in the detailed material, but were nowhere brought together. The need for this type of information has been expressed by many economists and the Joint Economic Committee itself pointed to this need in its 1959 study of employment, growth, and price levels. As you know, the obligational stage of Government transactions is strategic in gaging the impact of the Government's operation on the economy since obligations are forerunners of expenditures and as such are often the motivating force in business decisions to employ people and stock inventory for Government orders. It is obviously necessary to look at obligations in some detail, program by program, in evaluating these impacts.

(5) Federal employment: Finally, the budget document included for the first time in 1963 a table showing a 3-year comparison, by agency, of Federal civilian employment in the executive branch. This information provides useful data which makes possible a more meaningful analysis of the budget in relation to the Government's role in economic activity and manpower utilization.

SPECIAL BUDGET ANALYSIS

Much of the improvement in the budget document over the years has occurred through the introduction of various special analyses. Some of these recast the expenditure figures in different categories than the agency or program classifications used in the main body of the document. Other special analyses concentrate on particularly important aspects of Federal activity; for example, research and development outlays, grants-in-aid to State and local governments, and expenditures for statistical programs. These special analyses have been developed and added to the budget document over the years. They constitute a continuing part of the work program of the Bureau of the Budget. We have made some improvements and some changes. We are constantly exploring ways of making them more informative and more useful parts of the budget document, and during the past few years a number of significant changes have been introduced. I should like to discuss a few of these special analyses. In order to avoid a lengthy statement, I shall be quite brief. But I welcome any questions on points that may not be covered in this summary discussion.

(1) Investment, operating, and other expenditures: Special analysis D in the 1964 budget is an investment-type classification which provides a broad framework for recognizing not only outlays to increase physical capital and financial assets, but also developmental expenditures, such as outlays for research and for education, which represent an investment in general knowledge and in human capital. The distinction between those expenditures which purchase currently "consumed" goods and those which add to the future productivity of

our society is an important one. (Some expenditures, such as education, contribute to both goals.) An evaluation of the impact of the budget on long-term economic growth must take that distinction into account. On the other hand, the investment classification in the budget document is not a "capital budget" as that term is normally used. It provides general magnitudes of capital and current outlays, but it is not a plan for the separate financing of capital expenditures.

(2) Federal credit programs: While the 1964 budget proposed sizable reductions in expenditures through the substitution of private for public credit, the Federal Government continues to fill important credit gaps by providing or stimulating credit not otherwise generally available to important groups of borrowers. In addition to direct loans, the Government provides Federal guarantees and insurance of private loans. Such guarantees normally have little or no immediate impact on Federal receipts and expenditures, but are an important contributing factor to economic activity and longrun economic growth. These programs along with direct Federal loan programs are set forth in special analysis E, "Federal Credit Programs." For the first time, the 1964 budget also includes a highly useful table showing the interest rates and maturities of the major credit programs of the Government.

(3) Statistical programs of the Federal Government: Of particular interest to this subcommittee is special analysis I, describing the principal statistical programs of the Federal Government which furnish a variety of information indispensable for measuring and analyzing economic and social trends in the Nation. The 1964 budget provides for a significant expansion of our statistical programs, the major purposes of which are explained in the analysis.

(4) Historical data: In addition to the special analyses, the budget contains a final section of tables providing, on a comparative basis, historical data on Federal receipts and expenditures on the basis of administrative budget and trust funds, consolidated cash, and the national income accounts. These data—presented together in a separate section of the budget for the first time this year—provide a handy reference source for those users interested in considering and comparing trends in Federal finances over time.

Other special analyses contain detailed information on Federal research and development programs, on the gross expenditures and receipts of public enterprise and trust funds, on foreign currency availabilities and uses by the Federal Government, on public works, and on Federal aid to State and local governments. Together with the special analyses discussed earlier, these provide a wealth of detailed information on particular aspects of Federal fiscal activities. At the same time, we realize that these analyses can be improved; if past history is a guide, each year we will continue to reevaluate and modify these analyses. The advice and suggestions of this committee, and the witnesses that appear before it, have been particularly useful. I am sure that we will continue to benefit from the kind of close cooperation we have enjoyed in the past.

POSSIBLE FUTURE IMPROVEMENTS

The improvements in the budget document I have described are part of a continuing process. There is more which can be done, and we are currently exploring a number of further possible changes. We have a series of projects now underway.

(1) National income account data: We are currently working with the Commerce Department to improve both the data used in the Commerce statistics and that used in the budget document for the Federal sector of the national income accounts. One problem being studied is the reconciliation between the accounting for the cash-consolidated figures and statistics for the Federal sector of the national income accounts. Although the national income accounts data involve a significant amount of statistical estimation—for example, the measurement of tax accruals—we should like to be able to derive as much of the national income account budget as possible from a direct tabulation of Federal accounting data.

(2) Personnel statistics: The end-of-year employment figures shown in the budget are based on a definition jointly agreed to by the Bureau of the Budget, the Civil Service Commission, and the Department of Labor. This definition is also the basis for the reports issued monthly by the Civil Service Commission. Under this definition, consultants and others hired on an intermittent basis who work for the Federal Government even 1 day in a month are included in the count of Federal employees for that month. The reporting of Federal employment is not entirely consistent with the reporting of other employment to the Bureau of Labor Statistics. We are collaborating with the Commission and the Department of Labor to see what can be done to put the reporting of Federal employment on a more comparable basis.

(3) Integration of budget classifications: We have a small group of our staff studying the development of an integrated classification system for the budget, and the possibilities of increasing the use of automatic data processing equipment in the budget process. In such a system each individual expenditure item would be given a code according to a number of classifications. Through the use of computer facilities, the various classifications and cross classifications could be speedily assembled and checked and experimental tabulations provided for research use. We hope that this project will produce more timely information for budgetary analysis and decisionmaking, simplify the preparation of the budget, and permit systematic updating of the information after the budget is transmitted.

(4) Accrual basis for budget totals: We are looking into the possibility of obtaining information to provide budget totals on the basis of accrued receipts and expenditures. There has been a considerable emphasis in the last few years on the usefulness of accrued expenditures as a basis for agency management, but not all agencies have established accounting systems which will produce this information. There is a greater problem in obtaining firm figures on receipt accruals for taxes.

(5) Comprehensiveness of the budget: There are some Government activities for which no details are included in the budget: the Exchange Stabilization Fund and the Comptroller of the Currency in

Treasury; the Milk Marketing Administration, Agriculture; the Board of Governors of the Federal Reserve System; Federal intermediate credit banks; banks for cooperatives; and the Federal Deposit Insurance Corporation. The last three of these, along with the Federal land banks and the Federal home loan banks, are currently included in the consolidated cash totals, even though no regular budget estimates are submitted for them. These activities are also under study.

(6) Reporting on obligations incurred: for the past 2 years, Treasury has compiled quarterly reports on oblizgations incurred by agency. Although copies have been made available to anyone requesting them, this report has been considered as experimental, to appraise the practicability and meaningfulness of such a report. We have found that a quarterly listing of agency totals raises more questions than it answers. Therefore, with our encouragement, and at our suggestion, Treasury is now planning to expand this series to provide information by object class (e.g., personal services, travel, supplies and materials * * *), to compile the data monthly and to make it available on a more timely basis. Again, a dry-run period to test the feasibility of such reports is desirable, and we do not plan on publication until after such a period. If this periodic reporting turns out to be practical, the obligations data it will provide should add substantially to the ability of the economic analyst to evaluate the short-run impact of the Government's fiscal actions.

(7) Updating of annual estimates: There is considerable interest in more frequent revisions of estimates included in the budget document. Amendments to the budget—downward as well as upward—are transmitted from time to time as the situation changes. The totals of revised recommendations, together with revised receipt and expenditure estimates, are published after Congress has completed its action on the budget (usually in September or October), and again in the budget document transmitted in January. The President's budget presents a plan, rather than a forecast, and is therefore subject to congressional and other changes. Our present thinking is that any revision of this plan which changes it into a forecast would require assumptions as to final congressional action on pending legislation, as well as appropriation acts, and such assumptions could be misinterpreted at a time when the President had not changed his program and strongly wanted congressional approval of it. There may also be different versions of the legislation under consideration in each House, and a number of pending amendments to each version. Thus, substitution of a forecast for a plan does not appear practical while the Congress is in session. This objection does not hold as strongly for the current year (that ending this June 30), and we are mindful of a gap here which we might help fill. We are also studying possibilities of what might be done in the way of providing more current scorekeeping for the budget year as well, particularly with respect to revenue estimates.

(8) Longer range projections: We have been encouraging agencies to place more emphasis on developing multiyear program plans and projections, and these plans have been considered both in the agency and in the Bureau of the Budget in the development of individual program estimates and budget recommendations. It will be some

time, however, before these plans and projections for all agencies will be developed to the extent that meaningful totals could be derived from the agency figures. In this work we will continue to encourage development of agency capability in the application of cost effectiveness or cost-benefit analyses. Many of the required skills and measurements have not yet been developed outside the defense and water resources areas, in many cases because of the inherently difficult problem of quantifying the benefits and, to a lesser extent, of allocating costs.

We do not believe that this exhausts the list of possible improvements. Indeed, during the next month we will be examining in great detail the record of these hearings in a search for new ideas and suggestions.

Senator PROXMIRE. Thank you very much. I think that is a very helpful, comprehensive, and at the same time a concise analysis. I appreciate it.

I would like to turn to your statement, in which you talk about the economic assumptions. There you say an economic analysis of the proposed Federal budget must consist of two parts, first a judgment about the economic assumptions, and second, a judgment about the appropriateness of the proposed budgetary policy in the light of those assumptions. All of this, as I take it, is on page 50 of the budget document.

Mr. SCHULTZE. The major part of it.

Senator PROXMIRE. It is stated in a concise 75 words or so. I wonder how satisfactory this really is. You say the economic base of the estimates is that we will have a GNP of $578 billion. There is not much of an analysis to support this. I presume it is based on the estimates of the Council of Economic Advisers and the report made by the Council of Economic Advisers or the President, rather.

I am wondering, in view of the fact that the economic base is so important, and independent scholars, not only in universities, but budget directors of States, economists in business, bank economists, and so forth, will have to base their assumptions on the calculations made in the budget, shouldn't there be a somewhat more detailed justification for these estimates that you have made?

Mr. SCHULTZE. There are three parts, I think, to your question that I might address myself to. One is the technical matter. These estimates are generally developed in close collaboration, in the three main fiscal agencies plus two additional agencies. The three are the Budget Bureau, Council of Economic Advisers, and the Treasury Department—with in many cases the help and assistance of the Office of Business Economics in the Department of Commerce, in particular, and, in general, very often some of the economists from the Federal Reserve Board.

Senator PROXMIRE. With all that, you arrive at precisely the same figure as the Council.

Mr. SCHULTZE. It is developed in common. They take the lead, but we do have a common estimate. In other words, our object is to provide—and I think it is sensible—for all the agencies in the Government (for example, the Post Office in making its own forecast) a Central Government assumption. We do this by collaboration among the central agencies.

So it is not surprising that the two come out to be the same thing.

The second point is that a very large part of the analysis underlying this is presented in the Economic Report of the President and the Council's report accompanying that, and that is available within 2 days of the budget document. What the division should be between what we put in our document and what the Council puts in their document is not always the easiest thing in the world to decide. What we have done is to have a very brief, concise statement, and have the Council elaborate on this.

Finally, I would think that we could hopefully look forward as our abilities to forecast get better, as we develop techniques, to present more detailed economic analyses (not necessarily in the budget document, perhaps in the Council's report) which would encompass the more specific quantitative relationship of the Federal expenditures and outlays to the national income accounts.

How long it will take to get ourselves in a position to really trust ourselves to put these on paper, I don't know. In other words, we are working toward the goal of having more and more explicit forecasts. I would hate to make the judgment now how much should be here and how much in the Council's document. We hope to provide more information.

Senator PROXMIRE. It would be very helpful to us if you would to some extent trace out the consequences and effects of these assumptions of a $578 billion GNP on expenditures and on receipts, and in view of the fact that these assumptions have been wrong in the past and are going to be wrong in the future, because that is the nature of our free enterprise system.

It seems to me it would be helpful if there were some alternative assumptions made with projections. I am not asking for too much. I realize one of the great advantages of this book is that it is concise, but at least a consideration of what would happen if we had, instead of $578 billion, we would have $585 billion, which seems more likely, GNP, or $570 billion GNP. We fell short last year. It would be quite helpful.

Mr. SCHULTZE. We did include one phrase in that direction, indicating that in our estimation the $578 billion should really be thought of as a range from $573 to $583 billion. It looks now as though it might be on the top of that range.

Senator PROXMIRE. How about bringing it up to date? As time passes, you can get more and more accurate as to what the real GNP is going to be.

Mr. SCHULTZE. As a matter of practical fact, we do update this. Just recently in an executive session we submitted to the Ways and Means Committee some updated estimates. Since it was in executive session, I don't feel free to reveal them.

Representative CURTIS. We will get them tomorrow.

Mr. SCHULTZE. Yes, sir. We are thinking seriously about how we might go about updating these estimates and presenting them publicly. We do quite frankly have the problem I outlined here. We break it into two parts, revenue updating and expenditure updating.

Insofar as the year 1963 is concerned, there really is not much problem, and we can move toward providing in a more systematic matter some kind of updating. With respect to updating 1964 before the Congress is finished, we really don't know what is going to happen to expenditures until the Congress is through operating.

We are faced with the practical problem that if we guess that the Congress won't pass something, it puts the President in the position of saying, "My estimate is that the Congress is not going to pass something I want." We really don't want to be in that position.

Senator PROXMIRE. I understand that. The revenue updating would be the one I am talking about, particularly, although as time does pass we pass supplemental appropriations bills or fail to or pass some appropriation measures and that, too, would be valuable.

Then, you talk about the Federal obligations and estimates for the current, upcoming year prior to this obligation for each agency were shown in the budget separately in the detailed material, but nowhere brought together. It seems to me this is the kind of information that would be very valuable on Federal obligations if projected just as much as you possibly can do it with accuracy.

This is very valuable when it is in this kind of detail for specific programs for everyone, for industry, for economists generally, for States, and so forth.

Mr. SCHULTZE. I agree.

Senator PROXMIRE. I realize there are limitations on this, but I would like to stress the importance of the greatest possible projection, maybe with qualifications, recognizing that nothing is sure and nothing particularly is sure about Congress. You can't tell what we will do.

Mr. SCHULTZE. One thing will help us, and I think help industry, business, and the Congress in its economic analysis. If and when we get current reporting of obligations, not just by agency, but within agency by kinds of objects purchased (and by whether it is an obligation to business or an intragovernmental obligation), this will give us a better ground for projecting and give business and Congress a better ground for analysis.

Senator PROXMIRE. When do you think you can do that?

Mr. SCHULTZE. The timing I don't know. It will be a while because there will be some significant changes in agency reporting required. We will have to see how this works. Mr. Tiller would be perhaps a better judge as to timing.

Mr. TILLER. We have been gathering the material by agency alone for the last six quarters, Senator, but we expect now, starting with an experiment in the month of July, we will be able to get a breakdown below the agency level by type of obligation.

I doubt that the figures will be completely valid the first month or two, but we should have something going pretty well on it by next fall or winter.

Mr. COHN. I think I might elaborate on that a little more, Mr. Proxmire.

We have in the detail of the budget a schedule of obligations by objects for each appropriation account, for the current year as well as the year ahead. This is in the appendix of the budget. It is never summarized in the document itself, but afterward we tabulate this information, so that for each agency and in summary, we have separately the obligations for personal services, travel and transportation, rent, utilities, printing, acquisition of land and structures, and so on.

As we move toward a better automation of our budget information, we would try to get this kind of annual information more currently. Right now the work is done whenever we have time. The information Mr. Tiller referred to would be a quarterly or monthly kind of data. Here our problem is to find the actual past information before we can move toward estimating the future.

The agencies have problems in setting up their accounts to provide this information for us promptly each month. We are working with them trying to show them they can do it at very little cost. After we solve this problem we can then move toward forecasting.

Senator PROXMIRE. It seems to me it is pretty striking that you can't do that in view of the fact that it is the actual spending of money.

Mr. COHN. The obligations total is not the problem. The problem is to break out how much of the total obligations is for various kinds of inputs. It is a matter of detail. The agency total we can find, or the appropriation total, but the breakdown for an appropriation where some of the obligations are for personnel and some for travel and some for printing and some for other things designed to produce one product is a degree of detail which the accountants and managers find inefficient to collect and summarize for an agency as a whole.

It costs money to get more detail. From the management point of view, we try to do things as inexpensively as posible, so there is a resistance to providing this detail.

Senator PROXMIRE. It seems there is nothing more important than Congress knowing where the money is going, and as specifically and precisely as possible. You are right about thinking of the cost. Maybe it would be helpful to us if you could make an estimate of how much it would cost to give more detail.

Mr. COHN. I would like to use this expression of your interest and quote it from time to time.

Senator PROXMIRE. Yes, indeed. We certainly don't want to require information which is very expensive to secure, although I do think this is useful to us. We are aware of the fact that we just don't know enough about what is going on and how much we are spending, where, how, and so forth.

Mr. SCHULTZE. I might submit either for the committee files or the record two things. One is a summary of obligations by objects for the fiscal years 1962, 1963, and 1964; secondly, a tabulation of agency obligations quarterly since midyear 1960. Both of these will be available for whatever use you want to make of them.

Senator PROXMIRE. Very good.

(The material referred to follows:)

Net obligations incurred for the executive branch of the Federal Government

[In thousands of dollars]

	July 1 to Dec. 31, 1960	Jan. 1 to Mar. 31, 1961	Apr. 1 to June 30, 1961	July 1 to Sept. 30, 1961	Oct. 1 to Dec. 31, 1961	Jan. 1 to Mar. 31, 1962	Apr. 1 to June 30, 1962	July 1 to Sept. 30, 1962	Oct. 1 to Dec. 31, 1962
Executive Office of the President	34, 036	18, 593	21, 631	10, 847	3, 288	6, 450	5, 728	4, 258	6, 553
Funds appropriated to the President:									
Foreign assistance, military	525, 946	271, 081	722, 368	168, 200	318, 464	428, 296	702, 817	161, 886	196, 234
Mutual assistance, economic	852, 225	713, 698	571, 839	326, 754	223, 004	1, 090, 780	1, 169, 252	395, 712	235, 957
Other	10, 378	37, 598	−16, 436	520, 536	18, 281	−301, 930	72, 670	50, 408	211, 008
Department of Agriculture	1, 647, 183	3, 427, 145	1, 378, 936	2, 505, 659	969, 689	1, 427, 949	1, 881, 884	1, 427, 264	3, 898, 534
Department of Commerce	338, 362	118, 463	116, 607	107, 701	126, 965	216, 334	172, 815	72, 476	348, 164
Department of Defense:									
Military	20, 493, 432	10, 659, 322	11, 945, 885	10, 358, 252	11, 818, 182	11, 917, 411	13, 697, 630	10, 671, 464	11, 921, 820
Civil	693, 817	104, 290	150, 333	487, 482	171, 862	147, 795	225, 033	539, 543	214, 445
Department of Health, Education, and Welfare	1, 978, 498	707, 297	1, 220, 554	1, 167, 659	1, 014, 866	945, 257	1, 386, 074	1, 353, 923	1, 193, 449
Department of the Interior	444, 240	173, 707	213, 062	223, 050	257, 484	184, 718	239, 121	274, 281	272, 884
Department of Justice	145, 498	78, 989	66, 489	73, 763	71, 612	73, 746	76, 495	75, 491	82, 310
Department of Labor	296, 173	175, 394	307, 789	183, 318	297, 636	−64, 835	210, 559	107, 492	173, 367
Post Office Department	21, 748	601, 401	259, 744	274, 294	140, 922	172, 311	248, 912	249, 128	233, 632
Department of State	146, 047	56, 020	94, 470	99, 542	68, 700	56, 532	87, 309	99, 022	146, 357
Treasury Department	5, 137, 839	2, 464, 022	2, 436, 315	2, 541, 122	2, 650, 186	2, 370, 369	2, 676, 551	2, 721, 592	2, 727, 253
Atomic Energy Commission	1, 679, 541	410, 822	543, 338	420, 878	1, 214, 258	591, 338	463, 796	521, 269	1, 418, 630
General Services Administration	269, 489	59, 384	108, 821	78, 402	122, 904	162, 608	57, 044	109, 841	155, 804
Housing and Home Finance Agency	6, 647	486, 768	278, 935	372, 034	294, 719	396, 251	259, 283	93, 162	254, 117
National Aeronautics and Space Administration	351, 481	283, 985	272, 646	252, 619	429, 216	426, 386	535, 856	521, 338	878, 063
Veterans' Administration	2, 590, 262	1, 425, 339	1, 397, 051	1, 333, 790	1, 407, 852	1, 331, 417	1, 337, 740	1, 321, 524	1, 338, 211
Other independent agencies	661, 599	597, 322	640, 703	536, 039	263, 651	507, 538	224, 933	488, 593	185, 931
District of Columbia	32, 983	4, 200	13, 250	32, 503	8, 600	19, 800	11, 515	36, 553	12, 596
Total	38, 357, 442	22, 874, 840	22, 744, 320	22, 074, 444	21, 892, 341	22, 106, 521	25, 743, 017	21, 296, 220	26, 105, 319

NOTE.—"Foreign assistance, military," has been reclassified from the Department of Defense chapter (where it appeared on reports up through June 30, 1962) to the "Funds appropriated to the President" chapter.

Sources: Treasury figures from quarterly 1-page report for December 31, 1960, and end of each quarter thereafter. (The first of those reports covered 6 months.)

SUMMARY OF OBLIGATIONS BY OBJECTS, FISCAL YEARS 1962, 1963, AND 1964

The following tables summarize the obligations by objects contained in the 1964 budget appendix. Obligations by objects show the nature and scope of the services, articles, or other items for which obligations have been or will be incurred. The object classification is set forth in Bureau of the Budget Circular No. A–12, and defined in attachment A thereto.

The dollar amounts of these obligations consist of orders placed, contracts awarded, services received, and all other transactions during the given year which legally reserve an authorization for expenditure. (For further definition of obligations see sec. 1311, Public Law 663, 83d Cong. (68 Stat. 800).) A schedule of obligations by objects is shown for the various types of accounts as specified in Bureau of the Budget Circular No. A–11.

In the tabulation, obligations are distributed by object class for actual or recommended authorizations for fiscal years 1962, 1963, and 1964.

Users of this summary should note the following with respect to the treatment of amounts compiled in the tabulation:

Amounts for cost-based budgets or revolving funds are often distributed to object classes on the basis of costs or accrued expenditures rather than obligations. In such cases this summary represents a compilation of costs or accrued expenditures by object classes and the difference between these amounts and obligations is netted in the entry "Not distributed by object class."

The amounts of obligations by object for revolving funds in the attached tables are not directly comparable to similar tabulations of previous years. Prior to 1963 object schedules were not required for the entire revolving fund in cases where limitations on administrative or other expenses had been established. In such cases, a classification by object was presented only for the limitation account. In the 1963 budget appendix most revolving fund obligations were classified by object, but a few exceptions were made. The 1964 budget appendix and the attached tables include the entire amount of revolving fund obligations.

Object class 11, personnel compensation, includes both military and civilian personnel. The dollar amounts for military compensation are shown separately on the attached tables for Department of Defense—military functions, Department of defense—civil functions, Treasury Department, and grand total obligations.

The legislative branch makes no distribution of obligations by objects for certain of its accounts. Obligations for these accounts are included in the line "Not distributed by object class."

Amounts for deposit funds and foreign currencies available without charge to appropriations are not included in this summary.

Trust fund obligations are summarized for the first time and included in a separate section. This is consistent with the increased emphasis placed upon the cash-consolidated budget.

Estimates for obligations under new obligational authority proposed for separate transmittal are identified in the budget document in total only. These estimates are summarized in the line "Proposed for separate transmittal." Proposed pay increase supplementals, however, are excluded from the separate transmittal line and distributed by object class.

The attached tables are presented in three parts:

Direct obligations.—Obligations against direct authorizations enacted or recommended for action by the Congress.

Reimbursable obligations.—Obligations against advances or reimbursements received or estimated to be received in payment for goods furnished or services rendered. These obligations usually are a duplication of some of the amounts shown as direct obligations (such as "25 other services") in the paying account. The agency receiving the payment obligates the money under the various object classes necessary to provide the goods or services requested. This duplication affects the grand total of obligations but not necessarily the total for any given object.

Public enterprise and revolving funds.—Data reported for these types of funds include some of the same duplication mentioned above for interagency and intra-agency transactions and are included in this category without indentification.

Obligations by objects for the fiscal years 1962, 1963, and 1964

GRAND TOTAL (ADMINISTRATIVE BUDGET)

[In millions of dollars]

Description	1962 actual				1963 estimate				1964 estimate			
	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total
10 Personal services and benefits	(21, 200)	(442)	(5, 836)	(27, 478)	(22, 014)	(534)	(6, 282)	(28, 832)	(23, 129)	(544)	(6, 583)	(30, 262)
11 Personnel compensation	16, 838	405	5, 419	22, 659	17, 470	492	5, 829	23, 792	18, 086	507	6, 107	24, 702
Military pay included in 11 above	(8, 117)	(10)	(1)	(8, 127)	(8, 196)	(13)	(1)	(8, 209)	(8, 229)	(13)	(1)	(8, 241)
12 Personnel benefits	3, 278	35	414	3, 729	3, 348	43	450	3, 839	3, 720	40	477	4, 236
13 Benefits for former personnel	1, 083		2	1, 085	1, 198		2	1, 200	1, 322		2	1, 324
20 Contractual services and supplies	(26, 017)	(2, 650)	(15, 198)	(43, 865)	(28, 794)	(3, 008)	(16, 236)	(48, 040)	(31, 639)	(3, 097)	(16, 839)	(51, 572)
21 Travel and transportation of persons	1, 033	27	143	1, 203	1, 035	30	150	1, 215	1, 077	29	151	1, 254
22 Transportation of things	1, 093	79	1, 618	2, 790	1, 101	89	1, 680	2, 872	1, 099	97	1, 736	2, 934
23 Rent, communications, and utilities	1, 222	77	345	1, 644	1, 368	172	386	1, 929	1, 454	181	420	2, 055
24 Printing and reproduction	187	5	59	252	181	6	60	248	199	6	60	265
25 Other services	13, 501	1, 132	2, 569	17, 204	16, 380	1, 232	2, 710	20, 320	18, 669	1, 208	2, 631	22, 510
26 Supplies and materials	8, 980	1, 325	10, 467	20, 774	8, 724	1, 474	11, 256	21, 456	9, 145	1, 570	11, 840	22, 556
30 Acquisition of capital assets	(17, 695)	(976)	(9, 226)	(27, 897)	(19, 603)	(1, 417)	(10, 069)	(31, 090)	(19, 706)	(1, 361)	(12, 597)	(33, 667)
31 Equipment	13, 714	805	972	15, 491	14, 662	1, 140	1, 130	16, 936	14, 896	1, 078	1, 093	17, 069
32 Lands and structures	2, 570	170	722	3, 462	3, 850	275	823	4, 950	3, 777	283	890	4, 952
33 Investments and loans	1, 412		7, 532	8, 943	1, 089		8, 117	9, 207	1, 032		10, 617	11, 649
40 Grants and fixed charges	(21, 931)	(75)	(2, 563)	(24, 570)	(23, 317)	(83)	(2, 843)	(26, 244)	(25, 143)	(69)	(2, 813)	(28, 026)
41 Grants, subsidies, and contributions	8, 756	75	1, 600	10, 430	9, 445	83	1, 772	11, 298	10, 819	69	1, 849	12, 737
42 Insurance claims and indemnities	3, 898	[1]	207	4, 107	3, 989	[1]	314	4, 305	4, 120	[1]	185	4, 307
43 Interest and dividends	9, 275	[1]	738	10, 013	9, 881		739	10, 621	10, 201		760	10, 963
44 Refunds	3		16	19	1		18	19	[1]		18	18
Unvouchered	20	[1]		20	23	[1]	[1]	23	24	[1]	[1]	24
Not distributed by object class	−65	69	2, 228	2, 229	476	42	674	1, 195	−30	38	2, 080	2, 089
Proposed for separate transmittal					1, 573		8	1, 581	2, 654	[1]	[1]	2, 654
Total	86, 803	4, 212	35, 049	126, 069	95, 804	5, 082	36, 115	137, 003	102, 263	5, 113	40, 922	148, 299

10 Personal services and benefits	(22)	(5)	(46)	(73)	(24)	(5)	(47)	(77)	(27)	(5)	(47)	(79)
11 Personnel compensation	21	5	43	68	23	5	44	72	25	5	44	74
Military pay included in 11 above	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
12 Personnel benefits	1	([1])	3	4	2	([1])	3	5	2	([1])	3	5
13 Benefits for former personnel	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
20 Contractual services and supplies	(29)	([1])	(74)	(103)	(29)	([1])	(76)	(106)	(27)	([1])	(76)	(104)
21 Travel and transportation of persons	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])
22 Transportation of things	([1])	([1])	1	1	([1])	([1])	1	1	([1])	([1])	1	1
23 Rent, communications, and utilities	1	([1])	1	2	1	([1])	1	2	2	([1])	1	3
24 Printing and reproduction	22	([1])	41	63	16	([1])	42	58	17	([1])	42	59
25 Other services	5	([1])	([1])	5	11	([1])	([1])	11	8	([1])	([1])	8
26 Supplies and materials	1	([1])	30	32	1	([1])	32	33	1	([1])	32	33
30 Acquisition of capital assets	(7)	([1])	(1)	(9)	(19)	([1])	(2)	(20)	(16)	([1])	(1)	(17)
31 Equipment	3	([1])	1	4	3	([1])	2	5	3	([1])	1	5
32 Lands and structures	5	--------	--------	5	16	--------	--------	16	12	--------	--------	12
33 Investments and loans	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
40 Grants and fixed charges	(--------)	([1])	(--------)	([1])	(--------)	([1])	(--------)	([1])	(--------)	([1])	(--------)	([1])
41 Grants, subsidies, and contributions	--------	([1])	--------	([1])	--------	([1])	--------	([1])	--------	([1])	--------	([1])
42 Insurance claims and indemnities	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
43 Interest and dividends	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
44 Refunds	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
Unvouchered	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
Not distributed by object class	81	--------	6	87	85	--------	−1	84	87	--------	−1	86
Proposed for separate transmittal	--------	--------	--------	--------	([1])	--------	--------	([1])	--------	--------	--------	--------
Total	140	5	127	272	158	6	124	287	156	5	124	286

See footnotes at end of table.

Obligations by objects for the fiscal years 1962, 1963, and 1964—Continued

THE JUDICIARY

[In millions of dollars]

Description	1962 actual				1963 estimate				1964 estimate			
	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total
10 Personal services and benefits	(49)	([1])	(------)	(49)	(54)	([1])	(------)	(55)	(61)	([1])	(------)	(61)
11 Personnel compensation	47	([1])	------	47	51	([1])	------	52	57	([1])	------	58
Military pay included in 11 above	------	------	------	------	------	------	------	------	------	------	------	------
12 Personnel benefits	3	------	------	3	3	([1])	------	3	3	([1])	------	3
13 Benefits for former personnel	([1])	------	------	([1])	([1])	------	------	([1])	([1])	------	------	([1])
20 Contractual services and supplies	(6)	([1])	(------)	(6)	(7)	([1])	(------)	(7)	(5)	([1])	(------)	(5)
21 Travel and transportation of persons	3	([1])	------	3	4	------	------	4	2	------	------	2
22 Transportation of things	([1])	------	------	([1])	([1])	------	------	([1])	([1])	------	------	([1])
23 Rent, communications, and utilities	1	------	------	1	1	([1])	------	1	2	([1])	------	2
24 Printing and reproduction	1	([1])	------	1	1	([1])	------	1	1	([1])	------	1
25 Other services	([1])	------	------	([1])	([1])	([1])	------	([1])	1	([1])	------	1
26 Supplies and materials	([1])	([1])	------	([1])	([1])	([1])	------	([1])	([1])	([1])	------	([1])
30 Acquisition of capital assets	(2)	(------)	(------)	(2)	(1)	([1])	(------)	(1)	(1)	([1])	(------)	(1)
31 Equipment	2	------	------	2	1	([1])	------	1	1	([1])	------	1
32 Lands and structures	------	------	------	------	------	------	------	------	------	------	------	------
33 Investments and loans	------	------	------	------	------	------	------	------	------	------	------	------
40 Grants and fixed and charges	([1])	(------)	(------)	([1])	(------)	(------)	(------)	(------)	(------)	(------)	(------)	(------)
41 Grants, subsidies, and contributions	------	------	------	------	------	------	------	------	------	------	------	------
42 Insurance claims and indemnities	([1])	------	------	([1])	------	------	------	------	------	------	------	------
43 Interest and dividends	------	------	------	------	------	------	------	------	------	------	------	------
44 Refunds	------	------	------	------	------	------	------	------	------	------	------	------
Unvouchered	------	------	------	------	------	------	------	------	------	------	------	------
Not distributed by object class	------	------	------	------	------	------	------	------	------	------	------	------
Proposed for separate transmittal	------	------	------	------	258	------	------	258	------	------	------	------
Total	58	([1])	------	58	321	([1])	------	321	67	([1])	------	67

10 Personal services and benefits	(19)	([1])	(--------)	(19)	(20)	([1])	(--------)	(20)	(17)	([1])	(--------)	(17)
11 Personnel compensation	18	([1])	--------	18	18	([1])	--------	18	16	([1])	--------	16
Military pay included in 11 above	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
12 Personnel benefits	1	([1])	--------	1	1	([1])	--------	1	1	([1])	--------	1
13 Benefits for former personnel	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
20 Contractual services and supplies	(5)	([1])	(--------)	(5)	(4)	([1])	(--------)	(4)	(15)	([1])	(--------)	(15)
21 Travel and transportation of persons	1	([1])	--------	1	1	([1])	--------	1	1	([1])	--------	1
22 Transportation of things	([1])	--------	--------	([1])	([1])	--------	--------	([1])	([1])	--------	--------	([1])
23 Rent, communications, and utilities	1	([1])	--------	1	([1])	([1])	--------	([1])	([1])	([1])	--------	([1])
24 Printing and reproduction	1	([1])	--------	1	1	([1])	--------	1	1	([1])	--------	1
25 Other services	2	([1])	--------	3	1	([1])	--------	1	13	([1])	--------	13
26 Supplies and materials	([1])	([1])	--------	([1])	([1])	([1])	--------	([1])	([1])	([1])	--------	([1])
30 Acquisition of capital assets	([1])	([1])	(--------)	([1])	([1])	([1])	(--------)	([1])	([1])	([1])	(--------)	([1])
31 Equipment	([1])	([1])	--------	([1])	([1])	([1])	--------	([1])	([1])	([1])	--------	([1])
32 Lands and structures	([1])	--------	--------	([1])	--------	--------	--------	--------	--------	--------	--------	--------
33 Investments and loans	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
40 Grants and fixed charges	(1)	(--------)	(--------)	(1)	([1])	(--------)	(--------)	([1])	(--------)	(--------)	(--------)	(--------)
41 Grants, subsidies, and contributions	1	--------	--------	1	([1])	--------	--------	([1])	--------	--------	--------	--------
42 Insurance claims and indemnities	([1])	--------	--------	([1])	--------	--------	--------	--------	--------	--------	--------	--------
43 Interest and dividends	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
44 Refunds	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
Unvouchered	([1])	--------	--------	([1])	--------	--------	--------	--------	--------	--------	--------	--------
Not distributed by object class	([1])	([1])	--------	([1])	([1])	([1])	--------	([1])	([1])	--------	--------	([1])
Proposed for separate transmittal	--------	--------	--------	--------	([1])	--------	--------	([1])	--------	--------	--------	--------
Total	26	1	--------	26	24	([1])	--------	24	33	([1])	--------	33

See footnotes at end of table.

Obligations by objects for the fiscal years 1962, 1963, and 1964—Continued

FUNDS APPROPRIATED TO THE PRESIDENT—FOREIGN ASSISTANCE—ECONOMIC

[In millions of dollars]

Description	1962 actual				1963 estimate				1964 estimate			
	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total
10 Personal services and benefits	(95)	([1])	(1)	(96)	(105)	(1)	(1)	(106)	(111)	([1])	(1)	(113)
11 Personnel compensation	86	([1])	1	87	95	1	1	97	101	([1])	1	102
Military pay included in 11 above	----	----	----	----	----	----	----	----	----	----	----	----
12 Personnel benefits	9	([1])	([1])	9	10	([1])	([1])	10	10	([1])	([1])	10
13 Benefits for former personnel	----	----	----	----	----	----	----	----	----	----	----	----
20 Contractual services and supplies	(689)	(5)	([1])	(695)	(709)	(7)	(7)	(723)	(774)	(6)	(9)	(789)
21 Travel and transportation of persons	20	([1])	([1])	20	19	([1])	([1])	20	21	([1])	([1])	21
22 Transportation of things	41	([1])	----	41	42	([1])	----	42	42	([1])	----	42
23 Rent, communications, and utilities	8	([1])	([1])	9	8	([1])	([1])	8	9	([1])	([1])	9
24 Printing and reproduction	1	----	----	1	1	([1])	----	1	1	([1])	----	1
25 Other services	264	5	([1])	269	277	7	7	290	296	5	9	310
26 Supplies and materials	356	([1])	([1])	356	362	([1])	([1])	363	406	([1])	([1])	406
30 Acquisition of capital assets	(761)	([1])	(929)	(1, 690)	(190)	([1])	(1, 474)	(1, 665)	(392)	([1])	(1, 853)	(2, 245)
31 Equipment	124	([1])	([1])	125	128	([1])	([1])	128	142	([1])	([1])	142
32 Lands and structures	([1])	----	----	([1])	----	----	----	----	----	----	----	----
33 Investments and loans	637	----	929	1, 565	62	----	1, 474	1, 536	250	----	1, 853	2, 103
40 Grants and fixed charges	(364)	----	(104)	(468)	(348)	----	(95)	(444)	(419)	----	----	(419)
41 Grants, subsidies, and contributions	364	----	----	364	348	----	----	348	419	----	----	419
42 Insurance claims and indemnities	([1])	----	104	104	([1])	----	95	95	([1])	----	----	([1])
43 Interest and dividends	----	----	----	----	----	----	----	----	----	----	----	----
44 Refunds	----	----	----	----	----	----	----	----	----	----	----	----
Unvouchered	([1])	----	----	([1])	([1])	----	([1])	([1])	([1])	----	([1])	([1])
Not distributed by object class	48	----	----	48	49	----	----	49	50	----	----	50
Proposed for separate transmittal	----	----	----	----	----	----	----	----	----	----	----	----
Total	1, 862	5	1, 033	2, 902	1, 303	8	1, 576	2, 888	1, 647	7	1, 863	3, 517

10 Personal services and benefits	(28)	(......)	(......)	(28)	(29)	(......)	(......)	(29)	(30)	(......)	(......)	(30)
11 Personnel compensation	21			21	20			20	21			21
Military pay included in 11 above												
12 Personnel benefits	7			7	9			9	9			9
13 Benefits for former personnel	[1]			[1]								
20 Contractual services and supplies	(591)	(......)	(......)	(591)	(536)	(......)	(......)	(536)	(595)	(......)	(......)	(595)
21 Travel and transportation of persons	51			51	51			51	56			56
22 Transportation of things	60			60	61			61	71			71
23 Rent, communications, and utilities	4			4	4			4	4			4
24 Printing and reproduction	[1]			[1]	[1]			[1]	[1]			[1]
25 Other services	232			232	203			203	221			221
26 Supplies and materials	244			244	218			218	242			242
30 Acquisition of capital assets	(908)	(......)	(......)	(908)	(746)	(......)	(......)	(746)	(822)	(......)	(......)	(822)
31 Equipment	904			904	742			742	817			817
32 Lands and structures	5			5	4			4	5			5
33 Investments and loans												
40 Grants and fixed charges	(64)	(......)	(......)	(64)	(92)	(......)	(......)	(92)	(88)	(......)	(......)	(88)
41 Grants, subsidies, and contributions	64			64	92			92	88			88
42 Insurance claims and indemnities	[1]			[1]								
43 Interest and dividends												
44 Refunds												
Unvouchered												
Not distributed by object class	47			47	306			306	−179			−179
Proposed for separate transmittal												
Total	1,639			1,639	1,710			1,710	1,357			1,357

See footnotes at end of table.

Obligations by objects for the fiscal years 1962, 1963, and 1964—Continued

FUNDS APPROPRIATED TO THE PRESIDENT—OTHER

[In millions of dollars]

Description	1962 actual				1963 estimate				1964 estimate			
	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total
10 Personal services and benefits	(6)	([1])	(1)	(7)	(56)	(--------)	([1])	(57)	(45)	(--------)	([1])	(46)
11 Personnel compensation	6	([1])	1	6	46		([1])	47	26		([1])	27
Military pay included in 11 above												
12 Personnel benefits	1		([1])	1	10		([1])	10	19		([1])	19
13 Benefits for former personnel												
20 Contractual services and supplies	(28)	(--------)	(47)	(70)	(53)	([1])	(41)	(94)	(58)	([1])	(36)	(94)
21 Travel and transportation of persons	4		([1])	4	7	([1])	([1])	7	12	([1])	([1])	12
22 Transportation of things	([1])		([1])	([1])	1	([1])	([1])	1	([1])			([1])
23 Rent, communications, and utilities	1		([1])	1	3	([1])	([1])	3	5		([1])	5
24 Printing and reproduction	([1])		([1])	([1])	([1])	([1])	([1])	([1])	([1])		([1])	([1])
25 Other services	17		7	24	30	([1])	2	33	32	([1])	2	34
26 Supplies and materials	1		41	41	11		38	50	7		34	41
30 Acquisition of capital assets	(173)	(--------)	(12)	(185)	(168)	(--------)	([1])	(168)	(117)	(--------)	([1])	(117)
31 Equipment	2		([1])	2	4		([1])	4	6		([1])	6
32 Lands and structures					43			43				
33 Investments and loans	172		12	183	122		([1])	122	112			112
40 Grants and fixed charges	(35)	(--------)	(73)	(109)	(301)	(--------)	(74)	(375)	(15)	(--------)	(77)	(91)
41 Grants, subsidies and contributions	35			35	301			301	15			15
42 Insurance claims and indemnities	([1])			([1])								
43 Interest and dividends			73	73			74	74			77	77
44 Refunds												
Unvouchered	([1])			([1])								
Not distributed by object class	([1])		14	14	36		−33	4	4		−33	−28
Proposed for separate transmittal					500			500	25			25
Total	238	([1])	147	385	1,115	([1])	83	1,198	264	([1])	81	345

10 Personal services and benefits	(492)	(27)	(42)	(561)	(532)	(29)	(50)	(611)	(606)	(30)	(19)	(656)
11 Personnel compensation	453	25	39	517	489	28	46	563	557	29	18	604
Military pay included in 11 above												
12 Personnel benefits	39	1	3	43	44	2	3	48	50	2	1	53
13 Benefits for former personnel												
20 Contractual services and supplies	(407)	(6)	(4,844)	(5,256)	(438)	(8)	(4,892)	(5,338)	(445)	(8)	(5,128)	(5,581)
21 Travel and transportation of persons	32	1	2	35	34	1	3	38	36	1	1	38
22 Transportation of things	13	([1])	304	317	12	([1])	300	312	13	([1])	317	330
23 Rent, communications, and utilities	23	([1])	6	29	24	1	6	31	27	1	1	29
24 Printing and reproduction	7	([1])	1	8	8	([1])	1	9	9	([1])	([1])	9
25 Other services	91	3	511	605	111	4	491	606	108	3	451	563
26 Supplies and materials	241	1	4,020	4,262	249	2	4,091	4,342	253	2	4,356	4,611
30 Acquisition of capital assets	(497)	(1)	(3,220)	(3,718)	(694)	(2)	(2,900)	(3,595)	(572)	(2)	(3,620)	(4,193)
31 Equipment	22	1	7	29	19	2	8	29	20	1	6	27
32 Lands and structures	23	([1])		23	36	([1])		36	35	([1])		35
33 Investments and loans	453		3,212	3,665	639		2,892	3,531	517		3,613	4,130
40 Grants and fixed charges	(2,673)	(50)	(1,636)	(4,360)	(2,776)	(51)	(1,676)	(4,503)	(3,691)	(38)	(1,680)	(5,409)
41 Grants, subsidies, and contributions	2,668	50	1,260	3,978	2,773	51	1,316	4,140	3,689	38	1,316	5,043
42 Insurance claims and indemnities	3		16	19	2		16	18	2		25	27
43 Interest and dividends			359	359			344	344			339	339
44 Refunds	3			3	([1])			([1])				
Unvouchered												
Not distributed by object class	−2		423	421	−2		196	194	−2		518	517
Proposed for separate transmittal					30			30	[2] −91			[2] −91
Total	4,068	84	10,164	14,316	4,468	91	9,713	14,272	5,222	78	10,965	16,265

See footnotes at end of table.

Obligations by objects for the fiscal years 1962, 1963, and 1964—Continued

DEPARTMENT OF COMMERCE

[In millions of dollars]

Description	1962 actual				1963 estimate				1964 estimate			
	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total
10 Personal services and benefits	(129)	(22)	(32)	(183)	(147)	(25)	(37)	(209)	(173)	(26)	(42)	(242)
11 Personnel compensation	119	20	30	169	136	23	35	193	161	24	40	224
Military pay included in 11 above												
12 Personnel benefits	9	1	2	13	10	2	2	14	12	2	3	16
13 Benefits for former personnel	1			1	1			1	1			1
20 Contractual services and supplies	(89)	(9)	(17)	(115)	(130)	(12)	(22)	(165)	(194)	(10)	(28)	(231)
21 Travel and transportation of persons	5	2	1	8	6	3	1	10	9	2	1	12
22 Transportation of things	2	([1])	([1])	2	2	1	([1])	3	3	([1])	([1])	4
23 Rent, communications, and utilities	9	1	3	14	12	2	3	18	16	2	4	22
24 Printing and reproduction	6	1	1	7	7	1	1	9	8	1	1	10
25 Other services	58	2	8	67	91	3	11	105	144	2	14	161
26 Supplies and materials	10	3	4	16	12	3	6	20	14	2	7	23
30 Acquisition of capital assets	(47)	(3)	(7)	(57)	(96)	(2)	(36)	(134)	(121)	(1)	(109)	(231)
31 Equipment	11	3	5	19	35	2	7	44	39	1	10	50
32 Lands and structures	36	([1])	1	36	61		1	62	80		1	81
33 Investments and loans			1	1			28	28	1		99	100
40 Grants and fixed charges	(362)	([1])	([1])	(362)	(339)	([1])	(2)	(341)	(359)	([1])	([1])	(360)
41 Grants, subsidies, and contributions	362	([1])		362	339	([1])		339	359	([1])		359
42 Insurance claims and indemnities	([1])		([1])	([1])	([1])		1	2	([1])		([1])	([1])
43 Interest and dividends			([1])	([1])							([1])	([1])
44 Refunds			([1])	([1])			([1])	([1])				
Unvouchered												
Not distributed by object class	−4	([1])	23	18	68	−1	87	154	−20	([1])	94	73
Proposed for separate transmittal					5			5				
Total	622	34	79	735	785	38	184	1,007	826	37	274	1,137

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10 Personal services and benefits	(16, 349)	(248)	(1, 607)	(18, 203)	(16, 653)	(327)	(1, 703)	(18, 683)	(17, 170)	(345)	(1, 732)	(19, 248)
11 Personnel compensation	12, 596	227	1, 498	14, 321	12, 710	303	1, 585	14, 598	12, 843	321	1, 611	14, 775
Military pay included in 11 above	(8, 024)	(10)	(--------)	(8, 034)	(8, 101)	(13)	(--------)	(8, 114)	(8, 131)	(13)	(--------)	(8, 143)
12 Personnel benefits	2, 857	20	108	2, 985	2, 914	24	118	3, 056	3, 164	25	121	3, 310
13 Benefits for former personnel	896	--------	--------	896	1, 029	--------	--------	1, 029	1, 163	--------	--------	1, 163
20 Contractual services and supplies	(18, 732)	(1, 855)	(8, 512)	(29, 099)	(19, 459)	(2, 062)	(9, 338)	(30, 860)	(20, 242)	(2, 098)	(9, 582)	(31, 921)
21 Travel and transportation of persons	751	12	89	852	716	11	90	817	720	11	91	822
22 Transportation of things	920	20	628	1, 568	921	22	665	1, 608	895	22	678	1, 595
23 Rent, communications, and utilities	754	58	79	891	842	151	80	1, 073	890	161	82	1, 133
24 Printing and reproduction	99	4	5	108	93	5	3	101	100	5	4	109
25 Other services	9, 053	872	1, 798	11, 723	9, 956	937	1, 891	12, 784	10, 264	963	1, 834	13, 061
26 Supplies and materials	7, 155	890	5, 913	13, 958	6, 931	936	6, 609	14, 476	7, 373	936	6, 893	15, 202
30 Acquisition of capital assets	(13, 245)	(923)	(868)	(15, 036)	(14, 299)	(1, 338)	(958)	(16, 596)	(14, 409)	(1, 315)	(892)	(16, 616)
31 Equipment	12, 175	777	785	13, 737	13, 065	1, 095	941	15, 101	13, 079	1, 057	883	15, 019
32 Lands and structures	1, 070	146	72	1, 288	1, 234	243	1	1, 478	1, 330	259	--------	1, 589
33 Investments and loans	--------	--------	12	12	--------	--------	17	17	--------	--------	10	10
40 Grants and fixed charges	(131)	([1])	(25)	(156)	(166)	([1])	(5)	(171)	(324)	([1])	(5)	(329)
41 Grants, subsidies, and contributions	32	([1])	([1])	32	43	([1])	([1])	43	201	([1])	([1])	201
42 Insurance claims and indemnities	27	--------	5	32	29	--------	5	34	30	--------	5	35
43 Interest and dividends	72	([1])	20	92	94	--------	--------	94	93	--------	--------	93
44 Refunds	([1])	--------	([1])	([1])	--------	--------	--------	--------	--------	--------	--------	--------
Unvouchered	18	--------	--------	18	21	([1])	--------	21	22	([1])	--------	22
Not distributed by object class	−121	--------	723	601	−1	--------	−101	−101	29	--------	−6	23
Proposed for separate transmittal	--------	--------	--------	--------	282	--------	--------	282	900	--------	--------	900
Total	48, 354	3, 026	11, 734	63, 114	50, 880	3, 728	11, 903	66, 511	53, 095	3, 758	12, 205	69, 059

See footnotes at end of table.

Obligations by objects for the fiscal years 1962, 1963, and 1964—Continued

DEPARTMENT OF DEFENSE—CIVIL

[In millions of dollars]

Description	1962 actual				1963 estimate				1964 estimate			
	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total
10 Personal services and benefits	(94)	(3)	(193)	(290)	(103)	([1])	(200)	(303)	(110)	([1])	(204)	(314)
11 Personnel compensation	87	3	179	269	96	([1])	185	281	102	([1])	189	291
Military pay included in 11 above	(1)		(1)	(1)	(1)		(1)	(1)	(1)		(1)	(1)
12 Personnel benefits	6	([1])	12	19	7	([1])	13	20	8	([1])	14	21
13 Benefits for former personnel	([1])		2	2	([1])		2	2	([1])		2	2
20 Contractual services and supplies	(305)	(55)	(120)	(481)	(337)	(11)	(125)	(473)	(344)	(2)	(123)	(468)
21 Travel and transportation of persons	4	([1])	10	14	5	([1])	10	15	5	([1])	10	15
22 Transportation of things	2	([1])	10	11	2		10	12	2		10	12
23 Rent, communications, and utilities	3	([1])	4	7	3	([1])	4	8	4	([1])	4	8
24 Printing and reproduction	([1])	([1])	1	1	1	([1])	1	1	1	([1])	1	1
25 Other services	278	54	59	392	304	10	62	376	311	1	60	372
26 Supplies and materials	18	([1])	37	55	21		39	61	22	([1])	39	61
30 Acquisition of capital assets	(613)	(12)	(19)	(644)	(696)	(2)	(22)	(721)	(690)	(1)	(17)	(708)
31 Equipment	6	([1])	8	14	6	([1])	10	17	7	([1])	10	16
32 Lands and structures	607	12	11	630	690	2	12	704	683	1	8	692
33 Investments and loans												
40 Grants and fixed charges	(7)	([1])	(19)	(26)	(8)	( )	(21)	(30)	(13)	( )	(22)	(36)
41 Grants, subsidies, and contributions	7		10	16	8		11	19	13		11	25
42 Insurance claims and indemnities	([1])	([1])	([1])	1	([1])		([1])	1	( )		([1])	1
43 Interest and dividends	([1])		9	9	([1])		10	10	([1])		10	11
44 Refunds												
Unvouchered												
Not distributed by object class	−1		4	2	−2		−6	−8	−1		−4	−5
Proposed for separate transmittal					1			1				
Total	1,018	70	355	1,443	1,143	13	363	1,519	1,156	3	363	1,522

10	Personal services and benefits	(441)	(5)	(33)	(480)	(493)	(6)	(39)	(538)	(550)	(6)	(45)	(601)
11	Personnel compensation	405	5	30	440	452	6	36	493	503	5	41	550
	Military pay included in 11 above	------	------	------	------	------	------	------	------	------	------	------	------
12	Personnel benefits	34	(1)	3	37	38	1	3	42	43	1	4	48
13	Benefits for former personnel	2	------	------	2	3	------	------	3	3	------	------	3
20	Contractual services and supplies	(271)	(3)	(18)	(292)	(320)	(3)	(21)	(344)	(375)	(2)	(23)	(400)
21	Travel and transportation of persons	17	1	1	19	20	1	2	23	23	1	2	26
22	Transportation of things	4	(1)	(1)	4	5	(1)	(1)	5	7	(1)	(1)	7
23	Rent, communications, and utilities	30	(1)	3	33	34	(1)	4	38	38	(1)	5	43
24	Printing and reproduction	5	(1)	1	6	6	(1)	1	7	7	(1)	1	8
25	Other services	182	1	3	186	208	1	4	213	243	(1)	4	248
26	Supplies and materials	33	(1)	10	43	48	(1)	11	59	57	(1)	12	69
30	Acquisition of capital assets	(138)	(1)	(2)	(140)	(181)	(1)	(2)	(184)	(196)	(1)	(2)	(198)
31	Equipment	38	(1)	2	40	27	(1)	2	29	42	(1)	2	44
32	Lands and structures	23	------	------	23	60	------	------	60	61	------	------	61
33	Investments and loans	77	------	------	77	94	------	------	94	93	------	------	93
40	Grants and fixed charges	(3,963)	(23)	(1)	(3,986)	(4,520)	(30)	(------)	(4,550)	(4,671)	(30)	(------)	(4,701)
41	Grants, subsidies, and contributions	3,963	23	------	3,986	4,520	30	------	4,550	4,671	30	------	4,701
42	Insurance claims and indemnities	(1)	------	(1)	(1)	(1)	------	------	(1)	(1)	------	------	(1)
43	Interest and dividends	------	------	------	------	------	------	------	------	------	------	------	------
44	Refunds	(1)	------	------	(1)	(1)	------	------	(1)	------	------	------	------
	Unvouchered	------	(1)	------	(1)	------	(1)	------	(1)	------	(1)	------	(1)
	Not distributed by object class	−7	(1)	(1)	−7	16	(1)	(1)	16	79	(1)	(1)	79
	Proposed for separate transmittal	------	------	------	------	273	------	------	273	1,619	------	------	1,619
	Total	4,806	31	53	4,891	5,804	40	62	5,906	7,491	39	70	7,599

See footnotes at end of table.

Obligations by objects for the fiscal years 1962, 1963, and 1964—Continued

DEPARTMENT OF THE INTERIOR

[In millions of dollars]

Description	1962 actual				1963 estimate				1964 estimate			
	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total
10 Personal services and benefits	(323)	(27)	(28)	(378)	(375)	(28)	(32)	(435)	(417)	(30)	(33)	(480)
11 Personnel compensation	301	25	26	353	350	26	29	405	389	28	31	448
Military pay included in 11 above	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
12 Personnel benefits	22	2	2	26	26	2	2	30	28	2	2	32
13 Benefits for former personnel	-----	-----	(1)	(1)	-----	-----	(1)	(1)	-----	-----	(1)	(1)
20 Contractual services and supplies	(141)	(14)	(24)	(179)	(182)	(13)	(34)	(229)	(201)	(12)	(57)	(270)
21 Travel and transportation of persons	19	2	1	22	22	3	1	25	24	3	1	27
22 Transportation of things	5	1	(1)	6	6	1	1	7	7	1	1	8
23 Rent, communications, and utilities	11	1	2	14	12	1	2	16	15	1	1	18
24 Printing and reproduction	3	(1)	(1)	3	4	(1)	1	5	4	(1)	1	5
25 Other services	56	6	6	68	73	4	8	85	84	4	7	95
26 Supplies and materials	47	3	15	65	64	4	23	91	68	3	47	118
30 Acquisition of capital assets	(255)	(4)	(91)	(349)	(353)	(6)	(105)	(464)	(402)	(4)	(90)	(496)
31 Equipment	25	2	8	35	45	2	7	54	41	2	3	46
32 Lands and structures	211	2	79	291	288	4	88	380	341	2	81	424
33 Investments and loans	18	-----	4	23	19	-----	10	30	20	-----	6	26
40 Grants and fixed charges	(118)	(1)	(1)	(119)	(145)	(1)	(1)	(146)	(153)	(1)	(1)	(154)
41 Grants, subsidies, and contributions	115	(1)	(1)	115	142	(1)	1	143	149	(1)	1	150
42 Insurance claims and indemnities	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	-----	(1)	(1)
43 Interest and dividends	3	-----	(1)	3	3	-----	(1)	4	3	-----	(1)	4
44 Refunds	(1)	-----	(1)	(1)	(1)	-----	-----	(1)	(1)	-----	-----	(1)
Unvouchered	-----	-----	-----	-----	(1)	-----	-----	(1)	(1)	-----	-----	(1)
Not distributed by object class	−3	(1)	−25	−28	−2	(1)	−3	−4	−2	(1)	−1	−3
Proposed for separate transmittal	-----	-----	-----	-----	27	-----	-----	27	25	-----	-----	25
Total	835	45	119	998	1,080	47	170	1,296	1,195	46	181	1,422

10	Personal services and benefits	(242)	(4)	(9)	(256)	(262)	(5)	(10)	(276)	(280)	(4)	(11)	(295)
11	Personnel compensation	226	4	8	239	244	4	9	258	261	4	10	275
	Military pay included in 11 above	----	----	----	----	----	----	----	----	----	----	----	----
12	Personnel benefits	16	[1]	1	17	17	[1]	1	18	19	[1]	1	20
13	Benefits for former personnel	----	----	----	----	----	----	----	----	----	----	----	----
20	Contractual services and supplies	(46)	(2)	(23)	(71)	(46)	(2)	(24)	(72)	50	(2)	(24)	(76)
21	Travel and transportation of persons	13	[1]	[1]	14	13	[1]	[1]	14	14	[1]	[1]	14
22	Transportation of things	2	[1]	[1]	2	1	[1]	[1]	2	1	[1]	[1]	2
23	Rent, communications, and utilities	7	1	1	8	7	1	1	9	8	1	1	10
24	Printing and reproduction	2	[1]	[1]	2	1	[1]	[1]	2	2	[1]	[1]	2
25	Other services	9	[1]	[1]	10	9	[1]	[1]	9	10	[1]	[1]	10
26	Supplies and materials	13	1	22	36	14	1	22	37	14	1	22	38
30	Acquisition of capital assets	(13)	(1)	(3)	(16)	(14)	(1)	(2)	(16)	(21)	[1]	(2)	(23)
31	Equipment	5	[1]	1	6	7	[1]	1	8	8	[1]	1	9
32	Lands and structures	7	[1]	2	10	7	[1]	1	9	13	----	1	15
33	Investments and loans	----	----	----	----	----	----	----	----	----	----	----	----
40	Grants and fixed charges	[1]	[1]	[1]	[1]	[1]	[1]	[1]	[1]	[1]	[1]	[1]	[1]
41	Grants, subsidies, and contributions	[1]	[1]	----	[1]	[1]	[1]	----	[1]	[1]	[1]	----	[1]
42	Insurance claims and indemnities	[1]	----	[1]	[1]	[1]	----	[1]	[1]	[1]	----	[1]	[1]
43	Interest and dividends	----	----	----	----	----	----	----	----	----	----	----	----
44	Refunds	[1]	----	----	[1]	[1]	----	----	[1]	[1]	----	----	[1]
	Unvouchered	[1]	----	----	[1]	[1]	----	----	[1]	[1]	----	----	[1]
	Not distributed by object class	−5	[1]	[1]	−5	−4	[1]	----	−4	5	----	----	5
	Proposed for separate transmittal	----	----	----	----	1	----	----	1	----	----	----	----
	Total	296	7	35	339	319	7	35	362	356	6	37	399

See footnotes at end of table.

Obligations by objects for the fiscal years 1962, 1963, and 1964—Continued

DEPARTMENT OF LABOR

[In millions of dollars]

Description	1962 actual				1963 estimate				1964 estimate			
	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total
10 Personal services and benefits	(197)	(2)	(2)	(200)	(186)	(3)	(2)	(191)	(183)	(1)	(2)	(186)
11 Personnel compensation	41	2	2	44	51	2	2	56	58	1	2	61
Military pay included in 11 above												
12 Personnel benefits	3	([1])	([1])	3	4	([1])	([1])	4	4	([1])	([1])	4
13 Benefits for former personnel	153			153	131			131	121			121
20 Contractual services and supplies	(17)	(1)	(3)	(21)	(22)	(1)	(3)	(26)	(26)	(1)	(2)	(29)
21 Travel and transportation of persons	4	([1])	1	5	4	([1])	1	6	5	1	1	6
22 Transportation of things	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])
23 Rent, communications, and utilities	2	([1])	([1])	2	2	([1])	1	3	2	([1])	([1])	3
24 Printing and reproduction	1	([1])	([1])	2	1	([1])	([1])	2	2	([1])	([1])	2
25 Other services	9	([1])	1	10	13	1	1	14	16	([1])	([1])	17
26 Supplies and materials	1	([1])	([1])	1	1	([1])	1	1	1	([1])	([1])	1
30 Acquisition of capital assets	(1)	([1])	(320)	(322)	(1)	([1])	(173)	(174)	(1)	([1])	(260)	(261)
31 Equipment	1	([1])	([1])	1	1	([1])	([1])	1	1	([1])	([1])	1
32 Lands and structures												
33 Investments and loans			320	320			173	173			260	260
40 Grants and fixed charges	(388)	(1)		(389)	(136)	(1)		(136)	(235)			(235)
41 Grants, subsidies, and contributions	324	1		325	71	1		71	168			168
42 Insurance claims and indemnities	64			64	65			65	67			67
43 Interest and dividends												
44 Refunds												
Unvouchered												
Not distributed by object class	([1])	([1])	([1])	1	([1])	([1])	([1])	−1	([1])		([1])	([1])
Proposed for separate transmittal					15			15	100			100
Total	603	4	325	933	359	4	179	541	544	1	265	810

10 Personal services and benefits		(2)	(3,362)	(3,364)		(2)	(3,637)	(3,639)		(2)	(3,802)	(3,894)
11 Personnel compensation		2	3,116	3,117		2	3,371	3,373		2	3,605	3,607
Military pay included in 11 above												
12 Personnel benefits		[1]	246	246		[1]	266	266		[1]	287	287
13 Benefits for former personnel												
20 Contractual services and supplies		(45)	(862)	(906)		(51)	(920)	(971)		(57)	(963)	(1,019)
21 Travel and transportation of persons			21	21			23	23			24	24
22 Transportation of things		43	647	691		49	674	723		55	699	754
23 Rent, communications, and utilities		1	100	100		1	117	118		1	128	128
24 Printing and reproduction			4	4			5	5			5	5
25 Other services			32	32			38	38			41	41
26 Supplies and materials		1	58	59		1	64	65		1	67	68
30 Acquisition of capital assets		(3)	(106)	(109)		(4)	(97)	(102)		(11)	(119)	(130)
31 Equipment		1	42	42		1	49	50		1	62	62
32 Lands and structures		2	64	66		3	48	51		10	57	68
33 Investments and loans												
40 Grants and fixed charges	(63)	( )	(2)	(65)	( )	( )	(2)	(2)	( )	( )	(2)	(2)
41 Grants, subsidies, and contributions	63			63								
42 Insurance claims and indemnities			2	2			2	2			2	2
43 Interest and dividends												
44 Refunds												
Unvouchered												
Not distributed by object class												
Proposed for separate transmittal												
Total	63	50	4,332	4,444		56	4,657	4.713		69	4,977	5,046

See footnotes at end of table.

Obligations by objects for the fiscal years 1962, 1963, and 1964—Continued

DEPARTMENT OF STATE

[In millions of dollars]

Description	1962 actual				1963 estimate				1964 estimate			
	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total
10 Personal services and benefits	(113)	(44)	(........)	(157)	(119)	(46)	(........)	(165)	(131)	(49)	(........)	(180)
11 Personnel compensation	102	39	....	140	107	40	....	148	118	43	....	161
Military pay included in 11 above	....	....	....	....	....	....	....	....	....	....	....	....
12 Personnel benefits	11	5	....	17	12	6	....	18	13	6	....	19
13 Benefits for former personnel	....	....	....	....	....	....	....	....	....	....	....	....
20 Contractual services and supplies	(58)	(29)	....	(87)	(61)	(29)	....	(91)	(71)	(30)	....	(101)
21 Travel and transportation of persons	12	6	....	18	14	7	....	21	16	7	....	24
22 Transportation of things	6	5	....	11	6	4	....	10	7	5	....	11
23 Rent, communications, and utilities	9	9	....	18	9	10	....	19	11	10	....	21
24 Printing and reproduction	1	(1)	....	1	1	(1)	....	1	1	(1)	....	1
25 Other services	26	5	....	31	29	4	....	33	32	4	....	36
26 Supplies and materials	3	3	....	7	3	3	....	7	4	3	....	7
30 Acquisition of capital assets	(22)	(3)	....	(24)	(125)	(3)	....	(128)	(39)	(2)	....	(41)
31 Equipment	4	3	....	6	5	3	....	8	7	2	....	9
32 Lands and structures	18	(1)	....	18	20	(1)	....	20	32	(1)	....	32
33 Investments and loans	....	....	....	....	100	....	....	100	....	....	....	....
40 Grants and fixed charges	(136)	(1)	....	(136)	(137)	(1)	....	(137)	(148)	(1)	....	(148)
41 Grants, subsidies, and contributions	136	(1)	....	136	137	(1)	....	137	148	(1)	....	148
42 Insurance claims and indemnities	(1)	(1)	....	(1)	(1)	(1)	....	(1)	(1)	(1)	....	(1)
43 Interest and dividends	(1)	....	....	(1)	....	....	....	....	....	....	....	....
44 Refunds	....	....	....	....	....	....	....	....	....	....	....	....
Unvouchered	2	....	....	2	2	....	....	2	2	....	....	2
Not distributed by object class	(1)	....	....	(1)	(1)	....	....	(1)	(1)	....	....	(1)
Proposed for separate transmittal	....	....	....	....	7	....	....	7	....	....	....	....
Total	330	75	....	405	452	78	....	530	390	82	....	472

10	Personal services and benefits	(677)	(27)	(26)	(729)	(743)	(28)	(27)	(798)	(830)	(20)	(27)	(877)
11	Personnel compensation	577	23	24	624	635	24	25	684	709	19	25	753
	Military pay included in 11 above	(92)	(1)	(1)	(92)	(94)	(1)	(1)	(94)	(97)	(1)	(1)	(97)
12	Personnel benefits	69	4	2	74	76	4	2	82	88	1	2	91
13	Benefits for former personnel	31	----	----	31	32	----	----	32	34	----	----	34
20	Contractual services and supplies	(194)	(21)	(27)	(243)	(196)	(25)	(28)	(248)	(235)	(20)	(28)	(282)
21	Travel and transportation of persons	25	1	(1)	25	29	1	(1)	30	33	1	(1)	34
22	Transportation of things	9	1	(1)	10	9	1	(1)	11	11	(1)	(1)	12
23	Rent, communications, and utilities	35	2	1	37	36	2	1	39	48	1	1	49
24	Printing and reproduction	23	(1)	(1)	23	21	(1)	(1)	21	24	(1)	(1)	24
25	Other services	65	7	1	73	61	10	1	71	71	8	1	80
26	Supplies and materials	38	10	26	74	40	10	26	76	48	10	26	84
30	Acquisition of capital assets	(49)	(15)	(1)	(65)	(70)	(28)	(3)	(101)	(88)	(18)	(4)	(111)
31	Equipment	44	8	1	53	54	8	3	65	75	7	4	87
32	Lands and structures	5	7	----	12	16	19	----	36	13	11	----	24
33	Investments and loans	----	----	----	----	----	----	----	----	----	----	----	----
40	Grants and fixed charges	(9, 276)	(1)	(1)	(9, 276)	(9, 823)	----	(1)	(9, 823)	(10, 143)	----	(1)	(10, 144)
41	Grants, subsidies, and contributions	34	----	----	34	34	----	----	34	34	----	----	34
42	Insurance claims and indemnities	44	(1)	(1)	45	6	----	1	7	5	----	1	7
43	Interest and dividends	9, 198	----	(1)	9, 198	9, 782	----	(1)	9, 782	10, 103	----	(1)	10, 103
44	Refunds	----	----	----	----	----	----	----	----	----	----	----	----
	Unvouchered	(1)	----	----	(1)	(1)	----	----	(1)	(1)	----	----	(1)
	Not distributed by object class	(1)	----	(1)	1	(1)	----	(1)	(1)	(1)	----	(1)	(1)
	Proposed for separate transmittal	----	----	----	----	5	----	----	5	----	----	----	----
	Total	10, 196	63	55	10, 315	10, 836	80	58	10, 974	11, 296	58	61	11, 414

See footnotes at end of table.

Obligations by objects for the fiscal years 1962, 1963, and 1964—Continued

ATOMIC ENERGY COMMISSION

[In millions of dollars]

Description	1962 actual				1963 estimate				1964 estimate			
	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total
10 Personal services and benefits	(62)	(1)		(62)	(67)			(67)	(75)			(75)
11 Personnel compensation	57	(1)		57	62			62	70			70
Military pay included in 11 above												
12 Personnel benefits	4	(1)		4	5			5	5			5
13 Benefits for former personnel												
20 Contractual services and supplies	(2,323)	(118)		(2,440)	(2,681)	(132)		(2,813)	(2,462)	(89)		(2,551)
21 Travel and transportation of persons	4	(1)		4	4			4	5			5
22 Transportation of things	8			8	9			9	10			10
23 Rent, communications, and utilities	205			205	204			204	204			204
24 Printing and reproduction	1			1	1			1	1			1
25 Other services	1,507	118		1,625	1,927	132		2,059	1,847	89		1,935
26 Supplies and materials	599			599	536			536	396			396
30 Acquisition of capital assets	(357)			(357)	(550)			(550)	(401)			(401)
31 Equipment	154			154	179			179	167			167
32 Lands and structures	203			203	370			370	234			234
33 Investments and loans												
40 Grants and fixed charges	(5)			(5)	(4)			(4)	(4)			(4)
41 Grants, subsidies, and contributions	5			5	4			4	4			4
42 Insurance claims and indemnities	(1)			(1)	1			1	(1)			(1)
43 Interest and dividends												
44 Refunds												
Unvouchered					(1)			(1)	(1)			(1)
Not distributed by object class												
Proposed for separate transmittal												
Total	2,746	118		2,864	3,302	132		3,434	2,942	89		3,031

10 Personal services and benefits	(347)	(10)	(--------)	(356)	(393)	(9)	(--------)	(402)	(441)	(5)	(--------)	(446)
11 Personnel compensation	323	9		332	367	8		375	411	5		416
Military pay included in 11 above												
12 Personnel benefits	24	1		24	27	1		27	30	(1)		30
13 Benefits for former personnel												
20 Contractual services and supplies	(172)	(7)	(--------)	(180)	(217)	(6)	(--------)	(222)	(205)	(6)	(--------)	(210)
21 Travel and transportation of persons	22	1		22	26	1		27	28	(1)		28
22 Transportation of things	7	1		8	8	1		9	9	1		10
23 Rent, communications, and utilities	47	1		48	70	1		71	56	(1)		56
24 Printing and reproduction	1	(1)		1	2	(1)		2	2	(1)		2
25 Other services	67	2		69	76	1		76	67	1		68
26 Supplies and materials	28	3		32	35	3		38	44	3		47
30 Acquisition of capital assets	(91)	(9)	(--------)	(100)	(109)	(17)	(--------)	(125)	(141)	(7)	(--------)	(149)
31 Equipment	48	8		57	65	16		82	102	7		109
32 Lands and structures	43	(1)		44	43	1		44	39	(1)		39
33 Investments and loans												
40 Grants and fixed charges	(47)	(1)		(47)	(85)	(1)		(86)	(85)	(1)		(86)
41 Grants, subsidies, and contributions	46	1		47	85	1		86	85	1		86
42 Insurance claims and indemnities	(1)			(1)	(1)			(1)	(1)			(1)
43 Interest and dividends												
44 Refunds												
Unvouchered												
Not distributed by object class	−1	(1)		−1	−1	(1)		−1	−1	(1)		−1
Proposed for separate transmittal												
Total	656	26		683	803	31		835	871	19		890

See footnotes at end of table.

Obligations by objects for the fiscal years 1962, 1963, and 1964—Continued

GENERAL SERVICES ADMINISTRATION

[In millions of dollars]

Description	1962 actual				1963 estimate				1964 estimate			
	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total
10 Personal services and benefits	(46)	(6)	(129)	(181)	(53)	(9)	(140)	(203)	(62)	(11)	(155)	(228)
11 Personnel compensation	42	6	120	168	50	9	130	188	57	11	145	212
Military pay included in 11 above												
12 Personnel benefits	3	(1)	9	12	4	1	10	14	4	1	11	16
13 Benefits for former personnel	(1)			(1)	(1)			(1)	(1)			(1)
20 Contractual services and supplies	(281)	(430)	(186)	(897)	(296)	(543)	(233)	(1,072)	(334)	(646)	(260)	(1,240)
21 Travel and transportation of persons	2	(1)	(1)	3	3	1	1	4	3	1	1	4
22 Transportation of things	3	8	1	12	2	10	1	13	4	13	1	18
23 Rent, communications, and utilities	4	1	127	132	5	1	146	152	5	2	172	179
24 Printing and reproduction	2	(1)	1	3	3	(1)	1	4	3	(1)	1	4
25 Other services	255	12	43	310	281	20	69	370	309	23	70	401
26 Supplies and materials	14	409	15	439	3	510	16	529	9	608	16	633
30 Acquisition of capital assets	(107)	(1)	(11)	(118)	(362)	(1)	(19)	(381)	(279)	(1)	(15)	(294)
31 Equipment	2	(1)	11	14	9	(1)	19	28	3	(1)	15	19
32 Lands and structures	104			104	353			353	276			276
33 Investments and loans												
40 Grants and fixed charges	(3)	( )	(1)	(3)	(7)	( )	( )	(7)	(4)	( )	( )	(4)
41 Grants, subsidies, and contributions	1			1	4			4	1			1
42 Insurance claims and indemnities	(1)		(1)	(1)	(1)			(1)	(1)			(1)
43 Interest and dividends	2			2	2			2	2			2
44 Refunds	(1)		(1)	(1)	1			1	(1)			(1)
Unvouchered												
Not distributed by object class		69	14	82		43	−1	42		38	(1)	38
Proposed for separate transmittal					8		8	16	2	(1)	(1)	2
Total	437	505	340	1,282	726	595	399	1,720	679	696	431	1,806

10 Personal services and benefits	(17)	([1])	(149)	(167)	(21)	([1])	(169)	(190)	(24)	([1])	(183)	(207)
11 Personnel compensation	16	([1])	139	155	20	([1])	158	177	22	([1])	170	193
Military pay included in 11 above	------	------	------	------	------	------	------	------	------	------	------	------
12 Personnel benefits	1	([1])	10	11	1	------	12	13	2	([1])	13	14
13 Benefits for former personnel	------	------	------	------	------	------	------	------	------	------	------	------
20 Contractual services and supplies	(6)	([1])	(71)	(77)	(7)	([1])	(84)	(91)	(10)	([1])	(92)	(103)
21 Travel and transportation of persons	1	([1])	11	12	2	([1])	11	13	2	([1])	12	14
22 Transportation of things	([1])	------	1	1	([1])	------	([1])	1	([1])	------	([1])	1
23 Rent, communications, and utilities	([1])	([1])	13	14	([1])	([1])	15	15	1	([1])	15	16
24 Printing and reproduction	([1])	------	2	2	([1])	------	2	2	([1])	------	2	2
25 Other services	4	([1])	44	48	4	([1])	54	59	7	([1])	62	69
26 Supplies and materials	([1])	([1])	1	2	([1])	([1])	2	2	([1])	([1])	2	2
30 Acquisition of capital assets	([1])	(------)	(2,106)	(2,106)	([1])	(------)	(2,364)	(2,634)	([1])	(------)	(2,940)	(2,940)
31 Equipment	([1])	------	2	3	([1])	------	1	2	([1])	------	5	5
32 Lands and structures	------	------	481	481	------	------	659	659	------	------	736	736
33 Investments and loans	------	------	1,622	1,622	------	------	1,974	1,974	------	------	2,199	2,199
40 Grants and fixed charges	(18)	(------)	(488)	(506)	(24)	(------)	(625)	(650)	(46)	(------)	(711)	(757)
41 Grants, subsidies, and contributions	18	------	323	341	24	------	436	460	46	------	513	558
42 Insurance claims and indemnities	------	------	([1])	([1])	------	------	------	------	------	------	([1])	([1])
43 Interest and dividends	------	------	149	149	------	------	171	171	------	------	180	180
44 Refunds	------	------	16	16	------	------	18	18	------	------	18	18
Unvouchered	------	------	------	------	------	------	------	------	------	------	------	------
Not distributed by object class	4	------	760	764	11	------	569	580	15	------	1,080	1,095
Proposed for separate transmittal	------	------	------	------	------	------	([1])	([1])	100	------	------	100
Total	45	([1])	3,574	3,620	64	([1])	4,082	4,146	195	([1])	5,006	5,202

See footnotes at end of table.

Obligations by objects for the fiscal years 1962, 1963, and 1964—Continued

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

[In millions of dollars]

Description	1962 actual				1963 estimate				1964 estimate			
	Direct	Reim-bursable	Public enter-prise and revolv-ing funds	Total	Direct	Reim-bursable	Public enter-prise and revolv-ing funds	Total	Direct	Reim-bursable	Public enter-prise and revolv-ing funds	Total
10 Personal services and benefits	(175)	(1)	(--------)	(176)	(258)	(1)	(--------)	(259)	(319)	(1)	(--------)	(320)
11 Personnel compensation	164	1	--------	165	239	1	--------	240	298	1	--------	299
Military pay included in 11 above	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
12 Personnel benefits	11	(1)	--------	11	18	(1)	--------	18	21	(1)	--------	21
13 Benefits for former personnel	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
20 Contractual services and supplies	(1,273)	(46)	(--------)	(1,318)	(2,676)	(98)	(--------)	(2,774)	(4,532)	(104)	(--------)	(4,636)
21 Travel and transportation of persons	9	(1)	--------	9	17	(1)	--------	17	22	(1)	--------	22
22 Transportation of things	4	--------	--------	4	6	(1)	--------	6	8	(1)	--------	8
23 Rent, communications, and utilities	25	2	--------	27	46	1	--------	47	59	1	--------	60
24 Printing and reproduction	2	(1)	--------	2	3	(1)	--------	3	5	(1)	--------	5
25 Other services	1,208	43	--------	1,251	2,582	96	--------	2,679	4,412	103	--------	4,515
26 Supplies and materials	25	(1)	--------	25	21	(1)	--------	21	26	(1)	--------	26
30 Acquisition of capital assets	(244)	(2)	(--------)	(246)	(742)	(14)	(--------)	(756)	(814)	(1)	(--------)	(814)
31 Equipment	101	(2)	--------	102	216	11	--------	227	274	(1)	--------	274
32 Lands and structures	143	1	--------	144	526	3	--------	529	540	--------	--------	540
33 Investments and loans	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
40 Grants and fixed charges	(1)	(--------)	(--------)	(1)	(1)	(--------)	(--------)	(1)	(1)	(--------)	(--------)	(1)
41 Grants, subsidies, and contributions	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
42 Insurance claims and indemnities	(1)	--------	--------	(1)	(1)	--------	--------	(1)	(1)	--------	--------	(1)
43 Interest and dividends	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
44 Refunds	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
Unvouchered	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
Not distributed by object class	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
Proposed for separate transmittal	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
Total	1,692	49	--------	1,741	3,675	113	--------	3,788	5,666	105	--------	5,771

10 Personal services and benefits	(937)	(4)	(15)	(956)	(986)	(4)	(16)	(1, 006)	(1, 032)	(4)	(17)	(1, 053)
11 Personnel compensation	872	4	14	890	917	4	15	936	958	4	16	978
Military pay included in 11 above												
12 Personnel benefits	65	([1])	1	67	69	([1])	1	71	73	([1])	1	75
13 Benefits for former personnel												
20 Contractual services and supplies	(237)	(1)	(198)	(436)	(241)	(1)	(208)	(450)	(245)	(1)	(214)	(461)
21 Travel and transportation of persons	14	([1])	([1])	14	15		([1])	15	15		([1])	15
22 Transportation of things	2		2	4	2		2	4	2		2	4
23 Rent, communications, and utilities	25	([1])	1	26	26	([1])	1	26	26	([1])	1	27
24 Printing and reproduction	3		2	5	3		2	5	3		2	5
25 Other services	52	([1])	22	74	52	([1])	33	85	54	([1])	37	91
26 Supplies and materials	141	1	171	312	142	1	171	314	145	1	172	318
30 Acquisition of capital assets	(69)	([1])	(430)	(499)	(97)	(--------)	(564)	(661)	(97)	(--------)	(459)	(557)
31 Equipment	26		25	50	32		33	65	32		34	67
32 Lands and structures	43	([1])		43	65			65	65			65
33 Investments and loans	([1])		406	406	([1])		531	531	([1])		425	425
40 Grants and fixed charges	(3, 908)	(--------)	(95)	(4, 003)	(3, 976)	(--------)	(76)	(4, 052)	(4, 062)	(--------)	(76)	(4, 138)
41 Grants, subsidies, and contributions	164			164	110			110	81			81
42 Insurance claims and indemnities	3, 745		50	3, 795	3, 866		24	3, 890	3, 981		20	4, 001
43 Interest and dividends			45	45			52	52			56	56
44 Refunds												
Unvouchered												
Not distributed by object class	8		([1])	7	14		−2	13	9			9
Proposed for separate transmittal					112			112				
Total	5, 160	5	737	5, 902	5, 426	5	863	6, 295	5, 445	6	767	6, 217

See footnotes at end of table.

Obligations by objects for the fiscal years 1962, 1963, and 1964—Continued

OTHER INDEPENDENT AGENCIES

[In millions of dollars]

Description	1962 actual				1963 estimate				1964 estimate			
	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total
10 Personal services and benefits	(340)	(5)	(161)	(507)	(335)	(6)	(172)	(513)	(435)	(5)	(173)	(614)
11 Personnel compensation	258	5	149	412	292	6	158	456	323	5	159	487
Military pay included in 11 above												
12 Personnel benefits	82	([1])	12	95	41	([1])	14	55	112	([1])	14	127
13 Benefits for former personnel	([1])			([1])	2			2	([1])			([1])
20 Contractual services and supplies	(119)	(3)	(172)	(294)	(144)	(4)	(180)	(328)	(191)	(3)	(194)	(388)
21 Travel and transportation of persons	20	1	6	27	23	1	7	30	25	1	7	32
22 Transportation of things	5	([1])	24	29	6	([1])	26	32	7	([1])	27	34
23 Rent, communications, and utilities	14	([1])	4	18	16	([1])	4	21	19	([1])	4	23
24 Printing and reproduction	6	([1])	([1])	7	7	([1])	([1])	7	7	([1])	([1])	8
25 Other services	61	2	34	97	81	2	38	120	119	2	39	160
26 Supplies and materials	12	([1])	104	116	12	([1])	105	117	15	([1])	115	130
30 Acquisition of capital assets	(48)	(1)	(1,100)	(1,149)	(37)	(1)	(1,078)	(1,115)	(56)	(1)	(2,214)	(2,271)
31 Equipment	17	([1])	74	92	19	([1])	47	67	30	([1])	57	87
32 Lands and structures	24		12	36	18		13	31	18		6	24
33 Investments and loans	7		1,014	1,021			1,018	1,018	8		2,152	2,160
40 Grants and fixed charges	(339)	(1)	(120)	(459)	(400)	(1)	(265)	(665)	(651)	(1)	(238)	(889)
41 Grants, subsidies, and contributions	324	([1])	7	331	380	([1])	8	387	616	([1])	8	624
42 Insurance claims and indemnities	15		30	45	20		170	190	35		132	167
43 Interest and dividends			83	83			88	88			98	98
44 Refunds												
Unvouchered												
Not distributed by object class	−13	([1])	286	273	1	([1])	−31	−30	−3		433	430
Proposed for separate transmittal					49			49	−50			−50
Total	833	9	1,840	2,682	965	10	1,664	2,640	1,280	9	3,252	4,542

10 Personal services and benefits												
11 Personnel compensation												
Military pay included in 11 above												
12 Personnel benefits												
13 Benefits for former personnel												
20 Contractual services and supplies	(3)			(3)	(3)			(3)	(3)			(3)
21 Travel and transportation of persons												
22 Transportation of things												
23 Rent, communications, and utilities	3			3	3			3	3			3
24 Printing and reproduction												
25 Other services												
26 Supplies and materials												
30 Acquisition of capital assets	(48)			(48)	(53)			(53)	(31)			(31)
31 Equipment												
32 Lands and structures												
33 Investments and loans	48			48	53			53	31			31
40 Grants and fixed charges	(30)			(30)	(30)			(30)	(32)			(32)
41 Grants, subsidies, and contributions	30			30	30			30	32			32
42 Insurance claims and indemnities												
43 Interest and dividends												
44 Refunds												
Unvouchered												
Not distributed by object class												
Proposed for separate transmittal									24			24
Total	80			80	86			86	90			90

See footnotes at end of table.

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Obligations by objects for the fiscal years 1962, 1963, and 1964—Continued

TRUST FUNDS

[In millions of dollars]

Description	1962 actual				1963 estimate				1964 estimate			
	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total	Direct	Reimbursable	Public enterprise and revolving funds	Total
10 Personal services and benefits	(51)	([1])	(451)	(501)	(56)	([1])	(490)	(546)	(58)	([1])	(543)	(602)
11 Personnel compensation	47	([1])	6	54	52	([1])	7	60	55	([1])	8	63
Military pay included in 11 above												
12 Personnel benefits	3	([1])	444	447	4	([1])	483	487	4	([1])	535	539
13 Benefits for former personnel												
20 Contractual services and supplies	(153)	(3)	(36)	(191)	(274)	(3)	(60)	(337)	(311)	(3)	(82)	(396)
21 Travel and transportation of persons	3		([1])	3	3		([1])	3	3		([1])	3
22 Transportation of things	4	([1])	([1])	4	8		([1])	8	15		([1])	15
23 Rent, communications, and utilities	2	([1])	1	3	3	([1])	1	3	2	([1])	1	3
24 Printing and reproduction	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	1
25 Other services	46	3	33	81	71	3	56	130	77	3	79	159
26 Supplies and materials	98	([1])	2	100	189	([1])	2	192	213	([1])	2	215
30 Acquisition of capital assets	(646)	([1])	(836)	(1, 482)	(732)	([1])	(599)	(1, 331)	(747)	([1])	(849)	(1, 596)
31 Equipment	398	([1])	([1])	398	524	([1])	([1])	524	570	([1])	([1])	570
32 Lands and structures	21		([1])	21	28			28	14			14
33 Investments and loans	227		836	1, 063	180		598	779	163		848	1, 012
40 Grants and fixed charges	(19, 976)		(128)	(20, 104)	(21, 627)		(138)	(21, 765)	(22, 126)		(158)	(22, 284)
41 Grants, subsidies, and contributions	224		([1])	224	178		1	180	169		2	171
42 Insurance claims and indemnities	19, 597			19, 597	21, 274			21, 274	21, 782			21, 782
43 Interest and dividends	20		128	148	13		137	150	13		156	169
44 Refunds	135		([1])	135	161		([1])	161	161		([1])	161
Unvouchered												
Not distributed by object class	1, 274		–11	1, 263	1, 216		31	1, 247	1, 341		32	1, 372
Proposed for separate transmittal												
Total	22, 099	3	1, 439	23, 541	23, 905	3	1, 318	25, 226	24, 583	3	1, 663	26, 249

[1] Less than $500,000.

[2] Includes proposal to permit use of Rural Electrification Administration loan receipts estimated at $151,000,000.

NOTE.—Because of rounding, detail may not add to totals shown.

Senator PROXMIRE. You talk about Federal employment. This was a very helpful table. I have been critical of the fact that every agency is increasing the number of people on the payroll. This is on page 48, but I think this is a very fine presentation.

I think once again it would be helpful if we could get as much projection as possible, even if it were scattered and estimated. You know, it is so important for us to know the impact of these programs we pass and what it is doing to the total picture of agriculture and commerce and so forth. We like these programs individually, but when they add up to an awfully big increase in Federal employment, I think we should be aware of it. Maybe it would modify our enthusiasm.

Mr. SCHULTZE. There are two parts to this. First, we do project it through fiscal 1964 here.

Senator PROXMIRE. Yes.

Mr. SCHULTZE. As we move, and it is a slow process, I must admit, toward our longer range budgetary work, where we get 2-, 3-, 4-, 5-year agency projections and plans, this becomes part of it. If we move toward that, the question of what really is good enough for publication and what is not, we will have to sort out. This is one of the things we obviously do have in the back of our mind as we move in this direction of longer range plans.

Senator PROXMIRE. I apologize to Congressman Curtis, who has been very patient, and I have certainly exceeded my time, but I do want to ask you one other thing, and then I will yield to Congressman Curtis.

I call your attention to a very interesting article by John Gerrity, in which he discussed this hearing in some detail. He made some stimulating and provocative charges about the status of our budget at the present time and you as outstanding experts would be helpful in commenting.

He points out in 1961 when President Kennedy first came into office the President made a decision to speed up the economy with additional housing loans, Federal agencies ordered to speed programs, Post Office Department within 18-month program increased.

The significant aspects of these actions, as well as the upward revision of the President Eisenhower budget, is that none will ever show up in any budget document. Each of these actions involving heavier spending in this year, as well as previous years, is taken administratively and without any congressional review whatever.

Mr. SCHULTZE. There are two things on that. First, the results will show up in the budget document insofar as expenditures are increased, even though this was an administrative decision within the level of the appropriations made by Congress. There was an acceleration action, but the results will show up.

The real problem is that you don't have the incremental results. Take a particular program which in that period, let us say, went up $150 million from earlier estimates. It is quite true that what we don't have in the budget document, and it is very difficult to find out, is how much of that increase resulted from one particular decision, or another. The fact that it went up $150 million is there in the document. It is available.

Senator PROXMIRE. That is a matter of history.

Mr. SCHULTZE. That is correct.

Senator PROXMIRE. It is past the point where any action can be taken on it except in retrospect.

Mr. SCHULTZE. I agree. What I am really saying is that even from history it is difficult to evaluate how much is due from this action. What is not in the budget is the separate effect of this.

Senator PROXMIRE. Just one more question. I am quoting again from this document.

In 1962 President Kennedy proposed a $10 million increase in matching grants for the construction of nursing homes. This did not come in the 1962 budget. It showed up in the 1963 budget identified only as anticipated expenditure growing out of an earlier proposal. Unanswered is the question such as who will benefit from the construction; how long will it take to build them? Who really needs them? How are these needs being presently met? What changes will be made for the persons using the homes? These should have been asked before the funds were granted, but they were not, and there is still today no answer in any budget document.

Mr. SCHULTZE. Let me make a general point on this. The statement that within this budget document, particularly the small summary one, there do not appear justifications, estimates of impacts of each Government program, is quite true. Here again is the point where we have to draw the line. In Appropriations Committee hearings, and particularly, in authorization hearings, these kinds of analyses are usually presented. If you look through the appropriations hearings, you will see hundreds upon hundreds of pages of analysis.

Our really big problem is making a decision as to what we put in this document to avoid making it too bulky versus what we put in the agency justifications. I would have to know more details about the specific case before I knew precisely what Mr. Gerrity was getting at. If it required a supplemental appropriation, for example, I think the chances are very good, although not certain, that the testimony on the appropriation developed this. I simply don't know enough about this particular item to comment on it.

Senator PROXMIRE. Do you want to comment on it?

Mr. TILLER. I am not familiar with all of the details on this, but I would like to make this observation. The budget justification which would have been presented to Appropriations Committees by the agency concerned certainly would have gone into it in great detail. We print in the budget appendix rather brief statements, brief because we are limited by size. The budget appendix is 1,200 pages, and the nursing home program is shown on pages 423 and 424 of the latest budget appendix. There are a few sentences here about it. They certainly don't go into the details that the article suggested. They might. But to do that for each program we would require an appendix of many thousands of pages.

Senator PROXMIRE. The problem is not this particular instance, although it involves an enormous amount of money, $10 million in matching grants. But the fact that the President of the United States can propose a program and the program not appear in the budget and then later only show up as an anticipated expenditure growing out of an earlier proposal seems to me to be a way of missing an opportunity to evaluate and determine in advance the propriety or wisdom of spending such a huge amount.

Mr. SCHULTZE. In a sense, Mr. Gerrity does have a point. During the Presidential transition in 1961, there was a new budget submitted piecemeal. You will recall that at each transition, when a new administration comes in, the outgoing administration sends up its budget. I was not with the Bureau at the time, but if I recall, a number of new programs were proposed by the new administration and they were sent up in a sense piecemeal. It is quite true they were not in the budget document of the outgoing administration.

This is a particular problem of the transition year. Again we would have to distinguish between what is in the document and the kind of justification that was made before the Congress on either a regular appropriation, a supplemental appropriation, an amendment, or whatever it is. I would be fairly certain that there were justifications provided, but I think you are quite right; in this particular case it never appeared as a proposal either in the appendix or in this document because of the particular nature of the transition. That is probably the case.

Mr. COHN. I think we could agree with you, Senator, as to the desirability of the objective. I think the history of the budget document in the postwar period particularly has been to move to a more and more inclusive basis, trying to get everything into the budget that is in the President's program.

Until the postwar years very little proposed legislation was in the budget. We now have tried to capture it and I think we have most proposed legislation reflected in the estimates in the budget document. There is a question of how much detail should be put in when there is available further information and hearings before the Appropriations Committee and substantive legislative committees.

Second, there is the question of flexibility. Conditions change. As I recall, the Marshall plan was suggested in between budgets. It was not in the budget in the first year. Anything that the President thinks is important on which the Congress should act, and on which he had not reached a conclusion at the time he sends up his budget, I believe he should have the flexibility to send to the Congress if he thinks it is urgent enough at the time he reaches a decision. In that case it is not in the budget, but it should be spread on the records of the committee which hears the testimony of the Government witnesses.

I think we agree with your objective. We would prefer to have it in the budget, but we think the President should have the flexibility to make proposals at other times, too.

Senator PROXMIRE. Thank you, gentlemen, very much. I am going to turn over the chairmanship to Mr. Curtis. I apologize because I have to leave. I have another committee meeting I should have been at at 10 o'clock. I apologize for leaving under the circumstances.

Mr. Miller and Mr. Curtis, as you know, are very, very competent and I am sure the questioning will be very interesting.

Representative CURTIS. Thank you, Mr. Chairman.

First, let me apologize to the chairman for not being able to attend these hearings before today. I have followed this very closely, however.

Senator PROXMIRE. Let me interrupt to say that there is no more conscientious member of the committee than Mr. Curtis. He never has to apologize for missing a meeting because he has an attendance record second to none.

Representative CURTIS. You are very kind. I do want to compliment you and the staff for the preparation of these hearings and the papers that have been presented. I have done my homework. I have read the material that has been presented, and I am happy to be here today, at any rate, to affirm my interest in and my commendation for the caliber of these hearings.

First, just a point on the question that Senator Proxmire was asking. Granted, you can't have your budget much bigger, but why can't you, by reference to committee reports and other documents, take care of this kind of information? It is true you would have to refer to another document, but certainly that would shorten a lot of this and would make the material available.

Mr. SCHULTZE. Is what you are suggesting, Mr. Curtis, that perhaps in the succeeding year we ought to refer back?

Representative CURTIS. Yes. Anytime you have that situation, it should be relatively easy to pick it up and then you don't have to spend a lot of time on it. Simply say the justifications for or discussion of an item will appear in the report of the Appropriations Committee, for example.

I would like to make this basic observation about your presentation on the budget message of the President, and your failure to emphasize what I think, as far as the Congress is concerned, is the basic function of the budget. To me, the budget should serve as a base for the reasons underlying the Executive's request of the Congress to transfer or to give to it authority to spend. In other words, under the Constitution Congress has the sole authority to grant to the Executive the power to spend. Thus, the budget's essential purpose is to justify the Executive's request.

In the President's budget message to the Congress of this year, there is no reference to this function that I can see. It starts out:

> The Federal budget has a double importance. It is an agenda of our purposes and priorities in the form of a plan for the conduct and financing of the public business. It is also the most powerful single tool the Nation possesses for linking the private and public sectors of our economy in a common effort to achieve and maintain national prosperity.

It then goes on to these discussions. Lest I be misunderstood, let me say that all of the work and the advancement that you have testified to in the development of the budget is all to the good. Don't misunderstand me. I think all this is and will be very helpful in furthering this main function that I see the budget serves. But the failure to refer to these basic functions in the budget message of the President, and in all the testimony before this committee to date, is a glaring error.

I took the floor of the House earlier this year to criticize this budget because I said this was a budget message to the Congress, but you have to go to page 38 before you really get into the area over which the Congress has authority, which is the request for new obligational authority.

Mr. SCHULTZE. May I comment?

Representative CURTIS. Yes. Certainly.

Mr. SCHULTZE. On page 28—in fact, we thought we did something this year that Congress would like—on page 28, for the first time, we broke out new obligational authority by the amount requiring current action by the Congress and the amount permanently available.

Representative CURTIS. I beg your pardon, you are correct. It is on 28.

Mr. SCHULTZE. Perhaps this is a matter of interpretation. I would interpret a very large part of the prior discussion where the President is talking about his program as essentially a justification. The words are not used but it is an attempt to justify the President's request.

Representative CURTIS. It is. I am saying that Congress needs to have this stated clearly. Let me explain a little further in light of my criticism earlier this year. There is a great misconception which has been pointed out in these hearings on the part of Congressmen and certainly on the part of the public, of what budget we are talking about—the administrative budget, the national accounts and the cash flow and so on. Already in the public debate, there has been confusion between the $98.9 billion proposed expenditure rate for fiscal year 1964, and the request for new obligational authority of around $108 billion for fiscal year 1964.

As I pointed out, the only thing Congress has any control over is the request for new obligational authority. We have already given the President the authority to spend. I pointed out that by your clarity, on which I want to compliment you, you bring out the fact that on June 30, 1963, the beginning of fiscal year 1964, the President will have $87 billion of carryover authority unused. If Congress gave him the request for new obligational authority of $108 billion, he would then have a total of $195 billion authority to spend. But the expenditure rate of $98.9 billion which he projects is within his discretion within some limits.

Mr. SCHULTZE. Within some limits; that is correct.

Representative CURTIS. That is correct, because these are tied to programs. That is the concept that the people of this country need to know. It is a concept that my colleagues in Congress need to know. We need to emphasize this in our presentation. Now I will go to a specific. Of course, the request for new obligational authority is not for authority to spend that $108 billion in fiscal 1964. But when is the money to be spent? How much is in fiscal 1964? Some of it is. Some is fiscal 1965. Some is 1966. Some goes on even further into the future.

Congress, in considering it, looks at the program of carryover authority for this object, which makes up this complex of 87 billion of *x* dollars added to it. I might say the carryover that was planned to be spent in fiscal 1964 because some of this $87 billion carryover is unobligated and never has been planned to be spent in fiscal 1964.

Mr. SCHULTZE. That is right.

Representative CURTIS. I do not know what bulk of this would be fiscal 1964 expenditure.

Mr. SCHULTZE. This is on page 57 of the Budget in Brief.

Representative CURTIS. Yes.

Mr. SCHULTZE. What you are suggesting is that something like this be included in the budget message itself.

Representative CURTIS. I am saying that, but I am also saying—getting back to the basic theme—if the budget's primary function is to back up the President's request for new obligational authority to spent, it must be related, program by program for Congress. We must know the breakdown of the $87 billion authority to spend, what portion is projected for expenditure in 1964, what for 1965, and so on. Then your new obligational authority request should be projected in a similar fashion.

I mean beyond 1964. Of course, we are going to shift funds from year to year as changes occur. I am again emphasizing that if this is to serve the purpose of being meaningful to the Congress in the request for new authority to spend, it must show any change in plans. Maybe the President had a program in 1963 for which both the authority and appropriation were granted, but for some reason or another, the projected expenditures for 1964 were elongated so that some carried over into 1965 and 1966, which was unanticipated.

Mr. SCHULTZE. Mr. Curtis, I agree all of this information is most essential for the Congress. In fact, we do provide it. One can criticize whether we provide it in sufficient summary form. But in the budget appendix, agency by agency, program by program, an analysis of such balances are given. Just to take an example——

Representative CURTIS. Let me see if I am correct here because I do not have it in front of me, but you do not project this into fiscal 1967 or the full extent to which you plan to spend?

Mr. SCHULTZE. There are two things. First, as you know we give it through 1964 and the amount that will be available at the end of 1964.

Representative CURTIS. That is right.

Mr. SCHULTZE. Secondly, we do provide under Public Law 801, 84th Congress agency estimates on pending legislation. These cover the long-range 5-year new obligational authority and spending implications of each new legislative proposal. Those are sent to the Congress as the so-called Public Law 801 estimates.

Representative CURTIS. The breakdown for each year?

Mr. SCHULTZE. That is right.

Representative CURTIS. If you are going to do what I think must be done, why should not the request for $108 billion show the planned expenditures for fiscal 1964 of NOA, what is to be spent in 1965, 1966, and 1967. You can piecemeal this to some degree, but that has been the problem which Congress has. We do not have an overall legislative budget. We piecemeal it and never bring it together.

The only way it is brought together is in the President's original budget message. This is very important.

Mr. SCHULTZE. I am in the position of agreeing with about 50 percent of what you say and disagreeing with the other 50.

Representative CURTIS. This is healthy.

Mr. SCHULTZE. It is not so much disagreement, as it is simply saying we are probably not ready yet. As I noted in my testimony we are pushing as hard as we can on the agencies for long-run programing.

This involves not merely how the balances in a given year will be spent over the years, but also how their program develops and what this will mean for later years.

Representative CURTIS. Let me interject here because I must at this point. If the agency does not have its cash flow for a program set up in that way, they are not ready to request the funds. In fact, that has been our trouble and why we have been wasting money, in my judgment. We have allowed half-baked programs to go through where there has not been any planning. Agencies do not know when they are going to spend their money.

Mr. SCHULTZE. On this one, what normally happens is, first, we do require the agencies on each new legislative proposal to submit this year by year. Particularly where it is a new program that you have some fairly good ideas of the spending. First, you know what the total program is going to cost or at least you make an estimate. You have a fairly good idea of the specific rate of spending in the immediate future—the first year of the program.

Representative CURTIS. That is right.

Mr. SCHULTZE. But in most cases it would be, I think, unless it was handled with great care, very difficult to attach a degree of accuracy not to the total program but to how the specific rate of spending is divided between 1967, 1968, and 1969.

Representative CURTIS. I would not give them any money if I had control of it. I would simply say, "When you get firm enough figures then ask for the appropriation. But don't ask for it until you know your plans sufficiently well in advance and with some accuracy." I don't mean to be inflexible on this.

Let me illustrate by the highway fund which the Ways and Means Committee had to set up. Incidentally, it was over my opposition. But on the other hand, it at least performs the function of looking into 10 or 12 years of exactly this kind of thing. Each year we review what has been done and how plans have been met.

To me this is rudimentary and should be done in the budget as a whole. We do not have these figures. Can you tell me of the $87 billion that is a carryover to fiscal year 1964, how much is scheduled to be spent in 1964 and how much is for fiscal 1965 or fiscal 1966?

Mr. SCHULTZE. There are two places. You can see it either on page 44 of the budget document or on the chart on page 57 of the budget in brief.

Representative CURTIS. Just tell me what they are.

Mr. SCHULTZE. $42.2 billion for fiscal 1964.

Representative CURTIS. How much for 1965?

Mr. SCHULTZE. This we do not have in here.

Representative CURTIS. That is the point. That is just what I am saying. Of the $108 billion new request, how much is to be spent?

Mr. SCHULTZE. $56½ billion will be spent in 1964.

Representative CURTIS. But how much in fiscal 1965 and 1966? That is the point.

Mr. SCHULTZE. May I make the point, Mr. Curtis, that we do have our long-range projections and our estimates of how these expenditures will come out. The problem is also that contingencies and changes in circumstances will occur in 1965; the further out you get the more difficult it is to find out.

Representative CURTIS. Exactly, and that is why I would not give them the money until they are ready. If we are going to exercise any control over expenditures, you can't give people money until they have their planning in mind. You can't say that we can't plan unless we actually have the appropriation. Indeed, they can plan without the appropriation because they know if they have their ducks in a row and Congress has started a program, Congress usually carries it through.

On the other hand, the wisdom of economics and changed situations sometimes is to abandon the program rather than bail it out; as we all know, that does happen.

We admit that some of the best planned programs were wrong now that we have gone this far, but is it better to lose the million dollars we have appropriated, or should we try to salvage it? That is always a question.

But under this kind of budgetary process, again I am emphasizing the key to the budget as far as I am concerned. If it doesn't serve this function, all the work we have done is really beside the point. It does not serve the function of backing up the President's request for new authority to spend.

Mr. SCHULTZE. Mr. Curtis, it seems to me there are not one but two functions of the budget. One is the one you indicate, in a sense, the program.

Representative CURTIS. Without that you have nothing.

Mr. SCHULTZE. On the other hand, I would submit in order for Congress to make intelligent judgments it must also have information about expenditures, about the economic impact and a lot of this goes to the economic impact.

Representative CURTIS. It is all hinged on what I say is the key. The key is a base for which the administration requests authority to spend. Yes; I agree with you. We do want this. But we cannot lose sight of this key, but I think we already have. All of the criticism I have read to date that has been adduced before this committee fails to emphasize this key.

Senator MILLER. May I make a point there, Mr. Curtis? Let me suggest to you that I think the failure to project these out as Congressman Curtis has been advocating in future years, and to set them out in the budget, gives rise to suspicion in this area that the agencies requesting these programs either (*a*) have not done their homework and have not firmed up their programs, or (*b*), they have done their homework but they are afraid that if they lay it on the line that Congress may not go along with the program.

So by laying it on the line I think it will have a twofold purpose. First of all, it will kill off the suspicion, which is not good. Secondly, I think it will serve as a discipline on the agency itself to do a real good job of planning and programing, and also serve to force it into a really hard disciplinary situation if it has to come up with some changes.

We are not going to criticize them with coming up with changes or increasing programs or cutting them down. But we will want real good reasons. They will know it when they lay this on the line 2 or 3 years ahead of time that Congress will want to know why and they will want real good reasons. They should have good reasons.

I know the way you people operate—I am not criticizing the Budget Bureau, I am criticizing the agencies—I wish they all operated the way you do. I am sure you have problems with them.

Mr. SCHULTZE. Occasionally.

Senator MILLER. But you can see what I am getting at in this discipline.

Mr. SCHULTZE. May I note, Senator—and I don't want to be in a position of arguing with you—one of the things we feel a little proud of is that in the Defense Department Mr. McNamara came into a situation where they didn't have these 5-year plans and he forced them to think in terms of 5-year plans.

We are trying to do the same with all the agencies. Many do have some such plans. The question is one of firming them up. The question is getting ourselves into a position where we can have really good solid estimates.

Let me also note as I indicated earlier, where new legislation is proposed the agencies do provide to Congress year by year a 5-year estimate of the NOA and expenditures under Public Law 801.

Our whole push has been moving precisely in the direction you are talking about. As you can imagine, there are a tremendous number of problems in this. It is not just that the agencies don't want to submit numbers, but for such things as agricultural price supports they do not know. We want information and we get information from the agency on what determine the expenditures in the years ahead, but this depends on crops and many other things that make these estimates difficult to assemble.

Senator MILLER. May I just reply that when that happens if the Department of Agriculture can show a drought has occurred, unusually good weather has occurred, and exceptional crops have resulted, you are not going to have trouble justifying to Congress a change based on something that Members of Congress will recognize nobody could see. But you will have trouble if it is based on something that could have been foreseen.

That is the desirable feature of this idea of projecting these estimates.

Mr. COHN. I don't think there is any question of the desirability of the objective. Our office of management and organization has been trying to work with agencies to interest them and show them the importance of program planning and longrun planning. We are in agreement with it. We wish we were ready to do it in more places than we do it now. It is quite a problem in shifting the thinking of many people who quite rightly, were concerned, as we were concerned, in making sure that agencies live within their appropriation each year. This was the big problem for many years in budgeting: How to live within your appropriation for a year.

Now the world has changed so that we are shifting sights to 5 years hence, not only to within the 1 year. We agree with the importance of it, and I would like to assure you that we are trying to do what we can to move along these lines.

I am sorry it is taking us as long as it is, but we are convinced we have real problems.

Representative CURTIS. Let me make this point clear: the criticism I am voicing here, if carried to its ultimate, would be directed primarily at the Congress for its failure to develop the machinery to have a legislative budget, not the Executive. The Executive is way ahead of the Congress on this.

But I am bringing it out because I have felt that in the papers to date and in the discussion here, what seems to me to be the base of this whole thing, although it has been implicit, has not been expressed and these other things are based upon it. That is what I was trying to emphasize. If the Executive moves that way it would encourage the Congress to pick up and do something that has not been done.

I have listed here a number of things that bear on this question, the key to which, I say, is the shift of authority, the granting of authority by Congress to the Executive to spend. Funds can be shifted from program to program to some degree and this does occur. This is what becomes important. Shifting of funds from one fiscal year to another becomes a key.

Congress sometimes grants automatic authorities such as revolving funds. These are classified under back-door spending. There are also cutbacks on programs. Every President has frozen certain programs at times and wisely, in my judgment. He has accelerated some and slowed down others.

This is the kind of information that should be constantly reported to the Congress. We need not only the details of the breakdown, which we go into through our Appropriations Committee, but also the aggregates. As I said before, we need to know how much of the $87-billion carryover is going to be spent in fiscal 1964, 1965, and 1966.

Of the $108 billion, what is its flow? These are the things that we can look at the most. I could go on and mention others, but a lot of the debates we have had in the Congress have been in this area.

Two years ago, with regard to the Alliance for Progress, we questioned whether it was necessary to grant authority to spend for a 3- or 5-year period. What was the matter with a 1-year approach? I said it was nonsense when the President answered it would interfere with his programs. I think the Marshall plan was on a 1-year plan. It could interfere, but the machinery did not mean it had to.

If the Congress would not come along the next year and listen to the evidence of how far a program had gone, it could. But this talk of its having any effect on the program, I thought was nonsense and did not contribute to an understanding or development of this process.

I have one devilish question to ask that has always concerned me and can be fitted in here. Under article I, clause 12 of the Constitution: "Congress shall have the power to raise and support armies, but no appropriation of money to that use shall be for a longer term than 2 years."

I think I understand from reading my history the reason for this, but what have both the Executive and Congress done? If this needs a constitutional amendment, which I suggest it does, then it should be repealed But how does this fit in with the way we are handling our budgets today?

It obviously is being violated and has been violated under Eisenhower, under Truman and probably going on back some time.

Mr. Cohn. Mr. Curtis, I am no lawyer and especially not a constitutional lawyer, but I had the same question when I was fresh in the Budget Bureau and remembered a little of my Constitution. I said these things for the military which we call "no-year appropriations" seemed unconstitutional to me. This was in a luncheon discussion and has no standing in law, but one of the lawyers present said this question had been raised before and "to raise and support armies" had been interpreted to mean the pay and support of personnel, and not the purchase of equipment. So, someone had found, as people usually do, a loophole for a very important provision.

Representative CURTIS. I know they have. We recognize that this is specious. The only reason I raised it is because I am one for changing the Constitution if it is not modern and does not meet modern times. I suspect this does not.

But in the debate over the repeal of this we would come up, I am satisfied, with a real advancement in our budgetary proceeding and substituted something essential in its stead.

Your mentioning of the no-year authority for expenditure bears right on this point. Also, I didn't mention this process of deobligating funds and then reobligating them. You will have to deal with this one key question of the transfer of spending authority from the Congress to the Executive.

Mr. SCHULTZE. Mr. Curtis, part of that revolves around a very old debate and problem as to balancing of congressional control, item by item, within programs, detail by detail, with the necessary flexibility to operate the program most correctly.

Representative CURTIS. That is right.

Mr. SCHULTZE. Obviously there is no one answer to this. We can disagree as to precisely where one ought to draw the line. I don't really think it is so much a question that this procedure is good and that is bad, but a constant attempt over the years to find a modus vivendi on this. It seems to me that while there are a lot of areas where on the one hand the Executive may have too much authority, there are probably other areas where he does not have enough.

Each of these has to be examined case by case. I would agree with you where probably there are some cases where there is no need for this flexibility. There are other cases where flexibility would make for a better program.

Representative CURTIS. I would agree with you on that. I have taken the floor of the House to criticize Congress when, I thought, it illegally put a provision on a Defense bill, saying that the Defense Department could not sell facilities that it had without going to the Armed Services Committee for approval. I thought we had no authority to do that.

Mr. SCHULTZE. Stockpiling is the same business.

Representative CURTIS. So we are not in disagreement on the fact that this is a mix. I hope we are in agreement that we do not have well-defined rules of the road or a process of measuring so that the Congress and the people know about these programs.

In my judgment Congress has practically lost control over the purse strings. I think this is one of the most dangerous things that has ever occurred for the future of good programs and well-spent Federal funds.

I follow very closely the appropriations. The very fact that the Appropriations Committee has the staff it has, reveals that it can't do the work and does not do the work. The fact is that Congress itself has never seen and the pressures have never developed to really bring about a legislative budget.

In the Reorganization Act of 1946 we established a Budget Committee which met twice. The very fact that Congress has not seen this demonstrates to me that it has not followed this in enough detail to insist upon the proper procedures.

The greatest protection—and these are accolades to you—has been the Bureau of the Budget. Without the work you gentlemen have done, this would be completely gone. It is almost gone now as far as I am concerned. The theory that the people's representatives should control the purse strings is out the window.

Mr. SCHULTZE. Mr. Congressman, the one real problem that both you and we face is something that in a sense is inevitable. This is the nature of modern technology and the nature of modern defense. This is where the real flexibility is needed.

The point is you don't develop major fighter aircraft and you don't develop a new missile except over a period of anywhere from 3 to 8 years. You must have obligational availability in order to make the appropriate contracts—you may disagree where we draw the line.

Representative CURTIS. You and I agree. In research and development, I would give the greatest flexibility. Here I am hammering home the need for unification of military procurement, but in research and development I want duplication.

Mr. SCHULTZE. I am with you.

Representative CURTIS. When we get to the details I do not think we would. That is one I would single out for great flexibility. In other areas I would impose rigidity. I have seen it every time you get a fine title, like Children's Fund of the United Nations. Defense itself becomes a great big thing behind which all sorts of foolish programs come along—atomic energy is another and now we have space.

I remember when we caught the Atomic Energy building a new junior high school where it was costing them twice what it should have cost. But it hid behind that very glamorous title.

Now we are beginning to find out in the space crowd that the same is true in buying furniture. These are good people. I start from that premise. We are talking about good people. I don't use the term "bureaucrat" as an epithet. I use it as a matter of description and I will defend these people.

But we have to establish a system whereby we have discipline. I shouldn't talk about this because you people are living with it and I know it.

Mr. SCHULTZE. On the other hand, I don't want to give the impression that we really think the agencies are that bad. They are struggling with really big problems.

Representative CURTIS. They are that bad.

Mr. SCHULTZE. They do make mistakes.

Representative CURTIS. They are that bad. I singled out horrible examples such as the military to demonstrate it. The people are not as bad as the horrible examples because 80 percent of the time they are hitting the line. It is this fat that creates fatheads. I have had my say. I have been wanting to get this in the hearings at some point.

I think if we ever sat down together you and I would probably find we are in accord. Just like the chairman, I have to leave because I am an hour and 5 minutes late for my meeting.

Senator MILLER. I am very interested in the question that the acting chairman just asked Mr. Schultze, and I am wondering if it would not be proper to have included in the record a memorandum—and I am not referring to one that is real long—a succinct memorandum with appropriate citations of the justification—the legal justification—for doing what we are doing under that provision of the Constitution which Congressman Curtis read.

Mr. SCHULTZE. We would be glad to submit that.

Senator MILLER. Whether this comes from the Bureau of the Budget or whether it comes from the Attorney General's office, it does not make much difference to me, but I would like to know what we are operating under, what kind of interpretation.

Mr. SCHULTZE. Yes.

Representative CURTIS. That would be very good.

(The material furnished follows:)

Article 1, section 8, clause 12 provides that "The Congress shall have power * * * To raise and support Armies, but no Appropriation of Money to that Use shall be for a longer Term than two Years." The annotated copy of the Constitution prepared under direction of the late Edward S. Corwin and printed as Senate Document No. 170, 82d Congress, provides a useful summary of the interpretation given to the time limit on appropriations for the Army. It reads as follows (pp. 283–284):

"Prompted by the fear of standing armies to which Story alluded, the framers inserted the limitation that 'no appropriation of money to that use shall be for a longer term than 2 years.' In 1904 the question arose whether this provision would be violated if the Government contracted to pay a royalty for use of a patent in constructing guns and other equipment where the payments were likely to continue for more than 2 years. Solicitor General Hoyt ruled that such a contract would be lawful; that the appropriations limited by the Constitution 'are those only which are to raise and support armies in the strict sense of the word "support," and that the inhibition of that clause does not extend to appropriations for the various means which an army may use in military operations, or which are deemed necessary for the common defense, * * *' 25 Opinion Attorney General 105, 108 (1904). Relying on this earlier opinion, Attorney General Clark ruled in 1948 that there was 'no legal objection to a request to the Congress to appropriate funds to the Air Force for the procurement of aircraft and aeronautical equipment to remain available until expended.' 40 Opinion Attorney General 555 (1948)."

The current appropriations for military personnel, which cover pay, allowances, subsistence, change of station travel, and other costs closely connected with military personnel, are annual in nature; they may only be used for the payment of obligations incurred within the fiscal year for which the respective appropriations are made. Also, the appropriations for operation and maintenance are annual in nature. On the other hand, the appropriations for major procurement, research and development, and construction are usually made without time limit upon their use.

Representative CURTIS. Thank you, Mr. Chairman.

Senator MILLER. You gentlemen have been very reasonable in sitting here this long and I do not want to detain you very long but I do have three or four points I would like to discuss.

First, as I understand it, just taking the view of the last 2 or 3 or 4 or 5 years, an agency could come in one year and say, "This is what we spent last year." Now for the next fiscal year, "We are not going to do anything more than we have been doing, we are not going to hire any more people or pay them any more salaries, but still we have to have more money."

You ask them why and they will tell you the difference is due to the fact that we are in a period of inflation. I am wondering if it would be possible, and why we couldn't put in the budget some figures indicating how much of this budget is attributable to inflation. How much of the increase over the previous year is due to inflation.

Mr. SCHULTZE. Let me again not so much try to disagree with you but indicate some of the problems that would be involved. It depends first on what you mean by "inflation."

Senator MILLER. Let us make sure we are talking about the same thing. I am referring, for example, to the application of the implicit price deflator as shown in the economic indicators prepared for the Joint Economic Committee by the President's Council of Economic Advisers. Applying that to the dollar figure so that we will know how much the increase is attributable to implicit price deflator which, I suggest to you, will be considered or can be considered inflation.

Mr. SCHULTZE. To be frank, it would be cheating Congress a little bit and I will tell you why. One of the major elements in the deflator in the Department of Commerce's government line is the increase in wages and salaries of Government employees. In turn, year after year we are encouraging, pushing, needling, stimulating the agencies to absorb what they can absorb of those pay increases.

To increase productivity, for example, the Post Office Department when its workload goes up by a certain amount they hire fewer employees per unit of work; when the payroll goes up, they absorb much of the cost by economies. Hence, in many cases even though we can't isolate that detail by detail, in our joint work with the agency around budget time we are trying to get them to absorb at least some of the price increase.

We could very easily provide a figure which would simply apply a 2-percent increase to the total Government spending and say this is what the price effect is, but I am not really sure how much it would help.

Senator MILLER. Let us keep it simple. Let us take the $98.8 billion and apply the deflator to that say $2.5 billion, and indicate that this is due to the increase or decrease in the value of the dollar from one year to the next.

Mr. COHN. I suggest that is not a correct procedure. If we are doing some aggregative estimates and trying to find out how much expenditures would be if prices at the end of that year had been 1½-percent less than they actually were, that might be a correct method of statistical estimation.

However, we instruct the agencies in submitting their budgets not to assume price increases. They are instructed in submitting their budgets to assume that prices will remain generally just what they are at the time those estimates are submitted. Allowance is made for past salary increases, such as when Congress passed the pay act last year, or for wage board increases where they have been approved by various wage boards in the community. Where the agencies see these increases approved they can budget for those amounts. But where they are anticipating price rises we deny that kind of an estimate and do not allow it.

Thus, we do not permit anticipation of price rises in a budget submission. In part, we use this as a tactic, if you will, or a lever, to try to force the agencies to increase their productivity.

We see in business that productivity and efficiency improve. We have indexes that estimate the improvement. We are trying to get the same kind of improvement in Government operations. We think we have, although they are hard to measure.

In the Post Office example that Mr. Schultze mentioned, in the landings and takeoffs of aircraft monitored by an FAA tower, in the number of passports issued, in the numbers of customs inspections, and in many other operations our Government employees are now doing much more per employee. Productivity has risen over the years. We think this is fine, and we use the budget assumption of present prices, of not anticipating price increases, as another lever to try to make agencies think in terms of productivity increases.

Senator MILLER. That sounds reasonable to me but I am wondering if that is a realistic lever to put on an agency with respect to their construction programs, or their purchases of goods, for example. It seems to me that the record over the last 10 years would show that the cost of construction, the cost of purchasing goods has steadily gone upward. So there must have been someplace along the line where they were able to get more money to meet those requirements.

Mr. SCHULTZE. What you really find is that we lag a year. In a period of really violent inflation which we have not had, this would be a problem. But where there is a small upcreep, what this does is that you can take last year's price increase into account in estimating your next year.

We try to force them not to anticipate price increases in their budget. Price change gets built in, but it gets built in with a 1-year lag which does put additional pressure on.

Senator MILLER. This is what I am getting at. It would seem to me that we might evolve some system here that based upon the rate of last year it is estimated——

Mr. SCHULTZE. Applied to the last year's budget rather than the forthcoming.

Senator MILLER. It is estimated that so much in the coming budget will include an increase in the cost of goods and construction. I think it might give us a little feeler here about where we are going.

I mention this, and I will mention a couple of other things, because we have a serious problem on our balance of payments and outflow of gold. I think the more disciplinary tools we can crank into this picture, the better we will be.

The second thing, Mr. Schultze, is that I want to commend you and your colleagues for your obvious expert knowledge on these things. I hope you won't mind my suggesting a possible error that you made here when you said on page 15 that the President's budget is a plan rather than a forecast.

I suggest it is very much of a forecast insofar as the revenue income from current taxes is concerned. If it is not intended to be that way, it certainly is interpreted that way. I see no reason why it should not be a forecast. I can see where it should be a plan with respect to spending and a plan with respect to revenue as far as proposed tax changes are concerned. But frankly, I think it should be a forecast.

Mr. SCHULTZE. On the revenue side you are quite correct. One can get into all kinds of academic arguments as to what this forecast should represent. Apart from that, on the revenue side where it is simply attempting to find out what the revenue implications of existing tax rates are, it is a forecast.

Senator MILLER. As you know, there has been a lot of criticism of the fact that for the current fiscal year we add an original estimate of a $500 million surplus and now we are going to end up with about an $8 billion deficit.

I do not know just why but some people said there was a great deal of overoptimism regarding revenue. I don't know. I personally think there was. It seems to me that maybe the key to this serious error of $8 or $9 billion is in the degree to which we rely upon increase in gross national product.

On page 50 of the budget, it says economic base of estimates. The estimates of receipts in this budget are based on the assumptions that the Nation's total output of goods and services will increase $24 billion over 1962. From what it says there it looks to me that this is where we got off. We relied on the gross national product increase.

I am wondering, first of all, if that gross national product increase should not be broken down somewhat. For example, certainly we ought to take out the inflation part of it, using the implicit price deflator which takes quite a chunk out of the GNP increase from year to year. At least, that is the way it has been going. Then I am also wondering if, indeed, gross national product increase standing by itself really means anything as a basis for estimating revenue. If that increase is all due to Government spending, that does not mean there is going to be any increase in revenue.

What really counts, it seems to me, is the personal income and the corporate profit before taxes.

Mr. SCHULTZE. This is what we give here.

Senator MILLER. You give that but you give gross national product and this is picked up by some writers and some politicians as a basis for all kinds of controversial arguments. I am not sure that they really are very meaningful.

I am wondering if we should not knock gross national produet out of this thing entirely.

Mr. SCHULTZE. Senator, as it turns out, the actual way we get at the personal income and corporate profits is by working through a model of gross national product. By that I mean personal income and corporate profits are related to the level and the change in the level of gross national product. Hence, it is an integral part.

Senator MILLER. They are related not only to the change in gross national product but they must be very definitely related to the content of it.

Mr. SCHULTZE. To some extent. It depends on the detail in which we make our model. You are quite right that the content of gross national product is important but it seems to me the key factors are these: the level and change in the level of economic activity. This is the best single expression.

Senator MILLER. The change in the level, did you say?

Mr. SCHULTZE. The level and the change in level of economic activity, of which the best single expression is the gross national product. Clearly in getting at these numbers we don't simply put down three numbers. We have long, exhaustive sessions, discussion, and analyses of what goes into it. We then sum these up into the major elements which lie behind our economic forecasts: these are the three basic indicators.

Senator MILLER. I presume your model changes from one year to the next?

Mr. SCHULTZE. In the sense that we hope to learn more and get a little more sophisticated each year.

Senator MILLER. I can see that one year there may be a much larger element in gross national product coming from State and local government. In another year a much larger element coming from the private purchases of goods. In another year a much larger element coming from the Federal Government.

This being so, I would expect that your model would change from one year to the next if you are going to come up with any kind of really meaningful estimate of revenue.

Mr. SCHULTZE. In that sense, you are quite correct.

Senator MILLER. If that is so, why wouldn't it be helpful to have an abbreviated model set forth describing the gross national product elements which were used as a basis for the revenue? I must say that to me just taking an increase of GNP from one year to the next does not mean anything.

Mr. SCHULTZE. There are two points to this: First, I think, is that a good bit of this detail, part of it admittedly in language rather than in numbers is given in the economic report of the President. The rationale, the discussion of each of the elements that go into this—private investment, Government spending, State and local government spending, consumption—is in the backup which is really given in the economic report.

Second, in terms of how much detail you should print in terms of numbers, this is always a difficult question to decide. The Council of Economic Advisers is always thinking about how much of the specific quantitative model they should put out. I might point out to you that the patron saint of forecasters is St. Offset.

Usually we are more correct in the totals, and sometimes we miss a lot in the totals, than we are in the individual elements. Very often these offset each other. So, in terms of what should be put down in specific detail, we have been advancing and giving more each year.

How far we can go I can't really say at the moment.

Senator MILLER. May I suggest to you that we recognize that we are all learning as we go on from year to year. In view of the really very grievous error that was made in this estimate of revenue as a result of which we are going from this 500 million surplus to a serious deficit, and I am not saying that most of this is attributed to a bad estimate——

Mr. SCHULTZE. Most of it is.

Senator MILLER. I think by setting forth the model on the basis of which these estimates are calculated that it would perhaps provide us better estimates. There you lay it on the line. Here is where your estimates come from. If you say it is just on the basis of an increase in GNP, this is really meaningless. Anybody who knows anything about GNP knows that this is going to fluctuate and your estimates can be right one year and off the next year depending entirely on that model.

So why not put an abbreviated model in there and lay it on the line and say, "Here is our basis for estimates"? Personal income so much, corporate profits before taxes so much, which in turn have been based on this model forecast of GNP.

Mr. SCHULTZE. In a sense we do this in the Council's report. What we do not necessarily do is give each specific number. There is a discussion of what the assumptions are with respect to each of the major components of GNP in the Council's report.

Senator MILLER. Then all I would ask you to do over and above what you are doing is to get down to numbers a little bit. It might provide a good discipline. Why don't you try it and see what happens?

Mr. SCHULTZE. May I put it this way: We certainly not only have been thinking about it, but we will use this stimulus to think about it even more. A large part of this is the responsibility of the Council as to what they feel is proper to put into their report. This is where really the basis is. They are moving more in this direction.

Senator MILLER. I do not care whether you people do it or whether the Council does it. It seems to me it ought to be done. So that when people come out and say, "Here is the President's budget and he has estimated revenue of so much," we have a pretty good idea of how you made your estimate.

I know you go through the process. The process was very faulty for the current year. I would trust that you are going to improve upon it. Nobody criticizes anybody for making errors. We just do not want them repeated from one year to the next. Maybe this is where somebody after removing this can say, "We made an error in our model last year. We didn't take into account certain features. We overemphasized others and so we came out short on this revenue." Let us try to get something out in black and white so that we will know on what basis this was made.

We may differ with the basis on which it was made. That is fine. We can scrap about that. But it is impossible for us to scrap when we have nothing more than GNP to talk about. I think if the job of preparing the model is done well, you will be in a pretty good position to justify it.

Furthermore, nobody expects it to be more than an estimate. But let us get down to the model as far as presenting it in a document is concerned, either in your budget or in the Council of Economic Advisers from which you in turn draw your information.

Mr. SCHULTZE. May I interject one point that is partly irrelevant, I guess. What really happened on the shortfall in revenues this fiscal year from our earlier forecast was that fundamentally the earlier forecast was based on the belief that the rate of recovery which was then occurring from 1960–61 recession would continue.

What happened was the GNP did keep rising but the rate of recovery slowed up substantially. This is one of the things that led the President to his tax cut proposal, among many others; that is, this evidence, that the economy was being stifled from making a full recovery. "Stifled" is perhaps not the right word. The tax system was keeping the economy from moving all the way up and this had a feedback on revenues. Because we didn't get the full economic recovery we got the budget deficit.

Senator MILLER. This is precisely my point. The GNP, as I understand it, went up pretty well. But the recovery in GNP and certain elements in GNP did not meet the specifications.

Mr. SCHULTZE. It was not just the elements, it was the total GNP. The total GNP recovered at a much slower rate than it had been recovering and fell short of reaching the level of economic prosperity we had been assuming it would rise to.

Senator MILLER. May I suggest that even though we didn't have the full GNP increase that we had hoped for, we might still have achieved the revenue depending upon the mix within that GNP.

For example, if the GNP increase had been greater in the private sector than in the governmental sector, than we had expected, then the revenue would have been greater from the private sector and this personal income and corporate profits than we had anticipated.

So we would still get the same amount of revenue.

Mr. SCHULTZE. Here, I guess, I would have to disagree a bit. Within some broad limits an increase in GNP flowing from a $1 billion addition in Government expenditures or a $1 billion addition in private consumption, very roughly will lead to the same additional personal income and corporate profits, because the Government is buying from private firms. Consumers are buying from private firms.

Senator MILLER. In turn, I could agree with you by saying it could even be more so or less so depending on the type of Government expenditures. But I think the point I am making has been brought out and that is that the mix is very important in making these estimates.

This is why you people prepare a model. I do not want to labor this any further. I hope that what I have brought out here may be helpful to you because I am only asking or making suggestions that I think will be helpful to all of us.

I am wondering if it wouldn't be helpful to put in the budget a scale showing the value of the dollar from one year to the next. We might start out with 1939 which is generally used by Treasury as a dollar worth 100 cents, so that we can get a picture of the way the dollar is going down through the years.

Why couldn't that be done?

Mr. SCHULTZE. There is no technical reason it could not be done at all, Senator.

Senator MILLER. And in turn, use that, perhaps, as a backup for any information you might have regarding an estimated increase in the budget figures due to an increase in the cost of construction and the cost of goods.

Mr. SCHULTZE. First, as I say, there is no technical reason this couldn't be done. This is really done in all kind of detail in the Council's report—price indexes, consumer prices, wholesale prices, export prices, and the like, are all there.

Whether it would be appropriate to put a chart on prices in the budget—it might well be.

Senator MILLER. I would suggest that in connection with my prior suggestion of trying to reflect an estimated increase due to increase costs of construction and goods it be done.

Mr. SCHULTZE. Over the last 5 years, if I recall correctly, the average of all commodity prices has been on as flat a line as you can draw, almost. There has been no increase since late 1958 in the overall level of commodity prices, which have been quite stable.

Senator MILLER. There are some increases. Food costs, and things like that?

Mr. SCHULTZE. Certainly.

Senator MILLER. I will grant you that the retail price index is not too bad. But the fact remains that the dollar is going down in value. It is steadily eroding away. We are happy that it is not going violently that way but it is a steady trend and people get concerned about this. It must show up in increased cost of construction, increased cost of goods.

Mr. SCHULTZE. The goods, no, not recently.

Senator MILLER. The item may be a chair that has gone up in price. It does not mean that the lumber has gone up, but the cost of services in producing that is where we have so much of the increase.

Mr. SCHULTZE. When I indicated that commodities had not gone up, by commodities I meant an average of all goods including fabricated goods. What has gone up is services.

Senator MILLER. Which, in turn, have been reflected in the prices of some of those things, too?

Mr. SCHULTZE. Of some of them; yes. If we take an average of all consumer goods prices as opposed to services or machinery and the like, this has been remarkably stable for 5 years.

Senator MILLER. The thing that bothers so many people is the fact that still their dollars won't buy as much as it used to. The implicit price deflator shows this. Whether it goes for necessary goods or necessary services or necessary governmental services doesn't make too much difference to the average taxpayer. He just knows he has less purchasing power.

This is one reason why you had a request for wage increases. People get squeezed on increased rentals. They have no other way to go except to ask for more money just to keep even on their purchasing power. This is something I think would be helpful as a disciplinary tool to tie into this budget document.

The last question: This would not necessarily happen every year, but during some years we may have a major strike. It can throw off estimates, it can throw off your model in your estimates of revenue. It can have a profound impact on the economy. Where there is a major strike that has had a significant impact, I am wondering if it would be a helpful item to put in the budget your estimates of how much impact the strike had on the estimates.

For example, there was a 3-month strike or a 2-month strike in the east coast maritime industry this last year. That undoubtedly had a serious impact. Certainly in some areas. I think it was reflected clear out to the Midwest in its impact.

I am just wondering if we could calculate something like that? During steel strikes, for example, people have come out and said, "This cost us so many billion dollars' increase in GNP." Somebody worked up some estimates on it. I would far rather have you people do that than to have somebody who may have a particular ax to grind to work these up.

Mr. SCHULTZE. I have a little experience with this. I spent off and on a good part of about 9 months as a member of a panel which former Secretary of Labor, Mr. Mitchell, got together evaluating the steel industry and the steel strike. We labored and struggled, and I would think we came to the conclusion, first, that it is impossible to measure this.

Second, as a matter of fact if you take into account the buildup in steel inventories before and after the strike, in the net the strike did not have a major impact; it had for a particular quarter, undoubtedly.

But if you take a year or a year and a half and don't take into account the wage increase, it made itself up on both ends.

I am not suggesting that all strikes do. I am suggesting from our experience it was just literally impossible to get any kind of measure of this.

Senator MILLER. I am wondering if a statement to that effect should not be put in the budget if that is so, just as a means of clearing the air. As you well know, after a strike there are all kinds of estimates made by certain people about how much this affected the economy.

I think it would be helpful to clear the air if you people came out in the budget and had a statement to the effect that an analysis of the strike in the maritime industry which occurred for 2 or 3 months has revealed to us that it has had no noticeable impact on the GNP estimates which the budget for the previous year was based on. Or that it has had relatively minor impact on it.

Mr. SCHULTZE. All I have to say, Senator, is that is something I would hesitate to do. Insofar as these kinds of economic estimates should be done, I don't think the budget is the place to do it. It may be the Council of Economic Advisers' report, or the Labor Department's job.

There are all kinds of things affecting GNP during a year that we can't foresee in advance. An economic analysis of the prior year's economic activity should take those into account, including strikes in qualitative terms. This to some extent is part of the function of the Council of Economic Advisers. I am not sure it would be appropriate just to take strikes into account. There are all kinds of unforeseen things that come in.

Senator MILLER. I was using a strike because it is a rather dramatic thing. I certainly think where any significant unforeseen event which tore your model to pieces or tore your estimates to pieces, you people ought to put something in the budget to indicate to us why you were off on your estimates.

In other words, here you come up with a set of estimates that are your best judgment on something, and then we find something has been off.

Now why? Merely as a matter of explanation to satisfy us that you did the best you could, I think something in the way of an explanatory paragraph or page indicating what happened to your estimates during the previous year would be helpful to us.

Mr. SCHULTZE. May I suggest, Senator, as a matter of fact, if I recall correctly, during the period we were discussing what should go in the budget, I think we discussed this. My recollection of the conclusion of that discussion was: since we had seen a fairly long analysis made by the Council of Economic Advisers which they were going to put in their document analyzing the past year and what had been responsible for the economy not behaving the way we originally thought, we did not put it in here because it would be covered in much more detail than we would be able to give it.

You are simply suggesting that we place some reference in the budget?

Senator MILLER. I would say this: If merely by a simple statement you would say that the revenue estimates of the previous year were off by so much. The reason why they were off has been discussed in the Council of Economic Advisers' report pages so and so, so that we, in turn, can relate to this document very quickly.

I do not care, really, where it is, just so we can find it quickly. I do think it would be a good idea as a means of preserving our continued confidence in the work you people are doing so that we know you did the best job you could on your estimates.

Now, the estimates were off; here is the explanation: The Council of Economic Advisers has given the explanation. I have enjoyed listening to you very much, and I appreciate your nice answers to my questions. I do not see any reason for keeping you from your lunch any longer. Thank you very much.

Mr. SCHULTZE. Thank you, Senator.

Senator MILLER. The committee will meet at 2 p.m. this afternoon.

(Whereupon, at 12:15 p.m., the subcommittee recessed, to reconvene at 2 p.m., of the same day.)

AFTERNOON SESSION

Senator PROXMIRE. The subcommittee will come to order.

Our subject this afternoon is "Use of the Budget in Economic Research," and we are very happy and honored to have such a distinguished panel.

We will proceed as usual, in alphabetical order, and you gentlemen can either read your statement or summarize it.

I hope you will confine your initial remarks to 10 or 15 minutes or so, and then we can discuss the situation after that.

Dr. Colm?

STATEMENT OF GERHARD COLM, NATIONAL PLANNING ASSOCIATION

Mr. COLM. Mr. Chairman, I am very happy——

Senator PROXMIRE. Let me just interrupt to say that anything that you would like to be placed in the record in your statement, of course, that will be done. Your full statements in all cases will be put in the record if you skip over it.

Mr. COLM. Thank you for the invitation, Mr. Chairman. With your permission I would like to read the statement because then I know I will stay within the limits of the time.

Senator PROXMIRE. Very good.

Mr. COLM. I believe that the budget is of particular interest to the Joint Economic Committee for two reasons: First, it is a source of economic information; second, it is a tool for influencing economic development. While this particular hearing will, as I understand it, focus on the first item, I have been invited to discuss both aspects.

It is a fact that budgets have developed primarily as a tool of administration and legislative control and not as a source of economic information nor as a tool of economic and fiscal policy. Therefore, it is most natural that budgets are not in a shape in which we would like to have them if they had been primarily designed to serve these important purposes of information and policy. However, the Federal budget in its present form does not fully meet even the requirements of administration and legislative control.

Therefore, from whatever aspect one looks at the Federal budget, its structure and operation could be greatly improved. To some extent, proposals of budget reform which would improve the budget as an instrument of administration and legislative control would also serve the purposes of information and fiscal policy. To some extent, however, the various purposes require different budget statements. This fact has resulted in the use of various budget concepts which is the cause of considerable confusion.

For purposes of administration and legislative control, I believe that a program budget is most suitable. Here I am referring to an organization of the budget of "program packages" which have as a unifying principle "a common mission or set of purposes for the elements involved." This definition is a quote from Charles Hitch, Assistant Secretary of Defense.

The classification of expenditures and required obligationary authority by programs facilitates an evaluation of budget items in terms of costs and benefits and also permits consideration of the merits of alternative budget proposals. I cannot here go into the changes which would be required in budget presentation and eventually in appropriation procedure to transform the present administration budget into a true program budget.

The program budget would place less emphasis on exactly what amount of money is spent or collected during a particular year. A budget for each major program, particularly for longer range programs, would primarily give the estimated costs of the programs as a whole or over a specified period and only as a secondary estimate a proposed phasing of the expenditures over each of the ensuing years. Only for administrative routine expenditures would the annual expenditures be identical with the costs of operating a program.

For purposes of financial planning, particularly debt management, it is necessary to add up the proposed expenditures and revenues for each year. The most appropriate concept for this purpose is the consolidated cash concept which for the first time has been given a great emphasis in the main summary tables of the budget document for the fiscal year 1964. The program budget for evaluating costs and benefits for each major undertaking of Government and the consolidated cash concept for summation of outlays and receipts by years appear to be the most appropriate frame for the purposes of budget administration and budget control.

To reduce confusion, I suggest that the program budget and the cash summaries be regarded as the primary budget statements. Other statements should be of a supplementary nature for informational purposes.

1. THE BUDGET AS A SOURCE OF INFORMATION

Economic appraisals must be based not only on statistical facts which always relate to a period of the past but also on intentions; that is, intentions of business to invest in plant and equipment or build up or liquidate inventories and on intentions of consumers to buy houses, automobiles, and other durable goods, and the intention of the Government to extend or reduce programs and to raise or reduce tax rates, et cetera.

The budget by its nature reflects the intentions on the executive side of the Government which then may be confirmed or modified by the legislature. All economic forecasts belong to the sphere of speculation except to the extent that they can be based on actual intentions of consumers, business, or the Government.

We know, of course, that consumers', business', the Government intentions may change in response either to change of mind or to change of circumstances. Thus, even the best information about intentions does not remove uncertainty. However, a forecast based on intentions is much better than one based exclusively on the extrapolation of statistical facts of the past.

It is fortunate that a quarterly survey of State and local government construction expenditures has been initiated with estimates for the next quarter. It would be desirable if the survey could be extended to cover forecasts for four quarters, for all types of State and local government expenditures, for the same time period for which businessmen are asked to provide information about their investment intentions.

For appraising the impact of Government operations on the economy in a particular year, the Federal sector of the National Economic Accounts has been used recently. Actually, the National Account, in the form in which it is being prepared by the Department of Commerce, is designed to give a picture of the economy as a whole.

However, I believe that simply using the Federal sector of the National Account does not give us all the information about Federal operations that is needed. The Federal sector can not be taken out of the context of the National Account without modification. The National Account includes in the private sector certain credit transactions which are of governmental character but in an overall statement fit better under the investment sector of the economy.

Thus, the Federal sector in the National Income Account excludes Government loans and loan repayments with the exception of price support loans made by the Commodity Credit Corporation. This is a serious shortcoming if we want to measure the Federal Government's influence on the economy.

The same applies for loan insurance and guarantees, for example, in support of residential construction or certain local government activities, and so on. All these measures should be considered at least in part when reviewing the actual or expected impact of the Government's activities on the economy.

(See: "The Economic Impact of Federal Loan Insurance" by George F. Break, National Planning Association, spring 1961, a special project report.)

As our interest has shifted in part from short-term business fluctuations to longer run aspects of economic development, we need estimates of Government activities as they are planned beyond the ensuing year. The staff report of this subcommitte of the Joint Economic Committe has correctly emphasized that it is essential to obtain, besides the detailed budget for the ensuing year, broad budget outlooks for a number of years, posisbly for 5 or 10 years.

(See also the NPA statement on "The Need for Further Budget Reform" (planning pamphlet No. 90, March 1955).)

These budget outlooks would reflect the anticipated expenditures and revenues under existing legislation, but also present estimates for programs which are under active consideration and might even make allowance for programs for which there is reason to assume that they will be extended or reduced in the future by legislation which is not yet under active consideration. For the latter category probably alternatives should be used.

For the purposes of the Joint Economic Committee, it is essential that budgets for the ensuing year and the budget outlook for a period of years be related to some assumed economic development as a whole. Obviously no realistic estimate of future revenue can be made except on the basis of an economic assumption.

In this connection I would like to recommend that the budgets even for the ensuing year not be based on an actual forecast but rather on a reasonable assumption of a desirable rate of growth. Forecasts for the preparation of a budget must actually be done 2 years before the end of the budget period to which it refers. Short-term forecasts so long in advance are very hazardous, if not meaningless.

Furthermore, there is a great temptation that the forecasts will be biased as has happened in the past more than once. I think it is preferable to prepare the budget document on an assumption rather than on a forecast.

Then the President can, in the budget message, take account of the most recent developments and current outlook and state to what extent they differ from the assumption and recommend changes in fiscal policy which follow from the economic outlook as it emerges.

Such a "hypothetical" budget, particularly with respect to revenue estimates and expenditures which are responsive to a change in business conditions does not reduce the information value of the document as long as the economic assumptions are clearly stated.

In addition to the budget proper there is need for supplementary information.

I mention only a few items. The staff report has mentioned other items in addition to those I mentioned. I agree with all of them but only mention one which I think is of particular importance.

Because of the great economic importance of military procurement there should be quarterly information of the contracts let with advance estimates at least for the next four quarters. Also major obligations incurred for hardware and possibly R. & D. contracts should be broken down by regions and manpower requirements of contractors and subcontractors. I believe such information is of the same value as that now supplied on contracts broken down by size of the enterprises.

2. THE BUDGET AS A TOOL OF ECONOMIC POLICY

I believe that a budget which is so organized that is serves the best purposes of economic information can also best be used for guidance of economic and fiscal policy.

A distinction should be made between budgetary policies of an anticyclical nature and those in support of long-term economic growth and stability. From the point of view of an anticyclical expenditure policy, it is important to have proposed budget outlays classified first, by those which are determined by current needs of administration where no fluctuation is desirable or feasible; second, by those items of current expenditures which, to some extent, depend on economic events, for instance, the activities of the employment services or outlays for agricultural price support and so on; and third, those programs where the timing could be modified in the light of desired Government influence on economic development.

Outlays in this third category could be speeded up in case of an economic slack of a national or regional character or could be curtailed temporarily in case of excessive demand pressure on prices with inflationary tendencies. To this third category belong, of course, certain public works, including public works grants made to State and local governments.

It is often suggested that the adoption of a capital budget would facilitate a budgetary policy in support of economic growth. I agree with this view but only with certain qualifications. The staff study of this subcommittee makes the valid distinction between classifying the budget by current expenditures and capital outlays on the one hand and adoption of a capital budget separated from the budget of current operations on the other.

Those who recommend such separation usually imply that the capital budget should, as a general rule, be financed by borrowing. Sound fiscal policy may require that the Government finance some of its outlays by borrowing as it is done by private business and also by consumers who engage in installment financing for durable goods.

But the desirable amount of debt financing should be related to the conditions in the economy as a whole, to the amount of saving and the amount of private investments and indebtedness as a whole rather than to the particular character of Government expenditures.

To the extent that a classification of the budget by current expenditures and capital outlays is used, the concept of capital outlays should be clarified. One classification, used in some European countries, distinguishes between administrative expenditures which are likely to occur year in, year out, and expenditures of a nonrecurrent nature.

Capital outlays in the usual definition are the most important but not the only example of nonrecurrent outlays. More significant is a distinction between current expenditures for administrative routine, for primarily social purposes, and those programs which are designed to contribute to economic growth.

If one calls the latter capital outlays, it would be a different concept than the one used by private enterprise. For the Government it is not of essential concern whether it builds structures of a durable and directly profit yielding character but whether the outlays contribute to economic growth which, in turn, will contribute to a rise in national income and thereby to a broadening of the tax base and indirectly to a future rise in revenues.

In this respect it is essential, as Roy Moor says in the staff report, that social as well as economic investments are included in those items which are characterized as contributions to economic growth. However, I emphasize again, the concept of outlays in support of economic growth should aid in a subdivision of one budget rather than be used for presenting two separate budgets with two different rules for financing.

There are, however, Government undertakings for which a stronger case for adoption of separate capital budgets can be made. This applies to quasi-commercial operations such as the postal service, and possibly also to the financing of those FHA and FNMA programs which are required to operate on a self-sustaining basis. This applies also and especially to public authorities which have been established or may be established with direct or indirect Federal support.

We have in the modern economy a growing need for activities which have neither the character of Government administration nor of production of goods and services best performed by private enterprise. In this area in between in which public and private investments are interlinked we are groping for new forms of semipublic or semicommercial organization.

Also appropriate forms of public accounting and budgeting must be found for these undertakings. If the Federal Government contributes to these authorities directly by loans or subsidies such contributions should be fully reflected in the Federal budget statement.

However, these authorities may also attract State and local financing and private financing and to that extent need not be reflected in the Federal budget. However, the issue of bonds by public authorities which have any kind of Federal support should be coordinated with Treasury debt management policy. For informational purposes the activities of such authorities should be included in a special subdivision of the Government sector in the national economic account.

For purposes of long-term support of economic growth and private capital investment they require a separate treatment from that suitable for other Government activities. I believe this area may become of growing importance; therefore it may deserve special attention of this subcommittee.

Thank you.

Senator PROXMIRE. Thank you very much, Dr. Colm.

Mr. Lowry?

STATEMENT OF RALPH L. GILLEN, SECRETARY-TREASURER, THE FEDERAL STATISTICS USERS' CONFERENCE, AS PRESENTED BY ROYE L. LOWRY

Mr. LOWRY. Mr. Chairman, I appear here today in place of Mr. Ralph Gillen, who was originally scheduled to appear for the Federal Statistics Users' Conference but who happens to find himself some 3,000 miles away——

Senator PROXMIRE. We are very happy to have you here. You have been an able witness before.

Mr. LOWRY (continuing). So I will read his statement [reads]:

Mr. Chairman, I appreciate the opportunity you have extended to the Federal Statistics Users' Conference and to me to appear before you this afternoon to join with this distinguished group in discussing the budget as an economic document.

Unlike my fellow panel members, I am not an expert in budgetary analysis. I do not intend to consider technical details. Instead, I would like to mention several general ideas which could increase the usefulness of the budget to nongovernmental people who would like to better understand the impact of Federal programs on their own activities.

First of all there is a need for clearer and more complete statement of underlying assumptions.

The budget is primarily the financial expression of the administration's work program proposals for the fiscal year in question. As revised by congressional action, its resulting component pieces become the approved work program for the year.

Unlike other economic reports, studies, or other publications, the budget is not primarily a source of historical information. Rather, it is a description in financial terms of governmental anticipations and intentions for the year in question.

As with any financial forecast, the budget is based on estimates of the condition of the economy during the year for which it is prepared. However, the budget document is not a good source for finding out what these economic assumptions are. As reported in the budget for 1964, the underlying economic assumptions are summarized in only two paragraphs. And these assumptions deal with calendar, rather than fiscal, years. Moreover, the economic assumptions as recorded in the budget are limited to the assumed level of gross national product, the assumed level of personal income, and the assumed level of corporate profits before taxes.

Certainly the real economic assumptions on which the budget is based go deeper than that. There are undoubtedly some assumptions made as to price level. There must also have been some assumptions as to the course of the economy during the last 6 months of the fiscal year.

As a matter of fact, some charts which accompany the budget message of the President do contain implied assumptions as to gross national product for fiscal year 1964. I have not tried to measure this exactly from the charts, but it looks as though the economic assumptions of the budget include GNP of something like $600 billion for the fiscal year ending in June 1964. Why shouldn't this as well as other economic assumptions be made explicit?

Then the longer range objectives and their economic implications are not shown.

While the budget seeks to describe governmental intentions, a reading of the document itself provides only a hazy picture of what the expenditures described really seek to accomplish in the long run. Admittedly, some objectives—e.g., a number of the fields of defense and international affairs—can only be stated in general. But, for other programs (e.g., resource conservation, export expansion, atomic energy) there appears to be little reason why budget proposals cannot indicate in specific measurable terms how much or how many of what will be attained in the next 2 or 3 or 5 years if proposed programs are carried out. The budget document has been improved in this regard in the last year or two, and some additional information is found in published Appropriations Committee hearings or in the budget appendix.

However, a great deal remains to be done to improve the public understanding of what the Government intends to accomplish through its work programs. A better understanding of program objectives is fundamental to a better appraisal of the long-term economic implications of Government activities.

Many people who use, or try to use, the budget as an economic document are particularly interested in assessing the economic impact of the expenditures which the Government makes in implementing its programs as well as in the economic consequences of achieving program objectives. For these users, too, a clearer expression of longer-range spending intentions is important.

The contracts entered into and the expenditures made in carrying out Federal Government programs have an economic impact which extends beyond the budget year. A weapons system which was in research and development last year and is going into production this year will very likely go forward in years beyond fiscal year 1964.

A dam which is authorized today and will be started in fiscal year 1964 will still be under construction in later years. Ongoing activities like the Civil Service Commission, or the Census Bureau, or the Geological Survey, or the courts, or the legislative branch can conservatively be expected to go forward at levels not substantially different from those now existing or characteristic of the recent past.

It ought to be possible to project this impact forward for several years in some rough fashion, at least. For defense programs and public-works programs such projections already exist. Sometimes they are spread out in more detail in hearings before Appropriations Committees. But a more comprehensive presentation should be prepared and given broad public distribution as part of the budget document.

THE SHORT-RANGE IMPLICATIONS ARE NOT CLEAR EITHER

Estimates of Federal Government purchases of goods and services occupy an important place in all generalized economic forecasts, public or private. The budget is the basic source for the data used in these forecasts. Unfortunately, as presently organized and presented, the budget information does not indicate how Government programs move ahead at different speeds, and how they have an uneven impact on the economy at different times during the year.

For purposes of financial management, data of this kind are developed within the executive branch at the beginning of each fiscal year and they are revised at least quarterly. They are an integral part of short-term performance or progress review. There should be some way to make this information public in a form useful for economic analysis.

It is interesting to note that the Federal Government, through its statistical programs, asks consumers about their intentions to spend a quarter to a year in advance. It asks businessmen about their intentions to invest in plant and equipment for 3 and 6 months in advance.

It is beginning to ask State highway departments to report their spending intentions 3 months forward. It asks State and local governments to report their anticipated expenditures 3 months in advance. Yet it does not reveal its own spending intentions in a similar way.

The only recent proposal to accomplish something of this kind was a suggestion that businessmen be asked to report monthly on the new orders they receive from the Federal Government. This would certainly be a strange way for the Government to develop information which it already has at its command.

THE BUDGET PRESENTATION IS STILL TOO COMPLEX

There are a number of different ways of considering the impact of the Federal Government's revenue and expenditure programs on the economy. Presentations of the expenditure program in terms of the administrative budget, the cash budget, and the national income and accounts budget as provided in recent years give different kinds of users the opportunity to choose the framework most suitable to their purposes. This is a welcome step forward.

At best, the presentation of the budget is an awkward and complex thing. To many people, including myself, it is a painful and time-consuming chore to fight through the technical jargon of authorization, obligational authority, expenditure, et cetera, et cetera.

Many people who would like to use the budget as a source of economic information are discouraged by these technical complexities, even though some explanation of the meaning of these terms is supplied in the budget itself.

This country's businesses have made concerted efforts in recent years to make their annual reports more meaningful to stockholders. While the Budget in Brief is a commendable step forward, the Federal Government still has a long way to go to make its budget equally meaningful to interested and intelligent citizens who do not happen to be experts.

I do not wish to be misunderstood. This is not a call for the elimination of budget detail. For those users who are interested in particular programs, the detail which appears in the budget appendix or in the hearings of Appropriations Committees is of vital importance in assessing the economic impact of a proposed program change. Even this amount of detail may be too little. It may not be adequate to explain the way in which a specific proposed program change may affect the economic outlook for some particular industry or part of the country.

But to provide a summary view of the economic impact of Federal programs, a great deal of improvement can be made in making the budget more complete and understandable.

SUMMARY

In short, the budget can be significantly improved as a source of economic information:

By more clearly showing the economic assumptions on which it is based.

By clearly indicating the specific objectives of Federal activities and the extent to which the budget proposes to achieve these objectives in the budget year and the years beyond.

By showing in some fashion the continuing economic impact of expenditures for Federal Government activities, not only in the budget year, but in the years beyond.

By more clearly showing how expenditures for Federal Government activities will affect the economy quarter-by-quarter throughout the year (and by revising this picture quarterly during the year).

And finally, by simplifying and clarifying the presentation of the budget in order that it may be more easily understood by a nonspecialist.

Senator PROXMIRE. That is fine. Now, would it be satisfactory if we put the remainder in the record?

Mr. LOWRY. Yes; indeed it would. The second part reports the results of a little query we sent out to our members to find out how many people use these materials. A very surprising number of people use or attempt to use the budget for a variety of purposes.

Senator PROXMIRE. Do you want to summarize that?

Mr. LOWRY. Well, it shows, first of all, Mr. Chairman, that, over one-fourth of our members use or try to use the budget for a wide variety of purposes.

Senator PROXMIRE. How many would that be?

Mr. LOWRY. Over 40 members out of 150.

Senator PROXMIRE. And do you think this would be a fair sample? Do your members represent a fair sample?

Mr. LOWRY. Mr. Chairman, after hearing comments on what is a fair sample, I hate to say.

Senator PROXMIRE. Let me put it entirely different. Would you say it would be unreasonable to assume that a quarter or nearly a quarter of the people who generally use statistics at all would be inclined to rely on the budget for economic information for business?

Mr. LOWRY. I do not know whether members of the Federal Statistics Users' Conference are a fair sample of all statistics users. I was surprised to find that as many as 40 out of 150 members of FSUC used or tried to use the budget.

Senator PROXMIRE. How many of those are small firms?

Mr. LOWRY. Most of the firms that used it would not be—most of them are national firms.

Senator PROXMIRE. It is quite common, then, among the bigger firms and much less so among the smaller?

Mr. LOWRY. It would be in the larger firms; yes, sir. But other, smaller, organizations also indicated that they used the budget. For example a State farm organization reported that it used the budget as an informational source.

Senator PROXMIRE. Thank you.

(The remainder of Mr. Gillen's prepared statement, as presented by Mr. Lowry, follows:)

As a supplement to Mr. Gillen's statement, I would like to include in the record a brief memorandum summarizing results of an inquiry to members of the Federal Statistics Users' Conference which sought to find out how many use the budget as a source of economic information, what they use it for, and what improvements would contribute to making the budget more useful for their purposes.

ORGANIZATIONS IN ALL SECTORS OF THE ECONOMY USE THE BUDGET

Over one-fourth of FSUC's members use, or try to use, the budget for a variety of purposes. The most common uses include:

Estimating the costs and benefits of Federal expenditures.

Forecasting the impact of Federal Government spending on total economic activity.

Short-range forecasting of GNP.

Analysis and projection of Government purchases of goods and services.

Analysis and projection of Government expenditures on research and development.

Analysis and projection of Government expenditures for goods and services with special reference to possible marketing opportunities.

Analysis and projection of Government expenditures as a factor in long-range planning.

Measuring Government expenditures in particular areas.

SUGGESTED IMPROVEMENTS MIRROR VARIED USES

Improvements suggested by FSUC members reflect the many purposes for which organizations use the budget. Major improvements mentioned include:

Separate presentation of a capital budget.

More identification of costs with outputs.

More historical continuity in published figures.

Publication of quarterly data.

Show total costing of projects over time—distribute costs over years ahead beyond the budget year.

Longer term projections of budget expenditures.

Try to increase comparability between cash budget and Treasury daily statement.

Estimate by agency and function of Federal Government purchases of goods and services for present year and budget year.

Show separately the amount of purchases of goods and services for new and expanding programs in the budget year.

Show more detail as to major types of procurement.

ADDITIONAL PERSONAL REMARKS BY R. L. GILLEN

May I take a moment or two more—as an interested citizen rather than as a representative of the Federal Statistics Users' Conference or as a member of the firm of McKinsey & Co.—to add a comment on the budget process itself, again in nontechnical terms.

In my work as a management consultant, I preach a great deal to business and institutional clients about the virtues of planning and budgeting as management tools, and point to the Federal Government as an outstanding user of these tools. Yet, for a range of reasons (many of them political in nature and better known to members of this committee than to me), the process by which the Government's plans and budgets are established and approved limits their usefulness as a means for effective management.

The role of Congress (analogous broadly to the role of a board of directors of a corporation or a board of trustees of an institution) is to establish objectives and determine the levels of resources required and priorities for their application to achieve these objectives. No enterprise, public or private, could function effectively in any other way.

But during the budget process, it appears that for many programs, an inordinate amount of time is consumed in defining in detail how an activity is to be performed or how money should be spent—rather than on the more critical question: What is to be accomplished and when?

This situation, at times, is tantamount to the board of directors of a corporation discussing with the company president or sales-vice president the number of sales offices to be maintained in Ohio or whether 12 maintenance men or 15 maintenance men are necessary in the Ashtabula plant. Clearly the board members and key executives are concerned with more important matters: Should we build a plant in California? What increase in sales volume can be expected if we spend another $2 million for research effort on product X?

But their counterparts in Government, Members of Congress, and agency heads, spend a great deal of time discussing and describing—as part of the budgetary process—the location of a 300-man research facility or whether a Presidentially appointed Federal executive needs two people or four as part of his staff to get his assignment completed.

My point is simply this: Congress and the executive branch must more clearly act as if they were part of the same enterprise—the Government of the United States. Congress, through appropriations hearings and actions, should approve or set objectives, establish performance goals, determine levels of expenditures needed to achieve these goals, develop policy guidelines within which action can be taken, and subsequently, regularly review progress and performance. The executive agencies should participate in these efforts and accept the obligation to meet the goals established. If they are meeting their performance obligations measured in terms of results, then we will all be gainers. If they are not, time-consuming discussions on whether $20,000 or $25,000 is the best amount to allocate for furnishing a new office building in Denver will not help to improve poor performance. Congress and high level Federal executives just do not have time to devote to these kinds of questions—in the face of our current pressing problems and the larger ones on the horizon.

I apologize for stretching an analogy a bit farther than may have been appropriate—or for failing to demonstrate sympathetic recognition of some of the factors that impel, in part, the kinds of problems referred to in our budgetary process. It may be naive or idealistic to hope that they can be solved. But the prospective benefits are so great as to make the effort worthwhile.

Thank you.

Senator PROXMIRE. All right, Mr. Levy.

STATEMENT OF MICHAEL E. LEVY, SENIOR ECONOMIST, DIVISION OF ECONOMIC RESEARCH, NATIONAL INDUSTRIAL CONFERENCE BOARD

Mr. LEVY. Mr. Chairman, I have tried to state a fairly complex matter in a rather brief way, and therefore I prefer to read it rather than talk about it freely.

Senator PROXMIRE. Fine.

Mr. LEVY. Last year, this subcommittee published a study on the Federal budget as an economic document which had been prepared by Dr. Roy E. Moor of the committee staff. That study contains the best current survey of the uses and limitations of the Federal budget accounts for economic analysis; it also summarizes the major current proposals for improvements.

With this excellent overall survey on hand, I propose to focus on one specific province of budget analysis: the impact of the Federal Government's fiscal operations on total economic activity. Moreover, within this rather broad area, I plan to direct my discussion to two important, interrelated questions that deserve special consideration here, because of the imperfections of our present knowledge and the great need for improvements. They are: first, the relation between the specific stages of the spending and taxing process and the timing and magnitude of their economic impact, and second, the degree of administrative discretion in determining specific revenue and expenditure levels.

In addressing myself to these questions, I shall discuss expenditure and receipts separately, not merely because they are scrutinized by different congressional committees, but because they differ in their immediate relationship to general economic activity and hence give rise to different proposals for budgetary improvements.

First, a few comments on our existing budget accounts may be in order. At present, three major sets of budget accounts are available for economic analysis. They are: (1) the administrative budget, (2) the consolidated cash budget, and (3) the national-income-accounts budget.

The basic differences among these accounts have been discussed at length in the subcommittee's own study and elsewhere and need no repeating here. Of the three sets of accounts, the former is of little use for the type of economic analysis that concerns me here, whereas the combined use of the latter two provides the basis for at least a partial analysis of the "income effect" and the "liquidity effect" of the budget.

I have discussed this matter in some detail in a chapter of my forthcoming study, "Fiscal Policy, Cycles and Growth"—to be published by the National Industrial Conference Board in May 1963—and am ready to submit an abbreviated version of this chapter as supplementary material if the subcommittee wishes to have it.

Senator PROXMIRE. Fine. We will be very happy to have it.

Mr. LEVY. Among the major improvements of the Federal budgets——

Senator PROXMIRE. You understood, Mr. Levy, we said we would like to have that for the record.

Mr. LEVY. Thank you, Mr. Chairman. The material has been submitted.

Senator PROXMIRE. That is fine.

Mr. LEVY. Thank you.

Among the major improvements of the Federal budgets for fiscal 1963 and 1964 were the inclusion of estimates of receipts and expenditures on a national-income basis for the current as well as for the forthcoming fiscal year, and the provision of important new summaries of "new obligational authority" and "obligations incurred." The significance of these data and the need for further detail and refinement are clearly indicated by an analysis of the Federal spending process and its relationship to economic activity.

New authorizations may have some impact on the activity of the private economy even prior to any new Government commitments, as business enterprises react to the anticipated Government spending. I am inclined to believe that this so-called announcement effect is not too important under normal conditions of peacetime procurement, but we should attempt to assess and qualify it.

But the major effects on the private economy begin to be felt as soon as the Government places its orders and incurs new obligations. For many types of procurement, this placement of orders occurs long before the goods are produced and delivered and payment is made.

In the meantime, those business enterprises engaged in producing the new Government orders pay wages and salaries, buy supplies from other firms, and finance their increases in inventories—that is, unfilled Government orders—either from internal sources or through loans. All these activities have an immediate bearing on the level of economic activity in the private economy, especially at times when it operates at less-than-full capacity.

This process, which sometimes involves heavy outlays, shows up in Government expenditure data only upon its completion—in the national-income-accounts budget at the time when the order is delivered, and in the consolidated cash budget at the time when the Government pays its bills, which is usually even later.

Some payment may, of course, have occurred prior to delivery in form of "advance payments" or "progress payments."

By the way, in the consolidated cash budget we get some partial figures of progress and advance payments. They are not shown separately but they show up in the overall figures and probably more detailed statements on these progress and advance payments would be desirable.

Thus, most of the stimulative income-generating effect of Government purchases occurs prior to the time of the actual governmental payments and, by necessitating additional credit extensions from private business to the Government, causes a simultaneous reduction in business liquidity which may have a somewhat offsetting—that is, dampening—effect on economic activity.

At present, we economists know very little about the timing and diffusion of these economic effects of the Federal spending process. Future economic analysis may establish the average time lag between new obligations incurred and final Government expenditures for specific projects, but this type of analysis is contingent on better and more detailed information on the Federal spending process.

Annual data are totally inadequate for this purpose; therefore, one of the most important improvements in budget accounting must be the provision of quarterly data—ultimately on a seasonally adjusted basis—for past fiscal years as well as for the current and forthcoming one. Such data should cover not only receipts and expenditures, but also obligations incurred and their "due dates."

In my opinion, the most essential information on this count could be provided in two consolidated summary tables which would present both the legislator and the economic analyst with a greatly improved picture of the authorization, obligating, and spending process.

The attached exhibit shows the column headings of these two proposed tables which, by and large, are self-explanatory.

(The table referred to follows:)

TABLE 1

Unobligated balances at start of year	Plus: New obligational authority		Minus: Obligations incurred in				Minus: Unobligated balances rescinded, lapsing, and other minor adjustments	Equals: Unobligated balances at end of year
	Current authorizations	Permanent authorizations	1st quarter	2d quarter	3d quarter	4th quarter		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

TABLE 2

Obligations outstanding at start of year, due during—[1]					Plus: Obligations incurred during fiscal year due during—[1]					Minus: Expenditures during—[2]				Minus: Adjustments, obligated balances in expired accounts and interfund transactions	Equals: obligations outstanding at end of year
1st quarter	2d quarter	3d quarter	4th quarter	Next fiscal year or later	1st quarter	2d quarter	3d quarter	4th quarter	Next fiscal year or later	1st quarter	2d quarter	3d quarter	4th quarter		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)

[1] Due dates on an "accrual basis," i.e., time of delivery rather than time of payment.
[2] Expenditures on a consolidated cash basis, i.e., at time of actual payment.

Mr. LEVY. Table 2 and the middle section of table 1 (new obligations incurred by quarters), are likely to be of particular interest to the research economist. It may be useful to indicate, at least briefly, some of the insights which are to be derived from this information.

Information on the "due dates" of obligations outstanding at the start of the year (table 2, cols. 1–5) is indicative of those Government commitments of the past which will require Government "expenditures" (at least on a national-income-account accrual basis) during the current year and which are, therefore, largely "nondiscretionary."

The differentiation between "nondiscretionary" and "discretionary" Government expenditures could be carried even further if the corresponding information for new obligations incurred (table 2, cols. 6–10) were broken down by "existing programs" and "programs requiring new legislative or administrative action." Clearly, payments due on account of the latter programs can be more readily modified than most others. (This does not, of course, imply that they are less useful or desirable.)

By relating the time pattern of new obligations incurred (table 1, cols. 4–7) with the information on "due dates" (shown in table 2), we should ultimately be able to derive average timelags between the placement of orders and their delivery. Similarly, the average lag between delivery and payment could be derived from the relation between "due dates" and the expenditure data.

I should like to indicate briefly the detail to be shown in the stub of our master tables. The breakdown into existing and new programs has already been mentioned; it should be made available by major Government function, such as "national defense," "international affairs and finance," et cetera. An additional breakdown according to broad national-income categories (i.e., purchases of goods and services, transfer payments, grants-in-aid to State and local governments, etc.) should make it possible to derive national-income-account expenditures (i.e., "obligations due") and relate them directly to consolidated cash expenditures.

On the basis of my own research work I am convinced that a set of two master tables, shaped along the lines indicated here, could provide the foundation for extensive and illuminating new research on the Government spending process and its economic impact.

A few brief comments on the receipt side of the budget accounts may now be in order. There, our knowledge is somewhat better and our needs are more modest.

Again, we must aim for quarterly estimates for the current, and quarterly projections for the forthcoming, fiscal year, so as to match the expenditure data. This information should be made available for both the consolidated cash and the national-income-accounts receipts by source (i.e., individual and corporation income taxes, excise taxes, etc.). This would facilitate the analysis of the "income effect" as well as the "liquidity effect" of the budget. (See supplementary statement.)

But even more urgent is our need for an explicit differentiation between the dependence of Government receipts on the tax base and rate structure on the one hand, and on the overall level of economic activity on the other. Not only should the budget document state the specific economic assumptions on which the revenue estimates are based—such as the projected levels of GNP, disposable income, corporate profits, and the like—but it should also indicate the extent to which different levels of economic activity may be expected to modify total receipts and affect the budget surplus or deficit.

In particular, the budget should provide quarterly estimates of the level of receipts and surpluses or deficits which would be generated by a full-employment economy. Elsewhere, I have discussed the underlying conceptual and estimating problems which are considerable, but far from insoluble. (*Fiscal Policy, Cycles and Growth*, *op. cit.*, ch. 6 and appendix to ch. 6.)

With the permission of this subcommittee, I would like to submit a brief supplementary statement indicating several feasible estimating procedures and providing alternative estimates for recent full-employment budget surpluses.

(The statement referred to follows:)

Supplementary Statement by Michael E. Levy, Senior Economist, Division of Economic Research, NICB

1. Use of Federal Budget Accounts in Analyzing Fiscal Impact[1]

A. Administrative budget

The best known and most widely quoted set of budget accounts are those of the "administrative budget," which is submitted by the President to Congress every January.[2] The administrative budget forms the basis for congressional scrutiny and control of Government revenues and expenditures. Its accounts exclude two major sets of transactions that are believed to deserve separate consideration: transactions of social insurance and related trust funds and certain transactions of various business-type and credit agencies of the Government. Together, these form the so-called "Trust and miscellaneous accounts," which, from a small beginning in the 1930's, have steadily increased in importance. For fiscal year 1962, total receipts and expenditures of these accounts amounted to $24.3 billion and $24.1 billion, respectively—equivalent to about 30 percent of the administrative budget.

B. Consolidated cash budget

The exclusion of trust funds from the administrative budget may be justifiable in terms of the procedures of congressional budgetary control. However, from the point of view of fiscal impact on the economy, a dollar deducted from the paycheck for social security differs very little from a dollar withheld for income tax purposes. It is for this reason that economists have argued since the late 1940's that the transactions of trust accounts should be included in the budget for the purpose of fiscal analysis. Thus, the consolidated cash budget forms a better basis for such an analysis than the administrative budget, because it reflects more completely the amounts of cash withdrawn from, or injected into, the private sector of the economy.[3] The cash budget includes administrative receipts and expenditures as well as those of the trust funds. It excludes, however, intergovernmental transactions and adjusts all receipt-and-expenditure figures to a cash basis.[4]

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[1] This statement is derived from material contained in ch. 7 of the author's forthcoming study, "Fiscal Policy, Cycles and Growth" (to be published by the NICB in May 1963).

[2] For a comparison and analysis of the administrative, consolidated cash, and national-income-accounts budget, see also Federal Reserve Bank of Kansas City, "Federal Receipts and Expenditures—Alternative Measures," Monthly Review, August 1961; U.S. Congress Joint Economic Committee, Subcommittee on Economic Statistics, "The Federal Budget as an Economic Document" (U.S. Government Printing Office, Washington, 1962), ch. 7, pp. 109–128; also "The Budget of the U.S. Government, Fiscal Year 1964." (U.S. Government Printing Office, Washington, 1963), special analysis A, pp. 324–331.

[3] In recent budget documents, the consolidated cash budget has been labeled "Receipts From and Payments to the Public."

[4] By focusing on changes in Government cash balances, the consolidated cash budget is indicative of the Government's needs to raise new funds in the money market.

C. National income accounts budget

Recently, some experts have suggested that the consolidated cash budget is a rather deficient tool for evaluating the fiscal impact of Government operations. The budget figures contained in the national income accounts—according to this argument—are better suited for this particular purpose because they focus on income-generating activities of the Government—those that affect "disposable" after-tax income of the private sector. The measurement of income-generating Government activities is achieved by means of two major adjustments:

First, the national income accounts budget excludes capital transactions—such as Government sales of used plant and equipment and, more importantly, some Government lending activities—which are included in the consolidated cash budget. Second, all expenditures and some major receipts—especially corporation income taxes—are recorded on an accrual, rather than a cash, basis in correspondence with the procedures of business enterprises which use accrual income accounting.[5]

Income-generating Government activities—as measured by the national income accounts budget—are of primary importance in fiscal analysis because private after-tax income of both households and businesses is probably the most significant single determinant of private spending and economic activity. Thus Government operations which modify private income will give rise to an "income effect" by inducing changes in private consumption and investment and hence in total economic activity.

D. Income effect versus liquidity effect

If the concept "fiscal impact" is used in the narrow sense of the "income effect" (as is the case at times), then the national income accounts budget is clearly the best available tool for fiscal analysis and a highly satisfactory one at that. But "fiscal impact" in a broad sense of the term refers to all the direct and fairly immediate effects of the Government's fiscal, or budgetary, operations.

A brief consideration of the corporation income tax and of Government purchases from the private sector may serve to illustrate the income and liquidity effects of the budget, while illuminating, at the same time, the relative importance of accrual and cash accounting in fiscal analysis.

Business enterprises generally use "accrual accounting." Hence, income tax liabilities are viewed as a claim against income at the time when incurred, even though the actual tax payment may be due only 6 months later. Similarly, income from Government orders is considered as earned at the time when the goods or services are delivered, even if paid for at a later date. Thus, whenever an addition to, or new claim against, income differs in timing from the date of actual cash collection or payment, the activity can be broken down into two separate transactions: (1) A current-account transaction (e.g. tax liability or sale), which affects income, and (2) a capital-account, or financial (borrowing or lending) transaction, which affects liquidity. The former is directly reflected in accrual accounting; the latter, in the differenes between accrual and consolidated cash accounting.

Thus, for example, any excess of deliveries of goods and services to the Government over Government payments—as measured by differences in these two budget accounts—has to be financed by private credit. An excess of corporate profit tax accruals over payments, in turn, is equivalent to an interest-free loan from the Government. The former has a restrictive effect on the private economy, whereas the latter is expansionary.

The similarity between this liquidity effect of the budget and the "liquidity effect" of new Treasury borrowing—or debt retirement, as the case may be—is quite obvious.[6] Therefore, one may argue that the liquidity effect of the budget

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[5] Exceedingly useful explanations of the major component of the consolidated cash and national income accounts budgets are contained in "The Budget of the United States Government, Fiscal 1964," op. cit., special analysis A.

[6] In fact, there appears to be a direct link between these two through the money market, as briefly indicated by Michael E. Levy, "Cycles in Government Securities: I. Federal Debt and Its Ownership" (National Industrial Conference Board, New York, 1962), especially p. 80.

be best evaluated not in the context of fiscal analysis, but rather within the framework of monetary and debt management policies.[7]

As a rule, current fiscal analysis either lumps the liquidity effect with the income effect indiscriminately (whenever the consolidated cash budget is used for fiscal analysis), or disregards it altogether (when the national income accounts budget is used).

Ideally, the national income accounts budget should be utilized as the best current indicator of "fiscal impact" in the more limited sense; yet at the same time the differences between the national income accounts budget and the consolidated cash budget should be analyzed in order to evaluate the liquidity effect of the budget.[8] If the interest of the analysis focuses on Government financing and its impact on the money market (rather than the direct economic impact of the budget surplus or deficit), the consolidated cash budget is the most relevant summary measure.

Needless to say, even this more sophisticated aggregate analysis is by no means a satisfactory substitute for a detailed item-by-item analysis of specific Government revenue measures and spending and lending programs. Moreover, additional severe limitations of this analysis are revealed, once the timing of the economic impact of the Federal spending process is considered.

F. The timing of the fiscal impact

Since Government purchases of goods and services are entered in the national-income-accounts budget on an "accrual basis," i.e., when delivered, the impact of Government purchases is registered solely in terms of final demand" for goods and services.[9] (In the case of certain "hardware," production may have started, and some income may have been generated, several years prior to delivery.) All Government orders from the private sector on which production has started—or even been completed—but delivery has not yet been made, are included in private investment in inventories rather than Government purchases. The income generated from this latter production, as measured by its "value added," while ultimately attributable to the Government spending process,[10] does not show up in the current data on Government expenditures.[11]

If the flow of Government orders in the production pipelines remained more or less unchanged, the final expenditure series would give a fair indication of the increases or declines in Government procurement and purchases of goods and services, and hence of the direct impact of the Federal spending process. Yet in reality changes in Government orders may be reflected in changes in Government spending with considerable delay. This is the case, for example, if the

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[7] For a treatment along these lines, see Wilfred Lewis, Jr., "Federal Fiscal Policy in the Postwar Recessions" (Brookings Institution, Washington, 1962), especially pp. 82–83. Lewis suggests that the liquidity effect of the budget will probably be largely offset in the money market by Treasury borrowing and appropriate Federal Reserve measures. He concludes that it may, therefore, be altogether disregarded as a mere "accounting effect."

This conclusion holds only if Lewis' assumptions with regard to the Treasury's cash management and the Federal Reserve's monetary policy are met. But even in this case, a fully explicit treatment seems preferable to one which views a certain portion of Treasury borrowing and of Federal Reserve policy as merely an offset to the liquidity effect of the budget.

(In fact, Lewis' "netting out" of the liquidity effect led him to question the economic impact of Government delays of "progress payments" on defense contracts in the fall of 1957. Thus he states: "By September 1955, recession talk was increasingly linked with the defense cutbacks, a number of analysts blaming the cutback in progress payments for the unfavorable busineess outlook. That defense contractors could reasonably doubt whether they would be paid in full on delivery may see strange" (op. cit., p. 195).

Is it not conceivable that the restrictive liquidity effect (i.e., Government demand for additional "credit financing" from defense contractors) acted at the time, as a real brake on business outlook and spending, even if ultimate payment in full was assured?

[8] At present, a detailed postwar analysis along these lines is not feasible, because the basic data for reconciling these 2 budgets are available only on an annual basis prior to 1956. For the period from 1956 on, these data are provided on a semiannual basis, but not seasonally adjusted.

[9] The basic difficulties and analytical deficiencies surrounding the concept of "final Government demand," as used in our national income statistics, are well known and require no elaboration in this context.

[10] Viewed in terms of aggregate economic analysis, this "value added" represents a net addition to national income only if the economy had not been operating at full employment, so that the Government orders amounted to an additional claim on underutilized resources, rather than merely a diversion of resources from private to public uses.

[11] That part of these orders in process which had been financed by advance or progress payments from the Government, would be reflected in the administrative and consolidated cash budget, but, generally, not in the national-income-accounts budget. At present, advance and progress payments cover only a small fraction of the value added of all goods in process on Federal Government account.

average lag between the placement of orders and their delivery is fairly long and remains constant, or even lengthens with increases in orders. The fiscal impact of the Federal Government cannot then be properly asserted without tracing the spending process through its various stages.[12]

Such a tracing of the Government spending process from the letting of contracts—the time obligations are incurred—to the delivery of goods and services and the final payment would provide not only a more complete picture of the magnitude and timing of the "income effect" of the budget, but also of its "liquidity effect." On the expenditure side of the budget, the liquidity effect arises from the difference between the income generating expenditures of private business (wages and salaries, interest, etc.) which are attributable to Government contracts and the actual payment received from the Government during the given time period. This difference requires private financing either from internal, or external sources. Of this total only a limited part is accounted for by the aforementioned difference in timing between delivery of goods and services and payment for them; probably a much larger part arises from the time-lag between production and delivery.

It is clear from the preceding discussion that the currently available data of the consolidated cash and national-income-accounts budgets—even when used in a rather sophisticated way—do not provide sufficient information for a thoroughgoing analysis of the economic impact of the Government's fiscal operations. The minimum additional requirement for such an analysis would be consolidated data on total Government obligations outstanding, their changeover time, and preferably their approximate quarterly "due date."

2. ESTIMATING THE FULL-EMPLOYMENT BUDGET SURPLUS

The full-employment budget surplus has been defined as the Federal budget surplus that would be generated by the given budget program if the economy were operating at full employment with stable prices through the entire fiscal year.[13] Such a full-employment budget surplus could be computed for all three budget accounts discussed previously. For the analysis of the Government's fiscal impact, the full-employment budget surplus on the national-income-accounts basis is clearly the important one. It measures the amount of Government saving that will be generated at full employment with stable prices.

It has been argued that the actual budget surplus or deficit may give a very misleading impression of the degree of restrictiveness of the budget, because it reflects not only the impact of the budget structure on the private economy, but also the effect of private economic activity on the budget (via the built-in stabilizers). Thus, a large budget deficit which appears to be very expansionary may, in fact, be merely the end result of a highly restrictive budget structure which depresses both economic activity and Government revenues.

The full-employment budget surplus, in contrast, is free of this "optical illusion," because it reflects the full restrictive impact of the built-in stabilizers at a high, but noninflationary, level of economic activity. Thus, a small full-employment budget surplus is always indicative of a low saving budget structure, whereas a small actual budget surplus (or a deficit) may be merely a sign of a depressed economy.

The relevant economic analysis, in this context, is clearly full-employment analysis. It focuses on the reasons for, and the extent of, any departure from full-employment output and considers measures and policies designed to restore full resource utilization.

Within the framework of such full-employment analysis, the full-employment budget surplus has to be related to private full-employment saving and investment. Potential GNP at stable prices can only be reached and retained if the full employment surplus (i.e., full-employment Government saving) is exactly equal to the excess of private full-employment investment over full-employment saving. A larger full-employment surplus would be excessively restrictive and depress economic activity; a smaller one would result in demand inflation.

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[12] For an excellent description of this spending process, see Murray L. Weidenbaum, "Government Spending: Process and Measurement" (Seattle: 1958); also "The Federal Budget as an Economic Document," op. cit., ch. 2, pp. 5–24.

[13] This material has been adapted from ch. 6 of the author's "Fiscal Policy, Cycles and Growth," op. cit.

All current short-term estimates of the full-employment budget surplus are carried out in three distinct stages, each of which presents difficulties. The three stages consist of: (*a*) estimating the level of full-employment, or potential, GNP; (*b*) separating budget receipts as well as expenditures into built-in nondiscretionary ones on the one hand, and truly discretionary ones on the other; (*c*) estimating the full-employment levels of the nondiscretionary budget receipts and expenditures and adding them to the discretionary ones, to determine the full-employment budget surplus. I shall discuss here only the latter stage which is of immediate concern within the present context.[14]

At least two basic approaches to estimating the full-employment surplus are possible and have been used in the past. They differ mainly in the following respect: Method I relies on levels of GNP and Government revenues for its estimates, while method II is based on changes or increments.

1. According to method I, major relevant income components, such as corporate profits and personal income, are derived from potential GNP in order to estimate, in turn, the full-employment level of each of the major sources of revenue (corporation income tax, individual income tax, etc.). The estimated full-employment budget surplus is then the difference between estimated full-employment budget receipts and actual (or "actual projected") Government expenditures. This is the method used by the Council of Economic Advisers.

2. Method II consists of computing a single coefficient of the built-in stabilizers which relates intracyclical changes in GNP to changes in total revenue (or to change in revenue minus unempoyment compensation). The full-employment budget surplus is then estimated in the following manner: the "GNP gap"—i.e. the difference between potential and actual GNP—is multiplied by the intracyclical coefficient of the built-in stabilizers and this product is added to the actual budget surplus.

Method I, based on separate income components and specific coefficients for each major revenue source, is apparently the more detailed and sophisticated one. Yet some of the greater precision is lost because each major relevant income component must first be estimated from potential GNP.[15] Moreover, this method relates levels of revenue (and its components) to levels of GNP (and GNP components). Hence all coefficients used for estimating potential revenues should be "secular" (i.e., long term), rather than intracyclical coefficients. The short historical series available for estimating most of the relevant coefficients lend themselves more readily to reliable estimates of intracyclical, rather than trend, relationships. These intracyclical (incremental) coefficients are, of course, the relevant ones for method II. Moreover, a relationship based on changes is generally preferable for time series with trends and possible intercorrelation.

The single incremental coefficient of built-in stabilizers used in method II, in spite of its apparently greater crudeness, provides an excellent fit for post-1954, with a very high coefficient of determination and a relatively small standard error. Several independent estimates are available which provide an overall check on reliability. Moreover, with some ingenuity, a rough estimate of this coefficient of built-in stabilizers is possible even for periods during which substantial statutory changes in the tax structure occurred.

Currently, at least three independent estimates are available for the intracyclical coefficient of built-in stabilizers for the period from 1954 to the present.

1. James W. Knowles, from his own work on potential GNP, derived an intracyclical coefficient of .365 applicable to the GNP gap.[16] This implies that, on the average, at full-employment GNP, government receipts would exceed actual realized receipts by .365 times the difference between potential and actual GNP.

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[14] For a discussion of the other stages, see "Fiscal Policy, Cycles and Growth," op. cit., chs. 5, 6.

[15] For example, for the estimates of the Council of Economic Advisers, potential corporate profits plus inventory valuation adjustments were estimated as a stable 10 percent of potential GNP in current prices; potential income was taken to amount to a steady 78.5 percent of GNP in current prices.

[16] "Staff Memorandum on the Relationship of the Federal Budget to Unemployment and to Economic Growth," in "Report of the Joint Economic Committee, Congress of the United States, on the 1961 Economic Report of the President, With Minority and Other Views," pp. 119–125.

2. The relationship between the CEA estimates of the potential budget surplus gap and the potential GNP gap yields a coefficient of .35 or .36.[17]

3. An additional independent estimate by the author, using a different procedure, resulted in a coefficient of .41 for post-1954 and of .41 (but with a different constant) for the earlier postwar period.[18]

Full-employment surpluses computed from the first and third of these three estimates are shown in panels 2 and 3 of the accompanying chart. The white series are based on potential GNP estimates by James W. Knowles;[19] the black ones, on potential GNP computed according to the procedure used by the Council of Economic Advisers. The latter are, therefore, directly comparable with the CEA estimate of full-employment surpluses shown in panel 1 of the chart.

Senator PROXMIRE. Thank you very much, Mr. Levy.

Our last witness is Mr. Emerson Schmidt.

Mr. Schmidt, we are happy to have you.

STATEMENT OF EMERSON P. SCHMIDT, DIRECTOR OF ECONOMIC RESEARCH OF THE CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA

Mr. SCHMIDT. Thank you.

I don't profess to be an expert in this field at all, Mr. Chairman. I appreciate the invitation, but my lack of expertness I think is evidenced by the length of my statement, running over 40 pages.

The amount of information in the budget is already overwhelming. Yet, from nearly all the witnesses you have heard, there are substantial gaps and your own study headed by Dr. Moor indicated many of those gaps.

The question is whether these steps, if taken, would make the document more readable by legislators and by others. This really ought to be the test. It is not enough to do a good job for the accountants and the recordkeepers.

It has to be done particularly for the Appropriations Committees, the authorization committees, and so on.

The nomenclature in the budget I think is really almost outrageous. I was particularly impressed with what the witness from Connecticut said to your subcommittee a few days ago, Mr. Fred Schuckman.

He is the director of the budget in the State of Connecticut, and he spoke of how much simpler their budget is and their budget terminology is, and yet I would guess that they are engaged, in a small way, in pretty much the same kind of activities as the Federal Government is engaged in a national way.

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[17] Estimated by the author. The original estimate, prior to revisions of CEA data for recent years was as follows: Surplus gap = −.78 + .36 (GNP gap) (see Michael E. Levy, "Cycles, Growth, and Discretionary Budget Policy," the Conference Board Business Record, July 1962, p. 7, chart); the estimate is based on semiannual data at seasonally adjusted annual rates. Coefficient of determination is .98; standard error, $0.63 billion; and standard error of b, $0.01 billion. For the CEA's revised data, these figures are: Surplus gap = −1.14 + .35 (GNP gap); coefficient of determination .93; standard error $1.30 billion; and standard error of b, $0.03 billion.

[18] Based on quarterly data at seasonally adjusted annual rates. The regression equations are: Surplus gap = −1.26 + .41 (GNP gap) for 1954–61, and surplus gap = −.83 + .41 (GNP gap) for 1947–53. The coefficients of determination are .91 and .81, respectively; the standard errors, $1.42 billion and $1.19; and the standard errors of b, $0.04 billion in both cases

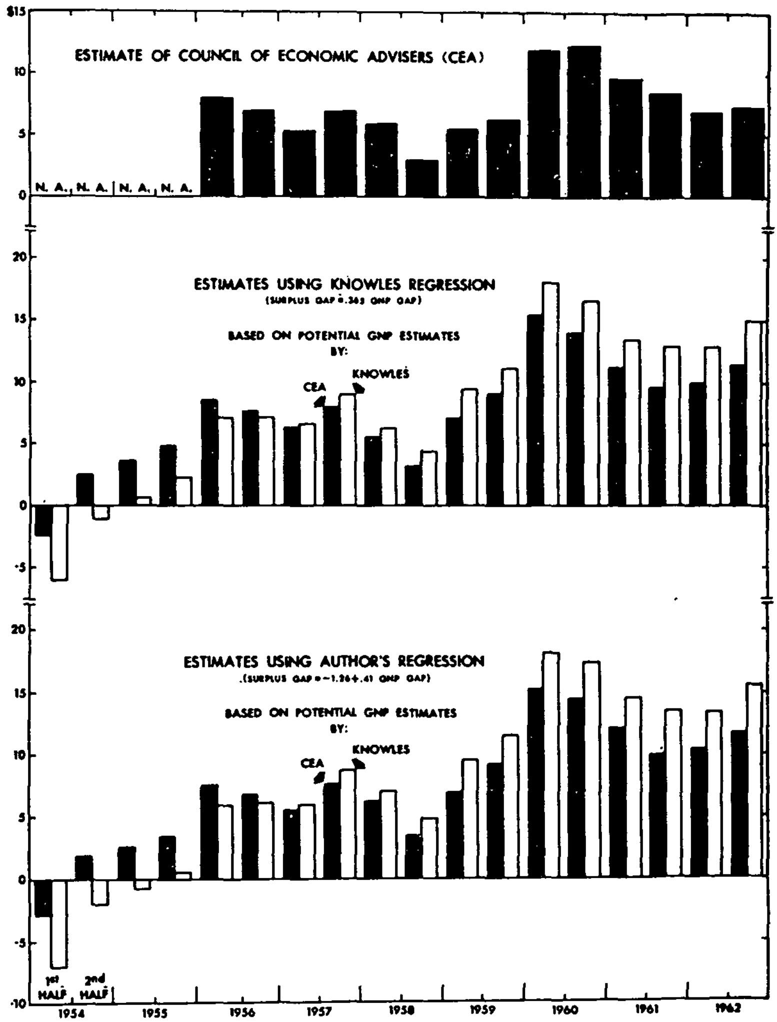
[19] Preliminary revised data used here were made available through the courtesy of Mr. Knowles.

CHART VI–1.

Five Alternative Estimates of Postwar

Full-employment Budget Surpluses, 1954-62

(billions of dollars, at seasonally adjusted annual rates)



n.a. – Not available

Source: Levy, Fiscal Policy, Cycles and Growth, op. cit., But here you have got a series of three different budgets. Even the present Secretary of Health, Education, and Welfare complained when he found the various different concepts of the budget, and he pointed out how simple the budget was when he was head of the city of Cleveland, and so on.

You have got the administrative budget, the consolidated cash, the national income accounts. You use the word "expenditures" but you also use the word "appropriations" versus "authorizations." You use the concept of current versus permanent, or new authorizations.

All these terms appear. Appropriations and reappropriations. New obligational authority. Direct obligations. Reimbursable obligation. And revolving funds.

You use the words "trust accounts" on a gross basis, a net basis; enterprise funds on a gross and a net basis. Wholly owned Government funds, semiprivate or quasi-Government funds, loans and guarantees, introgovernmental funds or payments, grants-in-aid, subsidies.

The list could be extended. I suppose there are at least a hundred different concepts which you really have to be able to understand in order to see what this budget document really means. And the fear that I have is that if Dr. Moor's or this committee's study of a couple of years ago, for which I have the greatest respect, is implemented, it may make the budget even more difficult to understand than it is at the present time. And I must confess I do not understand the arithmetic in many cases and not even the economics in some cases and the economic implications, and if we get more seasonal adjustments and more estimates and more economic analysis into the budget, I am not sure what it would really do to the readership, to the understanding, to the insight that we would get.

Yet I have great sympathy for virtually every one of the recommendations that the budget as an economic document finally came up with in chapter 9.

I think there are about a dozen or maybe 15 or 16 recommendations and all of them seem to me on the surface, at least, to make good sense.

I have a general feeling, expressed by a good many witnesses, that the administrative budget is the least useful and I would strongly suggest that it be not necessarily abolished but absorbed, so to speak, almost hidden in the cash consolidated budget so that it would never be published separately and never used separately.

In spite of the fact that the President himself in his June 1962 speech at Yale denounced the administrative budget, most of the administration pronouncements about the budget are on the administrative budget.

This is true of nearly all the newspaper discussion—even this morning the Wall Street Journal had an editorial on the budget and it also used the administrative budget, and that process goes on continuously so that one wonders whether the other types of budgets are so superior or whether we are just victims of a serious lag here in getting up to date. But my own feeling is that the administrative budget is quite misleading since it omits so many of the financial and other economic transactions of the Government both on the inflow and on the outflow.

And I think that if you restructure the budget, what you really should do, if you follow what I am trying to say, you should do it in a way which would permit the sophisticated individual to pick out the administrative budget from the record so that he could sort of piece it out but it wouldn't stick out in an obvious way so that the newspaperman would tend to pick it up and play it up.

I would put it at the end of the column rather than the beginning of the column as has been done this year in the budget document by the Government.

I have a lot of negative comments about the budget. I think it is pretty misleading in many ways. I remember that when it was announced, it was asserted that outside of defense, space, and interest payments, the budget would be below 1963.

Well, the chairman of this subcommitte immediately—and I point this out on page 7 of my statement—stated that spending will increase more than $2 billion outside of the areas in which the President said it would increase. This kind of confusion makes for a low readership of the budget because people can't work their way through it.

Furthermore, the budget shows a growth in civilian employment outside of defense of 47,000 people. How can you have a decline in the budget when you hire 47,000 more people? You have got to pay them but you also have to have office space and utilities, and all the rest, so it isn't simply a matter of their wages and salaries. So there must be something a little wrong, although it was pointed out by the budget itself that certain of the various types of loan funds would be sold to the private sector, but this has been glossed over for the most part by the commentators and is not too clear to be envisaged in terms of what the impact really is.

Also when people talk about cutting the budget, I am never clear whether they are talking about cutting the administrative budget or the consolidated cash budget or the new obligational authority or what they are talking about. Most people who talk about cutting the budget aren't very clear about this, and it is very unfortunate that we have this kind of confusion.

Another source of possible misleading is the use of the supplementary requests. This year the administration has asked for $3.9 billion of supplementary appropriations for the current fiscal year.

Now we are all interested in the 1964 budget but who knows how many additional billions of dollars will be asked in the first 6 months of calendar 1964 for the 1964 fiscal year budget? And if you don't know this, then all the proposed refinements of analysis tend to be vitiated because they are upset, because they are added to, and you never know until Congress acts as to what degree—to what degree the various supplementary requests will influence the economy.

Another good illustration comes from Dr. Moor's own study. I refer to this on page 18 in my memorandum. He listed some 13 or more steps which the President requested Congress to take or which he took to offset the business decline in 1961, and Dr. Moor states that the noteworthy aspect of these proposals in terms of this study is that virtually no information is available about how these policies will influence budget totals or the economy.

That is on page 132 of his document.

Then he goes on to say:

The significant aspect of these actions from the standpoint of this study is that not one of them ever will be examined in any budget document.

Well, now, if there is this kind of a hiatus, this kind of a gap, it seems to me that the budget isn't nearly as useful a document as is commonly assumed. Dr. Moor makes this very strong statement.

On the other hand, the Council of Economic Advisers said exactly the opposite, and yet the two documents were published within a week of each other, that is, Dr. Moor's statement and the Council of Economic Advisers' statement in 1962.

The Council said:

A careful appraisal of the direct and indirect effects of increased Federal activity indicates that it was a major force, probably the principal driving force, of the recovery of 1961.

Senator PROXMIRE. This is democracy in action and the separation of powers.

Mr. SCHMIDT. That is right. And it is certainly confusing.

Incidentally, Mr. Chairman, in answer to the question that you put to Mr. Lowry, one way of getting at this question of readership would be to know how many copies of the budget in brief and the budget in the textbook size are actually in circulation.

I was shocked some years ago to find the very low circulation of Economic Indicators. I don't know what it is now, but a colleague of mine, at one of the midwestern universities, actually accounted for 10 percent because he was greatly enamored of the Economic Indicators. He himself accounted for 10 percent of the total circulation outside of the Government itself of Economic Indicators.

Senator PROXMIRE. Of course, several great newspapers publish the budget in brief, as I understand it, in full. In full; so it would be hard to tell from circulation how much it is being used. I think the New York Times did and several other newspapers.

Mr. SCHMIDT. I would say that is right, and as a matter of fact, we get out on Monday morning, when the budget is released on Saturday, we get out on Monday morning a four- or six-page leaflet with all the major tables and the pie charts, and so forth, and we send it out, I suppose, to 40,000 or 50,000 businessmen.

But I don't think, Mr. Chairman, this is really what this committee is talking about. I think you are talking about something more deep, more fundamental than the budget in brief. I am sure this is what Dr. Moor was getting at and what you were getting at when you commissioned him to get more deeply into this whole question.

Now, obviously, these points I am making are matters that lead to a considerable amount of confusion and uncertainty and a good deal of skepticism as to what you can really believe about the budget or what you can get out of it.

Another point that I was going to make, and I have made it in my document, is a very interesting statement that the Joint Economic Committee had in its own economic report of this year to the effect that Government receipts and Government expenditures both reflect changes in the private economy and may cause a change in the private economy.

Now, this is a concept that I think has not been very well absorbed even by economists, and it is the first time I have seen it in any official Government document, and I want to commend the Committee for inserting that in this particular case.

I discuss this in my statement where it says:

Federal budget surpluses or deficits are unreliable as indicators of whether budget policies are expansionary or inflationary on the one hand, or are deflationary or depressive on the other.

And so far as I know, the people who have made the most careful study of monetary and fiscal policy as stimulants of the economy or as contracyclical factors, those who have made the most profound study believe that fiscal policy is of relatively much less importance than monetary policy, and particularly the money supply going somewhat beyond the question of mere credit.

So again while I have, as I said, great admiration for the budget as an economic document, I think that we have also to consider and never must neglect the importance of the money supply as perhaps a more potent factor in influencing the level of employment and influencing the ups and downs of the business cycle.

Next I discuss a point that Dr. Moor mentioned in his chapter 9 dealing with what I call balancing utilities. In the private sector the consumer makes the choices and presumably gets his money's worth. We assume he is rational, even though we sometimes think he ought to make wiser decisions, but we assume he has in a free society the right to make these decisions.

In the Government you have political decisionmaking, but I would like to see stressed, and I think Dr. Moor understressed this—Dr. Colm just mentioned it in passing a few moments ago—the very great importance of more benefit-cost analysis when you come to authorize Government programs, when you come to appropriate funds for Government programs, and in this connection, just for the record, if for nothing else, I want to commend the chairman of this subcommittee for the performance which I think is without parallel in the history of the Congress on September 29 as reported in the Congressional Record.

Senator Proxmire paid his respects to the proposed Glen Elder Dam project in Kansas and devoted about 70 pages, I believe about half of the total Congressional Record for that day, to this one single issue, and did a magnificent job.

I don't know how he did it, with all the other things he has to do. A magnificent job of trying to get across the idea of benefit-cost analysis so that you get in the public sector something like you get in the private sector through the free market in operation.

You must also recognize that what you are really interested in when you are thinking of a Government program or a Government appropriation is what the net contribution of that Government program is. That is, by the public or business giving up some dollars, you lose something in the economy, and it is so easy to look at a Government project, say a $2 million project, and you count that as a total addition whereas, as a matter of fact, you have to deduct that $2 million from the private sector first and see whether the Government project makes a net contribution.

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Now, this is almost never done with the assets, so to speak, or the advantages of a Government program are counted. In other words, the net gain is what is really the important thing.

Furthermore, in order to get at the net gain, you have to recognize that Government projects generally are not on the tax rolls. You have to recognize that these projects generally involve some capital investments and generally there are no depreciation charges, no annual depreciation charges.

The question of the interest rate, what interest rate are you going to use, by using a very low interest rate, you can validate a very expensive program and fool the public, as the Senator so well brought out in his statement on September 29 of last year.

And you have got to make some assumption about the life expectancy of these Government assets, and if you make certain assumptions, you can justify them. If you make other assumptions, they are not justifiable, and it is this kind of analysis which Dr. Moor just barely touches on here and there, which I would like to see in the budget or made available somehow, particularly to both the authorizing and the Appropriations Committees. Everybody knows that the new programs generally begin very small so they look rather harmless and rather easy to absorb, but by the time they grow and grow and mature, they run into the billions.

If this only happened in one or two cases, it probably wouldn't matter, but since nearly all programs begin small and mushroom and grow, you get to the point where you get real resistance to taxpaying as European countries have.

Senator McClellan and 75 other Senators have introduced S. 537 which would require that you get the total estimate of each of these programs, not just for 1 year or 2 years or 3 years, but look ahead how long this program will continue, how long will it expand and grow, and I think this is extraordinarily important.

Senator PROXMIRE. Mr. Schmidt, Senator Miller would like to ask some questions.

Senator MILLER. You suggested that this information be furnished to the Appropriations Committees and the revenue committees of Congress. Why not all the Members of Congress?

Mr. SCHMIDT. Well, I was again thinking of the economy of time. You have got these committees which are particularly responsible, but I would certainly agree with you that if—that it should be made readily available to everybody, but I am not sure the responsibilities of people outside of these committees would induce them to do the kind of homework on these things that would be required. But if so, I certainly would be for it completely.

Senator MILLER. You see, when we vote on them down here on the floor, we share the responsibility, and I doubt if I feel any less responsible for my vote than anybody else down there, and the mere fact that some of us who have not had the opportunity to get on one of those committees, or have not had, I don't think should deter us from getting that information.

We get lots of correspondence from our constituents and some of us make quite a few speeches. It seems to me that while granted that in the first instance, in the primary go-around, the Finance and the Appropriations Committees have the jurisdiction over there, I would hope that your recommendation would be for the Members of Congress to have this and, in fact, I think that I would suggest we go beyond that and see to it that this is widely enough circulated so that there will be an opportunity for the press and business people and all interested people and the public in general to get educated on this a little more.

Mr. SCHMIDT. Yes, I think you are absolutely right. As a matter of fact, I in a sense included what you are saying when I said the authorization committees as well as the Appropriation Committees and nearly everybody is on an authorization committee, that is, a legislative committee of one kind or another. So that I think there is no disagreement at all.

I am glad you are emphasizing this point.

Senator PROXMIRE. Mr. Schmidt, are you about finished? This is an excellent statement. I especially like your references to me. But you know, if you are almost through, fine. If you are about halfway through, I think we ought to have you summarize and then go ahead.

Mr. SCHMIDT. Let me just make one or two more points. I think we ought to have much more functional budgets than we do by sorts of categories. If you look at pages 31 and 32 of my full statement you will find a good illustration.

I remember one of the Members of Congress a couple of years ago simply refused to go ahead with any educational programs on the ground that she didn't know, nobody else knew, what educational activities were being carried on by the Federal Government. So the Health, Education, and Welfare prepared this table on pages 31 and 32 and here you have got something like 66 different educational programs in 9 different departments, and 23 programs of education in 11 other Government agencies.

And then on the next page, page 33, you will find a table on water research. I think this table is absolutely useless. Yet it is from the budget.

This is absolutely useless. The only thing it has in common is water. Yet the interest of the Agriculture Department is entirely different from the interest, let us say, of the Health, Education, and Welfare Department in water, or the Atomic Energy Commission, or National Science Foundation, and there are quite a number of other cases of that kind where you find sort of hackneyed and old-fashioned ways of arranging the budget.

Now, the final point that I make, Mr. Chairman, in my statement is that I think the greatest place for reform is really in the Congress and not in the executive branch.

I think the executive branch has shown more progress in updating its product, its budget documents, than the Congress has in organizing itself to handle it with the separate revenue-raising committees and separate expenditure committees, and with a lot of separate appropriations subcommittees and a lot of separate appropriation bills, and never looking at the budget as a whole. We have recommended for years that both the House and the Senate provide themselves with a center for financial management of some kind whereby an overall committee would look at expenditures and income as a whole and do the kind of a job that every family man has to do for his own budget or every business has to do. In that respect I think that the greatest reform that is really needed, and I devote at least 10 or 15 pages in my statement to the types of reforms that would be most helpful I think to the taxpayer, to the citizen, and to everyone concerned, and perhaps there ought to be only 1 appropriation bill, 1 final bill, to be sure, worked on by a lot of subcommittees or maybe 2 appropriations bills, 1 for the Defense and 1 for non-Defense.

With that I will close, Mr. Chairman.

Senator PROXMIRE. I thank you very much, Dr. Schmidt.

(The prepared statement of Mr. Schmidt follows:)

TESTIMONY OF EMERSON P. SCHMIDT, DIRECTOR OF ECONOMIC RESEARCH OF THE CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA, ON "THE FEDERAL BUDGET AS AN ECONOMIC DOCUMENT"

ECONOMIC ANALYSIS OF THE BUDGET

While the Bureau of the Budget does not produce an annual report like other Government agencies covering its activities, it does publish three important reports in January of each year. The 1963 reports were: (*i*) The Budget in Brief, 64 pages; (*ii*) The Budget of the U.S. Government Fiscal Year Ending June 30, 1964, 440 pages (textbook size); and (*iii*) Appendix to No. (*ii*) above, about 1,200 pages (metropolitan telephone book size).

In addition, after the close of the congressional session, the Bureau issues a Mid-Year Review of the Budget (generally some 60 pages) which takes into account later data and changes made by the Congress from those anticipated in the January reports.

Perhaps no person either in the Government or on the outside ever reads or even looks at all of these 1,700 or 1,800 pages, with their extended texts and hundreds of small, intermediate, and full-page tables. As the Government grows in size and more budget and financial detail is demanded, it is inevitable that the budget documents will grow in weight, size, and possibly in complexity.

Is it possible to know and understand the budget? Whose job is it? Who makes an attempt to grasp it? Outside of Government, does anyone try to do a comprehensive job of resisting the mushrooming growth of the budget?

Nor is the foregoing all that needs to be read and mastered. Much additional budget material is brought out in the legislative and investigative hearings of most of the 16 Senate and the 20 House committees, the 3 joint committees, and some 200 or more subcommittees.

Even more important than legislative hearings may be those of the Senate and House Appropriation Committees and the 13 subcommittees of each; from a strictly budget standpoint the latter committees may produce more relevant and precise materials than do the legislative committees, although for those interested in influencing the size of the budget and particular budget items, what takes place in the legislative committees is antecedent to the activities of Appropriation Committees or their subcommittees.

On the floor of the Senate and House additional budget data and materials may be forthcoming. The chairman of this subcommittee, for example, devoted some 70 pages in the Congressional Record of September 29, 1962, to an 18-year-old one-line authorization for spending.

Adding the thousands of official Government pages of materials to the 1,700 or 1,800 pages of budget documents, suggests the truly massive nature of the amount of information which is available; for the responsible legislator or the concerned citizen or taxpayer, the task of reading, digesting and evaluating the mountain of words and figures is formidable indeed. Much of this material becomes available in torrents during a relatively short time with a seasonal peak in January and again in May through July. Much must be grasped and acted upon quickly, if the interested party desires to exercise some actual influence and impact, instead of merely crying for more and more funds and programs or, on the contrary, for blocking the "spending spree."

Much of the data and other material often is ambiguous and contradictory; some is political and partisan, thereby adding to the difficulties of full and objective understanding.

One year later, this entire process is repeated with new figures, new analysis, new economic domestic conditions, and new international situations and crises. Reading, grasping and interpreting this mass of significant data and material calls for a high order of dedication and much diligence.

The Subcommittee on Economic Statistics, while primarily concerned with the quality and type of statistics and the economic analysis which is and should be available in regard to the budget, might be well advised to give some consideration to the digestion and communication problems as outlined above. There may be objective guidelines to better understanding and to keeping up to date, which the subcommittee could, and, perhaps, should suggest. Our form of government depends on citizen and legislator responsibility and understanding.

The foregoing is not the end of the problem. In discussing the budget of the U.S. Government it is necessary to distinguish between several different types of published budgets and some other concepts which are also used both in and out of Government.

The four predominant budget concepts are indicated by the accompanying tabulation:

[In billions of dollars]

	1962	1963 estimate	1964 estimate
I. Administrative budget:			
Receipts	81.4	85.5	86.9
Expenditures	87.8	94.3	98.8
II. Consolidated cash budget:			
Receipts	101.9	108.4	112.2
Expenditures	107.7	116.8	122.5
III. Federal Government sector of national income accounts:			
Receipts	104.0	108.8	111.4
Expenditures	105.7	113.2	119.0
IV. New spending authority (appropriations)	92.9	103.2	107.9

The foregoing totals reveal wide differences; which set of figures is under discussion at a given moment is important.

Furthermore, for those who watch budget deficits and surpluses closely, for recession, debt management or other reasons, the variation in these categories is substantial as shown below:

Excess of receipts (+) or payments (—)

	1962	1963	1964
Administrative budget	−6.4	−8.8	−11.9
Receipts from and payments to the public	−5.8	−8.3	−10.3
National income accounts—Federal sector	−1.7	−4.3	−7.6

Here, too, we find substantial differences in the deficits of the three different budgets for each of the 3 years. Which budget is more meaningful in terms of the tax burden, growth, prosperity, recession, gold losses and balance of payments, or debt management?

In addition to the abcve budgets there are other data or concepts, also used in and outside of Government. The Federal Reserve System publishes a cash-flow series which differs from all of the foregoing sets of figures. Some try to distinguish between the current operating and a capital budget. Some use the concept of a "full employment" budget, the meaning of which is not standardized, although it is used to show the repressive character of our tax system; and there are other concepts.

The foregoing compressed inventory of innumerable sources of data, the types of budgets, accounts and concepts, suggests not only our massive affluence in this respect, but less consoling, it suggests the great difficulty of mastering the realities underlying Government spending and receipts, including economic and other impacts. Time, alone, is a limiting factor in comprehension. Should we, for example, have only one budget, or at most two, instead of four? Or should we reserve the word "budget" for only one set of figures and use some other terms to designate all others, in order to reduce confusion?

Attempts to improve the information and data as well as the analysis are of long standing. Many scholars have written extensively in this field. Recent budget documents have been improved as a result. One of the most significant and original studies was the report sponsored by this subcommittee. "The Budget as an Economic Document," by Dr. Roy E. Moor (January 1962). Anyone interested in this subject is deeply grateful for this pioneering study. In a short review of this topic it is impossible to do justice or to evaluate the long list of deficiencies and suggested improvements. Thus, in what follows several key points are discussed and a few suggestions are made which go beyond Dr. Moor's study.

Before going further it may be worth noting the differences in the figures as well as in the deficits and surpluses of three different budgets over a longer period—one decade—even though some time is needed to digest the extreme variations. These differences are substantial and among themselves quite irregular, as can be seen from the following fiscal year data (data for 1963 and 1964 are Bureau of the Budget estimates):

[In billions of dollars]

	1954	1958	1960	1961	1962	1963	1964
Administrative budget expenditures	67.5	71.4	76.5	81.5	87.8	94.3	98.8
Administrative budget receipts	64.4	68.6	77.8	77.7	81.4	85.5	86.9
Surplus or deficit	−3.1	−2.8	+1.2	−3.9	−6.4	−8.8	−11.9
Payments to the public	71.9	83.4	94.3	99.5	107.7	116.8	122.5
Consolidated cash budget receipts	71.6	81.9	95.1	97.2	101.9	108.4	112.2
Surplus or deficit	−.2	−1.5	+.8	−2.3	−5.8	−8.3	−10.3
Federal income accounts—expenditures	74.5	82.8	92.2	97.8	105.7	113.2	119.0
Federal income accounts—receipts	65.9	77.8	95.4	95.5	104.0	108.8	111.4
Surplus or deficit	−8.6	−4.9	+3.3	−2.2	−1.7	−4.3	−7.6

Source: The Budget, 1964, pp. 422, 423, 431. Also Economic Report of the President, 1964, pp. 238–242.

In 1954 the Federal sector income accounts deficit was nearly 3 times that of the administrative budget and about 35 times that of the consolidated cash budget ($8,600 million, $3,117 million, $232 million, respectively). In 1961. on the other hand, the variations in the deficits of the three different budgets were moderate. Here is a considerable contrast between 1954 and 1961. Yet each was a year of economic slack. The estimates for the three budget deficit variations for 1963 and 1964 are less extreme than in 1954 or 1958.

But "The Federal budget as an Economic Document" shows how misleading the administrative and even the cash budgets are in terms of size, as shown by the following for 1960 (and for 1962, 1963, and 1964, the disparity may be even worse):

[In billions of dollars]

	Receipts	Expenditures
Administrative budget	77.8	76.6
Consolidated cash budget	95.1	94.3
Actual totals	126.8	129.7

Here the "actual total" spending is 70 percent above the administrative budget and more than 37 percent above the cash budget.

Thus a preliminary impression seems to indicate that any doctrinaire conclusion as to which budget method is most revealing may be unwise and even misleading. It may be difficult to pick your one favored budget, read the figures and draw conclusions. Evaluation, appraisal and judgment are needed—so it would seem. In any case there seems to be no systematically close relationship in the same year between the deficits or surpluses of the three different methods of recording the economic impact of Government taxing and spending. If there were close similarities year after year, there would be little reason, of course, for developing several different budgets.

U.S. Treasury payments (cash statement) to the public are scheduled to reach $122.5 billion in fiscal 1964. This is the largest in history, and all indications point toward further year-by-year increases. Where enterprise gross funds included, the "actual total" would be $30 to $40 billion higher.

The cash statement figure is about 10 times the amount of sales of our largest manufacturing corporation, including its foreign operations. Inevitably, such large collections from the public and payments to the public, as well as the financing of deficits, have an important bearing on the performance of our economy.

While only a limited number of individuals ever bother to examine the impact of this governmental activity on the rest of the economy, such examination is most important and obviously growing more important.

In Mr. Kennedy's Yale University address on June 11, 1962, challenging us to rid ourselves of economic myths, he outlined the limitations of the administrative budget and urged us to "be modern." He said,

"This budget in relation to the great problems of Federal fiscal policy, which are basic to our country in 1962, is not simply irrelevant; it can be actively misleading. And yet there is a mythology that measures all our national soundness or unsoundness on the single simple basis of this same annual administrative budget.

"If our Federal budget is to serve not the debate but the country, we must find ways of clarifying this area of discourse."

Newspapers and magazines, nevertheless, after the President released his 1964 budget on January 17, played up the administrative budget and largely ignored the consolidated cash budget. The Evening Star (Washington), for example, had an eight-column headline, "$98.8 Billion Budget Proposed" and a subhead, "Record Figure Sets Deficit at $11.9 Billion." Both of these figures referred to the administrative budget, rather than the consolidated cash statement or the Federal sector of the national income accounts, or the "actual totals" which would be the highest of all of them.

This situation is worth noting because the administration even last year, as well as this year, stressed the limitations and weaknesses of the administrative budget, as economists have done for more than a decade. Evidently the transition in thinking is more difficult than had been supposed, or else the newer consolidated cash and national income accounts approaches are not as superior as has been claimed.

Or, to offer another explanation, the administration itself, for many days before the new budget was released, announced or "leaked" in innumerable ways that the budget would be "under $100 billion," "up several billion dollars," etc. Obviously the administration itself conditioned the observer, including newsmen, to thinking in terms of the administrative budget. Even on budget day (January 17) most of the comment by administration spokesmen ran in terms of the administrative budget rather than either of the other two. Furthermore, in announcing a few figures on the proposed 1963 tax cut in the state of the Union message, the President based his calculations on the administrative budget and ignored the rise of some $2 billion in social security taxes and the substantial postal cost increases of 1963, which omissions would not have occurred had he himself thought in terms of the comprehensive consolidated cash budget (as proposed below) or the Federal sector accounts budget.

THE BUDGET MAY MISLEAD

The budget is so large and massive that grasping its meaning may seem beyond human capacity. Often, furthermore, words do not mean what they appear to say.

The budget as presented to Congress, without necessarily falsifying, nevertheless deceives the concerned and interested layman. Probably even the fairly sophisticated reader and observer is misled or deceived. Thus, the President stated that for 1964 total administrative budget expenditures combined (not including defense, space, and interest on the debt) were held down below the 1963 figures. (The Budget of the U.S. Government, for fiscal 1964, p. 15, referred hereafter to as "the Budget".) But Senator William Proxmire of the Joint Economic Committee flatly stated that, "* * * this spending will increase by more than $2 billion." (Report of the Joint Economic Committee, Mar. 14, 1963, p. 35.) Even so, the 1963 budget carried a request for $3.9 billion supplemental funds and was more than $10 billion above 1961.

The budget shows an employment decline in the executive branch (civilian) for the Department of Defense from 1963 to 1964 of over 10,000. Yet, for all executive agencies combined, including Defense, an employment increase of 36,492 is shown, which means a rise of about 47,000 in the executive branch outside of the Defense Department. Virtually every agency shows a projected rise in personnel (the budget, p. 48). A reporter who writes a news column on Government employment stated that these requests for more jobs "contradicts pledge of economy," (Joseph Young, the Evening Star, Washington, Jan. 21, 1963). How are these people going to be paid if the budget is being held down as the President claimed? Added employees also involves a complement of space, work tools, utility services, retirement outlays, etc., thus the added payroll for 1964 is by no means the only budget rise involved. On the surface it is indeed difficult to reconcile the President's assertion of a budget cut (outside of defense, space, and interest) and this rise in personnel involving not only payroll but, as noted, also the other complementary outlays referred to above.

Senator Proxmire pointed out that by various bookkeeping transactions the real increase in spending is concealed, although the budget here and there refers to these proposed transactions. He stated: "The reason the $2 billion increase doesn't show up is because the administration plans to sell $700 million of the cotton surplus, $423 million of Export-Import Bank holdings, $315 million of Federal National Mortgage Association and Federal Housing Authority mortgages, $300 million in Commodity Credit Corporation loans, $150 million in farm housing loans, and $150 million in college housing loans. This total of $2 billion of liquidated assets will be used to offset increased spending in almost every department of Government." (Joint Economic Committee Report, 1963, p. 36.)

While much is to be said for these proposed transfers, question also can be raised whether these lending programs had to be governmental programs in the first place. Congress may not agree to all these proposed transfers and thus the budget will rise still more. Even so, Government direct loans, guarantees and insurance outstanding will rise from 1963 to 1964 by about $1.5 billion, $29,982 million to $31,469 million. (See the budget, p. 370, and Business Week, Mar. 9, 1963, p. 130.) A large payment due to the civil service retirement fund was simply canceled for the year.

Budget documents traditionally do not forecast spending beyond the next fiscal year (July 1, 1963, to June 30, 1964, in this case). The recommendations for new financing indicate the trend. The amount of new appropriations and similar authorizations being requested in the new budget (technically, the total of new obligational authority for the fiscal year 1964) is $107.9 billion an increase of 4 percent over 1963, and considerably above the 1964 administrative budget expenditure level of $98.8 billion, and the $87.8 billion of 1962.

Much of the new appropriations requested each year is expended in future years. The trend of new obligational authority can be used as a "lead" indicator to forecast trends in budget expenditures. The table shows how the upward trend of new obligational authority has paced the rise in expenditures in recent years.

Trend of expenditures

[In billions of dollars]

	1960	1961	1962	1963	1964
Budget expenditures	76.5	81.5	87.8	94 3	98.8
New obligational authority	79.6	86.7	92.9	103.2	107.9

Often those recommending budget cuts do not make clear whether they are referring to proposed budget expenditures or to new obligational authority ($98.8 billion versus $107.9 billion).

UNRELIABLE ESTIMATES

The persistent and often wide spreads between the original January budget for receipts and expenditures and the actual outcome for the fiscal year involved, are so large that one wonders how useful the budget may be as a guide to business or to the economic forecaster. Expenditure estimates, however, have been reasonably good (except the war-connected ones); advance estimates of receipts have been wide of the mark. This suggests that anyone interested in the economic analysis of the budget must accept the January figures with a good deal of reservation. Six to eight or ten billion dollar deviations are not unusual, as can be seen from the table.

Differences in original and actual budget

Fiscal year	Receipts	Expenditures	Fiscal year	Receipts	Expenditures
1946	−1.4	+19.7	1956	−8.1	−4.1
1947	−10.2	−5.1	1957	−5.6	−4.4
1948	−6.5	+1.7	1958	+4.5	−.2
1949	+4.2	−2.4	1959	+6.1	−6.7
1950	+3.8	+1.6	1960	−1.4	−.2
1951	−10.9	−2.2	1961	+5.6	−2.4
1952	−6.9	+5.1	1962	+.9	−6.8
1953	+5.4	+10.5			
1954	+3.4	+10.1	Total [1]	87.1	84.2
1955	+2.2	+1.0			

[1] Disregarding sign (positive or negative).

For 1959 receipts were overestimated by $6.1 billion and expenditures were underestimated by $6.7 billion. The actual expenditures for 1962 were even more seriously underestimated. Under "receipts" the plus signs mean an overestimate of actual revenue and under "expenditures" the plus sign means an overestimate of spending.

How does one determine in January whether the spread 18 months later will be minimal or will run $5 billion, $8 billion or more?

The wide deviations of actual receipts, expenditures and deficits or surpluses from the budget proposals made each January, raises a question as to how seriously any January budget figures are to be taken.

The President himself in his budget message in January 1963 stated that during the past 5 years cumulative deficits totaled $24.3 billion, in marked contrast with the original five January budget estimates of cumulative surpluses totaling $8 billion—errors averaging more than $6 billion per year. Two months earlier (November 13, 1962) the 1963 budget deficit was estimated to be $1 billion less than the figure released on January 17, 1963. By the end of fiscal 1959 the original January estimate of about $500 million surplus had been transformed into a budget deficit of $12.4 billion—a deviation of almost $13 billion for a single year. The budget ends 18 months after it is submitted and many of its figures are assembled months in advance of the January publishing date.

The Federal budget is often spoken of as the National Government's program or its taxing, spending, and debt plan for the next fiscal year. But in the light of the foregoing deviations, how seriously should the scholar, the Government, or the businessman take, let us say, the current projection of a $8,811 million deficit for fiscal 1963 and the $11,902 million deficit for 1964 (administrative budget)? Will these figures turn out to be about right? Or will they be in error by 20 percent, 40 percent, or 50 percent? If in substantial error, will these figures be an overstatement or an understatement when we get the semifinal figures next July and in July 1964?

It may be argued, of course, that the projected and actual budget figures on total revenues and total expenditures are more important from an economic standpoint than a shift in the projected differences between the two for any given year due to errors in forecasting. In terms of total economic impact this may be so. But in another and critical sense this may not be so, or at least not the whole story because some observers assume that, in the short run, deficits are inflationary or bullish and surpluses are deflationary or bearish. Insofar as this general assumption has validity (and, it should be noted, it has come under some doubt), a sizable shift from the expected results may have highly important impact on confidence, on wage settlements, on inflation, on gold movements, on foreign investment including net foreign investment, on monetary policies, on the money supply, and on other key variables in our economic affairs.

The fact remains: Since the January budgets have proven to be so highly unreliable, the value of the budget as an economic document is conisderably impaired. At least, year by year, it must be accepted only as a point of departure.

Reportedly, before the January 1964 budget was released, the administration pledged that the 1964 nondefense expenditures (excluding military, space, and debt) would be lower than those of the current 1963 fiscal year. This advance publicity was partially motivated by the administration's desire to condition Congress to cut taxes this year. But how valid was this pledge or the promise of holding down nondefense spending for 1964? How many billions of "supplementary" appropriations will be requested next January to augment the spending of the then current 1964 fiscal year? The requests in early 1963 of $3.9 billion of supplementary funds is symptomatic. Keeping requests low in the January budget, only to request and get large subsequent supplementary funds a year later for the same fiscal year, may be deceptive or at least it invalidates the economic interpretation which may have been put on the budget a year earlier—another limitation of the usefulness of the economic appraisal of the budget.

In spite of the 1964 nondefense budget requests being below those of this current year, an examination of the budget reveals few items which are below the current year. Out of some 24 major Government activities, only 8 show a decline from this year to next year, including the legislative branch, Department of Agriculture, Post Office, State Department, Atomic Energy Commission, Housing and Home Finance Agency, Veterans' Administration, and other independent agencies. All the others show increases for 1964.

One observer pointed out that, "Gross spending by public enterprise funds during the coming fiscal year will rise some $762 million—from $22.7 billion this year to $23.5 billion next year. But higher postal rates, rising repayments on past loans, sales of loans, and other factors will swell receipts by $3.1 billion, from $16.8 billion this year to $19.9 billion next year. The result is that net spending, the only figure actually used in the budget for the programs covered by these funds, is $2.4 billion less next year than this year." (Alan L. Otten, Wall Street Journal, Jan. 18, 1963.)

Shifting to another department, he stated, "The Post Office Department provides a striking example in this category. Gross outlays are rising from $4.7 billion this year to $5 billion next year. But due to recently inaugurated increases in postal rates, revenue is expected to be up even more sharply and net spending will be down $250 million. This $250 million decrease is the budgeted figure—and while it's all accepted bookkeeping practice, it does mask higher overall outlays."

With regard to the REA, he stated, "Another example is provided by the power and telephone loan programs of the Rural Electrification Administration. These loans will go up from $340 million this year to $421 million next year. But the administration is proposing that some $150 million of REA receipts—which otherwise would go into the Treasury as general revenue—be available for REA to use for new loans. As a result of this bookkeeping switch, budgeted REA outlays would drop $70 million, despite the $80 million increase in actual loan activity. The bookkeeping benefit is especially shaky; the administration made the same proposal last year and was rebuffed by Congress."

These references support what Senator Proxmire has said. Some Government officials frankly admit the claims of a spending holddown are fictitious, but argue they are no more so than some congressional demands for lower spending. So long as Congressmen call for economy which they do not practice and do not really believe in, one administration policymaker said, there will be this sort of "budget shenanigans in any administration—Republican or Democratic." (Wall Street Journal, Jan. 18, 1963.)

In trying to appraise the significance of the economic impact of the budget, it is worth noting that since 1946 in these 20 years including fiscal 1963 and 1964—there have been year-to-year increases in both the administrative budget and in the consolidated cash budget expenditures in every year except 4. In the case of the cash budget these few year-to-year declines have been so small as to be scarcely worth noting, except for 1954 which represented a shift in the Korean postwar situation and the $7 billion tax cut of that year (The Budget, pp. 422–423).

While the future is uncertain, it seems altogether probable that we can assume annual increases in cash payments to the public with only rare and small exceptions. Since 1946, the combined State and local expenditures have shown consistent annual increases, generally about $3 billion per year. These figures have had only an upward flexibility and these increases may continue. Thus, adding to the two groups together, anyone interested in the impact of Government on the economy may assume without much question that it will increase year by year. This matter is mentioned only because it reduces somewhat and for some purposes the case for a special general study of the economic impact of Government on the economy.

But beyond the above, of some interest to the general analyst is the question of whether National Government expenditures rise faster or slower than, or parallel to those in the private sector and what the future holds in this regard.

HOW IMPORTANT IS THE BUDGET?

The budget is commonly thought of as the administration's spending plan as noted above. Its other facet, of course, is the tax level and tax system or structure. In appraising the budget it is not easy, and not wise, to dissociate these two facets. But in appraising the budget as an economic document and suggesting improvements we should not forget the annual Economic Report of the President and that of the Council of Economic Advisers. These carry much economic analysis and some forecasts.

Why are we interested in the economics of budget? Obviously, for reasons of evaluating spending and Government programs and for reasons of the tax burden. But the many reasons need to be made more explicit:

1. What is the proper role of Government? What tests or criteria do we have for determining this proper role? (In a rather precise way we tried to answer these questions in our study, "Criteria for Government Spending.")

2. How do we judge the wisdom of any particular Government program or expenditure? As the 1963 Joint Economic Committee's report states, "Increased Government expenditures should not be made—even though they provide social benefits—if the benefits derived from the expenditures are less than those which would be obtained by commensurate expenditures in the private sector." (Report, 1963, p. 17.)

In the free competitive market, the consumer ultimately directs production. Every product and service is tested daily. Even though we have, as a rule, no such precise test in the Government sector, it is well to restate the cost-benefit principle and keep it in the forefront at all times. This, at least, draws attention to the importance of wise use of resources in the Government sector. In time it may lead to the emerging of more and better tests and criteria. Because of its key importance this matter is elaborated further below.

3. We are concerned with the total tax burden.

4. Of key importance is the tax structure, or the incidence of the tax system, particularly any retarding effects on savings, investing, risktaking, and innovating. The size and weight of the budget play key roles in tax reform.

5. The resource allocative and reallocative effect of the budget, and particularly certain parts of the budget, are of great concern. For example, the heavy investment in defense research and development has probably damaged the civilian economy by reducing innovations and new products available there. The very heavy direct and indirect demand on the part of Government for mathematicians, physicists, certain types of engineers, and a broad range of medical researchers, has affected substantially, not only the salary scales of professional groups, but the supply of talent available in the civilian sector. When the supply is relatively inelastic in the short or intermediate run, a chief result is merely to make this talent more costly to everyone.

When funds are freely granted, waste, resource misallocation, and abuses tend to multiply. The National Institutes of Health in 1963, after a prolific effort to spend money, sent out a "swarm of agents" and the earlier attitude of mutual trust, respect, and confidence was "replaced by one of suspicion and policing." Too much research money deteriorates the quality of research. (Wall Street Journal, Apr. 4, 1963, p. 1)

The farm program, marine, or ship subsidies and other subsidies have had very important resource allocative and reallocative effects.

6. Concern with the economics of the budget cannot ignore the relative importance of the National Government budget versus State and local government budgets and the changes over time among the three groups.

The recent trend has been for State and local taxes to account for an enlarged proportion of the total, as shown by the February 1963 Cleveland Trust Co. bulletin. Over the past decade total taxes have gone up faster than personal income or industrial production. If the average tax paid per capita in 1952–53 is compared to that of 1961–62, the increase is 33 percent. Industrial production per capita over the same period has increased 11 percent, while disposable income per capita has increased 30 percent. Total taxes per capita have increased from $553 in 1952 to $766 in 1962, or by 39 percent.

As a percentage of total taxes, Federal taxes advanced from 22.7 percent in 1932 to 80.6 percent in 1944. From the end of World War II to the end of the Korean conflict, Federal taxes ranged from a low of 69 percent to 77 percent. Since 1952, Federal taxes have accounted for a diminishing share of total taxes, with State and local taxes increasing proportionately, as shown in the following table.

Percentage distribution of tax payments per capita fiscal years

	1932	1942	1952	1962
Federal	22.7	58.1	75.5	68.6
State	23.7	21.7	13.3	16.4
Local	53.6	20.2	11.2	15.0
Total	100.0	100.0	100.0	100.0

Source: Tax Foundation, Inc., "Facts and Figures on Government Finance, 1962–63."

Proportionately, Federal taxes nevertheless are still more than twice as important as State and local taxes. (These data based on administrative budget.)

7. The businessmen as such may have a key interest in the budget as a supplier or contractor covering a broad variety of items, products, and product classes. He is also concerned with the timing impact of both tax collections and expenditure components even if he has no contracts with the Government.

8. The unsatisfactory performance of our economy since 1955–57 is frequently attributed by administration spokesmen and others to the repressive effects of heavy taxes. Secular growth has been thwarted.

9. For the short run it has been argued that we are dealing with a double burden: Slowed-down secular growth, mentioned above, and inadequate recovery from two recessions after 1957. In regard to the latter point there appears to be more unanimity of agreement on the diagnosis than may be justified. There may be other explanations for the unsatisfactory growth. In testifying before this subcommittee in 1961, I stressed a number of almost universally neglected causes of slow growth and abortive recoveries. It was stressed that unemployment and underutilization of manpower is traceable in part to certain legislation, certain administrative agency rulings, and some of it was union generated. Jobmaking faced and is facing many barriers. (Hearings, Dec. 19, 1961, and published by the Chamber of Commerce of the United States as "Unemployment—Some Neglected Causes".) The powerful and highly respected voice of Per Jacobsson, director of the International Monetary Fund, has greatly emphasized the importance of cost-financial liquidity factors, particularly in his address at New York University on February 19, 1963, thus closely complementing my 1961 testimony.

But our slow growth has other explanations. The great stimuli (excess liquidity and deferred demands) leading to postwar expansion became exhausted by the mid–1950's. Possibly the rapid capital formation after the 1954 recession led to some excess capacity.

In 1959 the 4-month steel strike retarded recovery from the 1958 recession. The current buildup of steel, rubber, and aluminum inventories as a strike hedge may again create unsustainable levels of output and income and later a setback, say in the third quarter of 1963.

The imbalance in our international payments has probably acted as a drain on our well-being and has thwarted monetary ease. This has reduced the growth in the money supply, possibly with damaging results.

Even during the recent recovery from the 1960 recession we have faced numerous roadblocks or setbacks, including:

(*a*) Continuation of balance-of-payments' difficulties.

(*b*) The steel price unpleasantness of April 1962.

(*c*) A stock market break in May–June 1962, culminating in a 1962 low point in June of that year.

(*d*) More severe profit squeeze (slightly eased in early 1963).

(*e*) A slowdown in the expansion of commercial bank reserves and in the money supply during most of the past year and indeed since 1956.

(*f*) A series of international disturbances and uncertainties, including Cuba, the disappointing results of the Alliance for Progress, the frustration in implementing the 1962 Trade Expansion Act because of the growing protectionism of the European Common Market and its frustration of Britain.

None of the foregoing nine points are intended to minimize the importance of greater attention to the budget as an economic tool or program. But there are a number of factors or explanations besides the budget which may account for at least a part, perhaps a substantial part, of the reasons for the repeated failure to reach full capacity operation in the last 6 years and for the contours of our economy month by month or quarterly.

In this connection it is worth noting that our present tax structure (although we had a tax reduction in 1954 of over $6 billion net) did not prevent our recovery from the 1954 recession to approximate capacity operation by early 1957 (tax changes having been minor after 1954).

Administration spokesmen have made much of the shifts in the budget (a decrease of the deficit plus increase of the surplus) as a drag on recovery and full economic growth. But, unfortunately for this explanation, this swing has been relatively mild as a percentage of GNP in the two recoveries since 1958, in contrast to those from the recession of 1949 and 1954 (based on national accounts budget data which the Bureau of the Budget, Council of Economic Advisers, and others claim is superior to either the administrative budget or the consolidated cash budget for measurement purposes). In fact the swing of the budget in 1961–62 was the smallest of the last four. Indeed during 1962, when the recovery slowed down, there was no adverse swing at all.

Furthermore the peak quarterly budget surplus in the recoveries after 1949 have been small: $1.6 billion in both 1954–55 and 1958–59; and in the recovery of 1961–62 no surplus emerged at all, the minimum deficit of $100 million having occurred in the second quarter of 1962 and the budget outlook indicates deficits for some time to come. Yet slow growth has been our lot, even though the economy has attained new high levels.

All of these facts and figures throw considerable doubt on the analysis advanced by the administration in support of its tax proposals, even though the case for tax reduction and tax reform is strong for a number of other and related reasons. (See testimony of Joel Barlow, hearings, House Ways and Means Committee, 1963.)[1]

The view so widely held, that an increase in Government expenditures relative to tax receipts is necessarily expansionary and a decrease is contractionary, is not substantiated either by economic logic nor by empirical evidence. (For a brief discussion of this matter see, Milton Friedman, "Capitalism and Freedom," University of Chicago Press, 1962, pp. 79–84).

The idea that U.S. Treasury deficits are associated with economic expansion and surpluses with economic contraction finds little support from history. Wartime experiences are exceptional, but not typical. In the prosperous 1920's we had continuous U.S. Treasury debt reduction (although private debts, as well as State and local government debt, increased substantially). In the 1930's the National Government ran deficits for the full decade with an average rate in excess of 3 percent of GNP; in spite of this the decade ended with 8 or 10 million unemployed. A comparable deficit today would call for $17 billion of red ink per year.

Since the last relatively full recovery (1957) we have had accumulated deficits of over $30 billion with another $11.9 billion expected in fiscal 1964. Quite obviously these deficits were less stimulative than is currently assumed deficits are.

There has been no systematic relation between the changes in GNP and the position of the budget. There have been extended periods with rising GNP and budget surpluses, but others with rising GNP and deficits, as George Terborgh pointed out in his statement to the Joint Economic Committee, February 1963. Contrariwise, there have been periods with falling GNP and deficits and others with falling GNP and surpluses. Terborgh showed that of the 51 quarters with a rising GNP, 28 or more than half were associated with a Federal surplus, 23 with a deficit, and surprisingly enough of 13 quarters with declining GNP 12, or nearly all of them, were associated with a deficit.

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[1] Also available as "The Right Kind of Tax Cut at the Right Time," Chamber of Commerce of the United States, Washington, D.C., 25 cents per copy.

Even if the figures are analyzed, with a 6-month lag adjustment between the budget position and the response of the economy, the picture is about the same. Of 51 quarters with rising GNP, 24 show budget surpluses in the second quarter preceding 27 deficits. of 13 with falling GNP 7 show surpluses and 6 show deficits. The correlation has no statistical significance.

The Joint Economic Committee in March 1963 put it this way, "Federal budget surpluses or deficits are unreliable as indicators of whether budget policies are expansionary or inflationary on the one hand, or are deflationary or repressive on the other." (Report, 1963, p. 8.)

This is an admission which has not had official support in Washington and deserves most careful further analysis by those who look to the budget as a magic tool for flexing the economy. Perhaps some of these observations are somewhat impressionistic and. if so, the sugcommittee might be able to help refine the data and improve the analysis. This would be a considerable additional contribution, even if the foregoing somewhat pessimistic conclusions are found to be valid.

In terms of longer run problems it is worth noting that the Subcommittee on Fiscal Policy of the Joint Economic Committee in 1958 stated, in a much-neglected report: "The subcommittee has found no necessary relationship between the amount of Federal expenditures and the rate of economic growth over the long run." (Jan. 23, 1958, p. 6.)

"The Federal Budget as an Economic Document" lists (as does "The Economic Report of 1962") some dozen steps which the President took shortly after inauguration and seven other recommended steps in 1961 calling for congressional action; but this report states that not 1 of the 13 will ever be adequately, if at all, examined in any budget document. It also states that, "The noteworthy aspect of these proposals in terms of this study is that virtually no information is available about how these policies will influence budget totals or the economy." (P. 132, emphasis supplied.)

The report then goes on, "The significant aspect of these actions, from the standpoint of this study, is that not one of them ever will be examined in any budget document."

Yet, on the contrary, "The Economic Report of 1962" stated rather categorically, "A careful appraisal of the direct and indirect effects of increased Federal activity indicates that it was a major force—probably the principal driving force—of the recovery of 1961." (P. 59.)

Since the two Government documents quoted here were published within less than a week of each other (January 1962), what is the citizen supposed to conclude?

"The Federal Budget as an Economic Document" may be viewed as essentially a plea for the elimination, or at least the reduction, of guesswork and special pleading and drawing dubious and self-serving conclusions from insufficient evidence or no evidence. It has led to almost no general public discussion. It merits much greater attention than it has received.

Nor can we ignore the quantity of money explanation of economic instability and slowed economic growth.

MONETARY GROWTH VERSUS BUDGETARY POSITION

What the proper relationship may be between the money supply and GNP is debatable, and even what to include in the money supply is controversial. Yet it is interesting to note that the money supply (currency plus demand deposits) has dropped substantially since 1950 relative to GNP as shown by the table.

[In billions]

	Gross national product	Money supply	Money supply as percent of gross national product
1950	$284.6	$116.2	40.8
1955	397.5	135.2	34.0
1957	442.8	135.9	30.7
1960	503.4	141.2	28.0
1962	553.9	147.9	26.7

At the end of 1950 (not an inflationary year apart from the Korean war impact after June) the figure stood at nearly 41 percent, and even as late as 1955 it stood at 34 percent. This was a decline from the first half of the decade, but the significant point is that the decline continued into 1957, 1960, and reached a low of 26.7 percent in 1962. There is respectable scholarship in support of the view that here is the real cause of our slow growth and abortive recoveries since 1957. This point is mentioned here only because an undue concentration on the budget may lead to the neglect of other relevant factors in the proper functioning of our economy.

Now let us examine some things which might well be in the budget, but are not found there nor in most cases, anywhere else.

BALANCING UTILITIES

The budget, or at least those preparing it (including participatants in congressional legislative and appropriation hearings) should consistently raise questions of the proper functions of Government and the relative values of private spending versus Government spending. There are plenty of assertions in the budget about promoting the national interest but little analysis in support of the assertions or claims.

The free individual consumer tries to spend his dollars on various goods and services so that the last dollar spent in each and all directions yields equal utility. If, for example, one thinks that another dollar of his income spent on apparel will yield more utility than the last dollar spent on food, he naturally tends to switch money from food to clothing—until the last dollar spent on food and on clothing equals or yields the same utility. This is rational behavior for the individual. Such free choice dollar allocation tends to maximize the individual's satisfaction within the limits of his income and his buying opportunities.

On such questions relatively little economic analysis is found in the budget or in messages on budget items or in related materials. We ought to balance utilities in deciding whether to spend more through Government via taxation and less through the private sector, or vice versa. If society is to strike a rational balance, it must be guided by the principle that no income (and resources) should be diverted from private to Government use (as noted previously), unless it is clear that such income spent via Government makes a greater contribution to output and general well-being than would be the case if the income (and resources) were used privately. The phrase "general well-being" is used here in the sense in which it was used by F. A. Hayek in his "Constitution of Liberty."

A good example of the absence of any analysis was reported by Dr. Moor in regard to the construction of a linear electron accelerator to be built at Stanford University. He said, "Apparently, this accelerator would represent a major forward step in developing the peaceful uses of atomic energy. Yet, so far as can be determined, the only information on this accelerator in the budget is that it will be 2 miles long. What is the cost? What returns can be expected from it? How does it complement other work in this area? Why should it be at Stanford? How long will it take to build? Does the technological knowhow to build it now exist? No information was available anywhere in the budget on these questions" (p. 134).

But it now belongs to Stanford; in any case a news release from Stanford, dated December 27, 1962, stated that the Klystron tube powers the Stanford linear accelerators, "including the largest machine ever undertaken for basic research—the university's $114 million 2-mile accelerator now under construction.

In more technical economic jargon, Erik Lindahl stated the guiding principle this way: "The production of public goods should be carried on to the point where utility is just offset by costs, as is the tendency in the private economy, or where the marginal satisfaction is the same from both public and private goods."

Application of this principle brings about a proper division of labor as between the private and the Government sector of the economy. The last tax dollar should yield the same utility as the last private dollar. Just because it is difficult to compare their two final utilities does not impair the principle; it is not always easy even in private spending to know whether the current distribution of dollar allocation in a family budget is just right. But rationality is no less important, even when the estimates are arduous and necessarily approximate.

In assessing the benefits we get from Government service, however, we need to be sure of two things: (1) We must avoid double counting, that is add in only the net addition of benefits which the tax dollar provides; (2) We must know the full cost of the Government service.

Yet we get little help on these questions from the budget documents. As to double counting, here is the rub: If a community plans to build a new parkway or a city hall, it is not enough to ask: What do these new facilities add to human welfare? Why it is not enough needs explanation. Because, had the funds been left in the hands of private families and other taxpayers, they presumably would have spent those funds for personal well-being. In short, whenever we are asked to support a new Government project (or, even to continue an existing project) we should ask ourselves: Will this Government project add more to human well-being than if the funds had been left in private hands? It is the net increase in benefits from such Government expenditure, which should be the real test of whether or not a public expenditure is justified.

It mayo be asked: But how do you assess the benefit from Government spending, then subtract the loss in private spending suffered by the taxpayers, and finally arrive at a net figure of the value of the Government project?

A useful answer to this conundrum is threefold:

(1) Unless you can answer it, how do you know whether a given Government venture is justified or not? Are you not merely groping in the dark?

(2) Even if you cannot nail down the precise number of dollars which enter into this calculus, once you get into the custom and habit of trying to make such caculation, you will be surprised at the light which this formula will shed on newly proposed Government projects and activities.

(3) Finally, it will encourage legislators and government officials at all levels of Government to sharpen their pencils to justify their proposals, if they know that alert citizens are watching and stand ready at all times to ask the right questions. The citizen taxpayer by using his own sharp pencil will help improve the decision-making process at all levels of Government.

So much for the question of double counting and getting at the net gain from Government spending. Let us now turn to the other question: What is meant by the full cost of Government spending?

There may be a large difference between the accounting or book record cost of a project and the full economic cost. Unless we can determine the full economic cost of a project we canot even begin to answer the former question of the net gain from Government spending.

Since funds have alternative uses, they have a price; namely, interest. Governments absorbing revenues should calculate as part of the cost the interest which those revenues would earn in other uses. The interest rate charged by the Government to itself may seem a matter of indifference to the taxpayer, but it is a vital guide for testing Government efficiency and economy. In deciding, for instance, whether a new hydroelectric project is worth its cost, the Government must compare the cost of the dam, powerplant, etc. incurred in the present with benefits produced over the next 20 or 30 years. But future income is worthless than the same amount of current income. Future income is discounted; current income can be invested to yield a continuing return. It is this yield on investment, or the interest rate, which must be deducted from future benefits to compute their present worth. One hundred dollars 10 years in the future is now worth $74.41 discounted at 3 percent, but only $55.85 if discounted at 6 percent.

Using an interest rate far below the market cost of capital will seem to justify projects whose benefits are just not worth the cost. Government would divert funds from private uses yielding 6 percent or better to public uses yielding only half as much.

A project may be built to last 20 years, or 50 years. Too low an interest rate will seem to favor the more durable design even when the additional cost of longer life is a poor investment.

Sometimes a case is made for a Government project on the ground that the Government can borrow cheaper. First, this is by no means always true. Second, even when apparently true, Government borrowing involves a hidden real cost. Where Government can borrow cheaper than private individuals, it is because the Government has the taxing power to make good on failures and unwise expenditures. Government projects do fail and have to be charged off; many are not worth their cost. The general taxpayer is called upon to foot the bill. To this extent "the cheaper borrowing" argument is a delusion.

Government buildings, land and other property and Government activities generally do not pay taxes. They are tax sheltered. This means other private activities must bear the tax burdens properly imputable to Government activities and projects. In short, in trying to assess the cost-benefit ratio and the net gain from a Government project we should add in, as part of the cost, the taxes which would be levied were the project in private hands or had the funds been privately spent.

Governments, furthermore, generally do not make annual depreciation charges for their depreciable assets; when the assets are worn out or become obsolete, they must be replaced. Again, to get at the full cost of a Government project, depreciation should be accounted for; if not, there is no way to arrive at a calculus of the net gain of the project in terms of human well-being. Government spending which yields future benefits over a number of years may overstate the economic cost in the year of expenditure, although this is no argument for a separate capital budget.

Government accounts are rarely clean cut. Overhead costs of a given project are rarely fully counted in. Government activities and projects often rely on the services of other Government departments and divisions, for which they pay nothing. Unless such costs are added in, there is no way of knowing how to equate fully benefits against costs; this leads to irrational Government spending and decisionmaking, to less than optimal allocation of resources. The opportunity cost principle applies fully to these issues, and if full costs are not known or are hidden we are certain to increase misallocation of resources. In the private sector of our society, however, any economic or business activity has to meet all these tests; otherwise the consumer will mark it for termination via the losses incurred.

Thus, if the budget is to be an economic document; two steps must be taken. First, an attempt must be made to arrive at the full costs of Government services. Second, an effort must be made to compare the benefits of public spending (corrected in line with the above points) with the benefits which would accrue from the same amount of private spending.

Senator Proxmire's orderly, comprehensive and thoroughly documented case made in depth in September 1962 against the Glen Elder Dam and irrigation project (opposed by over 90 percent of the farmers in the district) is a classic, perhaps without precedent cost-benefit analysis. The Senator's presentation occupied over 50 percent of the Congressional Record of September 29, 1962, covering some 70 pages. It was fortified with numerous references to and quotations from the most competent professional literature in this field. Yet, the project was voted an initial sum of three quarters of a million dollars in 1962 and is now down for $5 million in the budget for fiscal 1964. As more legislators and the public discover that there are ways to measure the benefits against the costs in Government projects we can assume that waste will be reduced and the limited funds will be used where they will maximize general well-being.

In submitting their requests to the Bureau of the Budget, Government agencies do at times make cost-benefit analyses but these rarely find their way into the budget documents. This leaves the citizen and often the legislator at sea.

User charges

Whenever practicable, the costs of Government programs, which provide benefits to identifiable groups or individuals in excess of benefits to the general public, should be borne by those receiving the benefits. Toll roads were a step in this direction. User charges may need to be geared to time of use. Highway, bridge, and street congestion may never be resolved until the user charges are based on the costs to which a user puts the community. An offpeak user of road facilities, for example, may cost society nothing. Such user charges represent at least a partial utilization of the price system in the Government sector.

NEW BUDGET ITEMS BEGIN SMALL

The budget has grown to its present dimensions partly because new spending proposals are launched by the administration or the Congress or both at a snail's pace with low first-year spending figures. Government bureaus commonly underestimate costs by very wide margins.

A congressional subcommittee said, "A 12-month budget reveals only the tip of the fiscal iceberg. * * * Cost estimates, to be meaningful, must be based on the full expected lifetime of programs."

It appears that the budget for 1964 calls for expenditures of some $6 billion for Federal subsidy to education over the next 5 years, but only $144 million is to be spent in fiscal 1964. A Domestic Peace Corps is proposed to run to 5,000 persons within 3 years, but the first-year cost will be very low, as shown by the assumption that by this summer it would have only a few hundred persons. A 3-year, $500 million local mass transit program is put down for only $10 million of spending in fiscal 1964. By stressing the initial low cost, neither the citizen nor the legislator is likely to make the wisest decision.

In 10 years, total Federal aid to State and local governments will have almost quadrupled, rising from $2.7 billion in 1954 to an estimated $10.4 billion in 1964.

These are typical examples. Probably we should say more: they are the rule, with almost no exceptions. By beginning small, it is easy to introduce new items into the budget and the legislative and appropriation streams.

It is to be expected, of course, that it takes time for a new program to be launched and mount its stride; thus some increases are to be expected after the first months or a year or so of a new program. Perhaps, needless to say, some legitimate Government programs should be expected to grow more or less (not exactly) in keeping with the growth of our population or other variables. For many this is not true; perhaps defense spending is the best example.

But when the concerned citizen says, "Congress has lost control of spending," he generally refers to this virtually inherent and unstoppable growth which seems to be built into nearly all Government programs and projects.

In order to encourage greater fiscal responsibility, to help disclose future liabilities, and to set up better procedures for determining priorities, S. 537, introduced by Senator John L. McClellan and 75 other Senators (to create a Joint Committee on the Budget), provides that—

"The annual budget of the United States shall henceforth include a special analysis of all active long-term construction and development programs and projects authorized by the Congress, showing for each the total estimated cost, and the actual or estimated expenditures during prior fiscal years, the current fiscal year, the ensuing fiscal year, and subsequent fiscal years. All grant-in-aid programs shall be included in this analysis, in a separate grouping, showing under the heading 'Subsequent Fiscal Years' for grants of indefinite duration the estimated annual cost for a 10-year period. Each agency carrying on any program by utilization of the borrowing authority shall, at such times as the committee shall specify, report to the committee upon the extent of its borrowings under such program. Upon request of the joint committee, any agency shall submit to the Appropriations Committees of the House of Representatives and the Senate estimates for proposed appropriations on an annual accrued expenditure basis."

In a later section this matter is explored further.

Annual reports on performance by each agency on a basis of cost benefit, possibly under the supervision of the Bureau of the Budget, would be useful. The President might, in turn, submit to Congress an annual report on the executive departments and agencies. Wherever possible year-to-year changes could be identified. Quantification of results should be stressed, without ignoring quality. Such annual review would be of great interest to the concerned taxpayer, to writers and editors, as well as to the executive branch itself and the several congressional committees, including the Committee on Government Operations. How to keep such performance evaluation free from political self-congratulations would be a major problem.

Mountains of statistics, for example, are provided on Federal grants to the States, local governments and for other purposes. But the almost total absence of any objective evaluation of these aid programs constitutes a great void. No information is provided for setting up priorities. There is no analysis of the degree to which aided programs become relatively overdeveloped and distort State and local expenditures—overstimulating subsidized programs at the expense of equally urgent unaided programs. Having such legislation expire at a specific near-term date would at least force a confrontation of priorities both in the executive branch as well as in the legislative branch. This should encourage a superior allocation of resources and open up opportunities to cancel the program or make needed changes.

EXPANDED CONSOLIDATED CASH BUDGET AND OTHER BUDGETS

The administrative budget is obsolete and misleading, as noted above. A Chamber of Commerce Committee on the Budget, appointed at the request of the President of the United States in 1962, concluded in its report to him:

"The focal points in measuring the impact of Government fiscal operations are the total of cash receipts from the public, the total of cash payments to the public and the resultant effect on the public debt. (The timing of the impact may vary from the cash flows, however.)

"So-called trust funds are an integral part of the whole picture. In recent years trust fund receipts have grown proportionately faster than budget receipts. They should not be omitted from any comprehensive presentation of the Government's fiscal program.

"Important categories within such a cash budget should be clearly shown by columnar form or appropriate groupings, such as the amounts of trust fund income and trust fund outgo, loans and self-liquidating investments repayable in dollars, and public enterprise receipts and disbursements. The amount of the net trust fund accumulations or withdrawals should be clearly segregated from the surplus or deficit.

"A comprehensive cash budget, carefully evolved and tested, should ultimately replace the present administrative budget" (November 19, 1962, Edwin P. Neilan, chairman).

It will be noted that trust funds should be included as well as Government-enterprise funds, although money orders, for example, written by the Post Office might be omitted. Trust funds are expected to amount to $29.5 billion in 1964, and enterprise funds, $19.9 billion. Of the latter, Commodity Credit Corporation will account for $8 billion, the Post Office for $4.5 billion (not including over $5 billion in money orders), Federal National Mortgage Association for $1.7 billion and the Export-Import Bank for $1.8 billion. In order to overcome the inertia and bad habits of the past, no separate table covering only the administrative budget should be published, although this budget might be a part of the consolidated cash budget.

The administrative budget is concerned generally with the net amounts of the trust and the enterprise funds. But here is an important point to be noted by those who argue that the Congress must work from the administrative budget: the Congress is already inevitably dealing with the receipts and expenditures of both these types of funds, even though only the net (+ or —) amount finds its way into the administrative budget. Furthermore, nearly every year the President or the Congress, or both, are concerned with legislative changes which would affect the net amount and the gross expenditure and gross receipts of most of the trust and enterprise funds. Even more important, the flow of moneys into and out of both types of funds has important impact on incomes (and costs) of individuals, businesses, and often certain sectors or geographical regions of the economy. In short, the case for moving promptly toward a modified and expanded consolidated cash budget is strong.

Government loans and loan guarantees which do not appear in the budget may nevertheless have a significant economic impact on the economy and may merit inclusion.

There is little information in the budget on Government costs such as overhead, material, labor, or per unit cost of output. We have little information on changes in efficiency in Government. Without much more cost analysis many key questions remain unanswered.

Federal sector accounts

There has been a growing use of the Federal sector accounts of the national income and product accounts to provide a more precise measure of the direct impact of the Central Government on our current flow of income and output. The cash budget obscures the economic impact of Government activity by concentrating on cash flows and largely ignoring the timing of the impact. Yet timing may be of considerable importance. Defense contracts, for example, may involve payment after delivery of the goods, or some advance payments and some progress payments.

At times the mere announcement of a large Government program or an enlarged appropriation sets in motion economic forces well in advance of any letting of contracts or purchases. A Government bureau (or an individual) employee may be engaged to accomplish a given end—perhaps months, a year or even several years ahead, yet the employees are paid currently and well in advance of the "delivery" of the product sought.

There probably is no complete solution for this problem of timing the economic impact. But the Federal accounts budget is superior to its two competitors in this respect. Business taxes are recorded here as they are accrued by the private sector, rather than when they are collected. On the expenditures side more current timing is also found, rather than relying on the timing of when checks are issued.

On the other hand, many capital or financial transactions which are included in the cash statement are excluded from the Federal sector account. These items consist primarily of loans, mortgages, and other financial claims. Yet these substantially affect the capital and credit markets. Also purchases and sales of existing assets are excluded, such as land and secondhand property.

Were it wise and practical it would be desirable to have but one budget; perhaps with time this can be evolved and is certainly worth sustained search. But the Bureau of the Budget states: "* * * many Government activities besides receipts and expenditures affect the economy. For example, a rapid expansion in new appropriations and in Government orders could stimulate a rise in business activity well before either the delivery of goods, the performance of services, or the payment for them. The management of the public debt is a further factor which has a significant impact in the money and credit markets of the economy. Consequently, in evaluating the economic impact of Federal Government activities, there is no substitute for complete and detailed analysis of the Government program in all its aspects" (the Budget, p. 331).

Were it not for the increase in size involved, it would be highly desirable also to have data not just for 3 years but perhaps for 1940, 1950, 1955, and 1960 as well as the 3 years now included in the annual budget. Possibly in some additional key tables, data covering the longer span would be justified.

The student of the budget must also take into account inflation of the past, the rise in population and the real growth of the economy. To correct all current budget data and tables for these variables in the budget documents would be a herculean task. Nevertheless, something of this type must be done in many cases in order to avoid meaninglessness and distorted comparisons.

The defects in the congressional control of appropriations and expenditures has been widely known for many years. The national chamber has drawn attention to this matter repeatedly. Its current position states:

"Congress and the executive departments should use the most effective organization and procedures for budget preparation, review, authorization, and control. It is essential that the appropriation structure be designed to reflect the costs of performing governmental functions, activities, and projects. Adequate information on proposed appropriations and expenditures and adequate congressional staffs for review and analysis of fiscal legislation are essential.

Before reporting an authorization, each legislative committee should be required to submit an estimate of the total cost of the measure to the Appropriations Committee. All authorizations to obligate or to expend Federal funds should be subject to review and modification by the Appropriations Committees of Congress giving due consideration to the fiscal effects thereof.

Many permanent authorizations and appropriations have outlived their purpose and should be discontinued. Each authorization act should contain a specified date after which it should expire if no appropriation has been made.

The authority and responsibility of the Bureau of the Budget for determining Government expenditure policies and levels should be strengthened. This should include authority to curtail or eliminate spending programs no longer considered essential."

Capital budget

The chamber committee opposed the establishment of a separate capital budget. Most foreign countries which have such budgets have gone down the Socialist road much further than we have, so that the reason for separating capital and other budgets is more potent in many foreign countries. This does not mean, however, that the budget documents could not be greatly improved by adding more analysis on the economic impact of capital expenditures particularly as to amounts and their timing. The budget might well carry more information on existing and proposed capital costs: What time span is involved? What is the interest rate assumed? What are the maintenance costs? What is the life of the asset, etc.?

FUNCTIONAL BUDGETING

Much of the budget documentation is classified not by function or purpose but for "housekeeping" reasons. The table listing budget figures for international affairs and finance; agriculture; natural resources; commerce and transportation; health, labor and welfare; and education (the Budget, p. 16) covers such broad categories that the data is largely meaningless for any purpose (except for year-to-year comparisons if all other matters stay the same). Many of the functions covered in the above categories are also covered to some degree under other titles. For example, a Member of Congress decided to postpone appropriations for education in 1961 because, upon a preliminary review, it was discovered that educational activities were carried on by such a host of agencies, offices, divisions, bureaus, and other bodies, that no one in the Government really knew what the total figures were or what the educational end result or accomplishment had been.

Expenditures for education provide perhaps the most horrible example not only of unevaluated results, but also of most widely scattered educational activities throughout the Federal establishment as shown by the accompanying table prepared by Department of Health, Education, and Welfare.

Here are listed some 66 programs scattered throughout 9 different departments and another 23 programs in 11 other agencies (89 programs in all). Thus, it is not surprising that many citizens and Members of Congress urge an evaluation of what we have before going further into new programs or expenditures.

FEDERAL PROGRAMS FOR EDUCATION

TABLE 1.—*Financial support of Federal programs for education: 1950–51 to 1958–59*

Department or agency and program	Academic level [1]	Amount of Federal support, by year (thousands of dollars)				
		1950–51	1952–53	1954–55	1956–57	1958–59
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Total	—	2,511,829	1,416,898	1,571,535	1,968,246	2,413,186
Department of Health, Education, and Welfare	—	111,370	310,575	392,240	457,277	737,864
Office of Education:						
Office administration	ES, H, A	2,879	5,149	3,506	4,871	8,229
Civil defense education	A	—	—	45	58	—
College housing loans program	H	—	—	—	—	—
Cooperative research	H	0	0	0	941	2,752
Fellowships for the study of mentally retarded children	H	0	0	0	0	0
Morrill-Nelson and Bankhead-Jones funds for land-grant colleges	H	5,030	5,030	5,052	5,052	5,052
National Defense Education Act of 1958:						
College student loans	H	—	—	—	—	—
Programs for guidance, counseling, and testing	ES	0	0	0	0	9,677
Fellowships to prepare college teachers	H	0	0	0	0	5,294
Improvement of statistical services of State educational agencies	ES	0	0	0	0	367
Language development	H	0	0	0	0	5,010
Science, mathematics, and foreign language instruction	ES	0	0	0	0	50,630
Loans to nonprofit private schools for science, mathematics, and foreign language instruction facilities.	ES	—	—	—	—	—
Utilization of new educational media	H	0	0	0	0	1,600
Public library services for rural areas	ES, A	0	0	0	1,440	5,218
School support in federally affected areas	ES	16,727	200,084	214,507	172,835	215,066
Vocational education	ES, H, A	26,685	25,366	30,351	37,063	44,638
Federally aided corporations:						
American Printing House for the Blind	ES	125	185	215	240	410
Gallaudet College	ES, H	368	503	674	3,162	972
Howard University	H	4,262	4,047	7,654	3,686	4,636
Food and Drug Administration:						
Consumer and industry education	A	—	—	—	—	—
Training for State and local officials	A	—	—	—	—	—
Office of Vocational Rehabilitation:						
Training of individual rehabilitants	H, A	—	—	—	—	—
Research and demonstration projects	H	—	—	299	1,999	4,600
Training and traineeships	H	—	—	790	2,938	4,799
Public Health Service:						
Communicable Disease Center	A	—	370	396	567	769
Education in hospitals	ES, H, A	191	187	181	216	215
Education of public health personnel	A	—	—	633	1,150	1,272
Indian health	A	—	—	—	179	283
Research fellowships	H	—	2,014	2,558	5,416	10,154
Traineeships and training grants	H	—	7,977	11,488	30,836	60,203
Robert A. Taft Sanitary Engineering Center	H	—	127	149	357	318

St. Elizabeths Hospital training for staff and volunteer workers	H					
Social Security Administration:						
Children's Bureau training program	H	477	695	482	596	2,665
Bureau of Public Assistance consultation and training	H, A					669
Surplus Property Utilization Division allocations for education	ES, H	54,626	58,841	113,260	183,675	292,366
Department of Agriculture		171,154	195,693	245,071	398,399	383,556
Agricultural Extension Service	H	32,141	32,117	39,800	50,030	53,885
Revenue from national forests and submarginal lands	ES	8,435	17,490	16,871	29,080	22,880
School lunch and milk	ES	118,082	133,540	169,291	290,431	275,945
State agricultural experiment stations	H	12,496	12,546	19,109	28,858	30,846
Department of Commerce		5,292	4,024	2,632	2,884	3,493
Census training for foreign technicians	H					82
Maritime Administration schools	H	5,292	4,024	2,593	2,836	3,266
Meteorological education and training	H			39	48	41
Training in the National Bureau of Standards	H					104
Department of Defense		25,507	40,714	47,955	69,569	300,877
Service academies	H	13,648	15,956	16,351	23,480	38,503
Education for military personnel at civilian institutions	H	6,724	7,089	5,699	8,800	9,324
Education for off-duty personnel	H, A	5,135	8,683	9,370	10,579	12,081
Education for civilian employees	H				2,095	3,074
Education of dependent children overseas	ES		8,911	16,421	24,375	29,699
Operation of school buses	ES					435
Education for the native population on the Pacific islands	ES					103
Medical education for national defense	H		75	114	240	405
Research assistantships in educational institutions	H					207,253
Department of the Interior		45,834	58,834	80,263	90,794	113,577
Alaska public works program	ES, H	101	3,397	3,250	1,363	1,047
Bureau of Mines safety training program	A	780	837	850	898	1,200
Education for children of National Park Service employees	ES	14	20	27	29	38
Education in American Samoa	ES, H, A					218
Education in the Pribilof Islands	ES	26	34	35	43	51
Education in the Trust Territory of the Pacific Islands	ES, H, A	290	300	250	410	399
Education for Indians in the United States	ES	27,118	30,117	37,541	49,433	59,348
Revenue from sale of public lands	ES	17,505	24,129	38,310	38,618	51,276
Department of Justice		389	422	461	530	1,416
Bureau of Prisons general and social education	A					436
Bureau of Prisons correspondence courses	A					60
Bureau of Prisons vocational training	A	389	422	461	530	686
FBI National Academy	H					9
Police training schools	A					225

See footnotes at end of table.

TABLE 1.—*Financial support of Federal programs for education: 1950–51 to 1958–59*—Continued

Department or agency and program	Academic level [1]	Amount of Federal support, by year (thousands of dollars)				
		1950–51	1952–53	1954–55	1956–57	1958–59
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Department of Labor		3,927	5,188	5,236	5,940	10,941
Apprenticeship and training	A	3,183	3,324	3,160	3,399	4,009
Foreign visitors program	H	744	1,864	2,076	2,541	3,167
Testing, counseling, and placement services	ES	----	----	----	----	3,765
Department of State		----	37,402	40,100	47,751	57,811
Educational exchange program	H		23,360	19,768	18,605	26,590
Country missions	H, A	----	14,042	20,332	29,146	31,221
Interuniversity contracts	H	----	----	----	----	----
Department of the Treasury		1,800	2,565	2,506	3,350	5,212
U.S. Coast Guard Academy	H	1,768	2,513	2,435	3,265	4,068
Education of dependent children overseas	ES	0	0	13	23	37
U.S. Coast Guard officer postgraduate and specialized training	H	32	52	58	62	56
Internal Revenue Service training for enforcement personnel	A	----	----	----	----	1,151
Atomic Energy Commission		18,908	25,221	24,479	30,717	51,047
Contract research	H	13,487	17,352	19,431	21,284	39,628
Fellowships	H	1,055	696	229	413	925
Expenditures for public schools	ES	3,682	6,780	4,410	4,097	4,958
Other training	H	684	303	409	4,923	5,536
Canal Zone		2,300	2,635	2,910	3,647	5,019
Public education	ES, H, A	2,300	2,635	2,910	3,647	5,019
District of Columbia		2,728	2,310	5,063	5,077	7,742
Public education	ES, H	2,695	2,277	5,016	5,027	7,680
Capitol Page School	ES	33	33	47	50	62
Education in public welfare institutions	ES	----	----	----	----	----
Federal Aviation Agency		101	348	266	461	1,036
Aviation training of foreign nationals	H	100	345	244	432	994
Tuition payments for employees in nondepartmental institutions	H	1	3	2	9	14
International Civil Aviation Organization Fellows	H	----	----	20	20	28
Federal Deposit Insurance Corporation		----	----	----	7	14
Employee education	H	----	----	----	7	14

Library of Congress		1,000	1,000	1,000	1,067	1,368
Reading material for the blind	A	1,000	1,000	1,000	1,067	1,368
National Aeronautics and Space Administration		710	618	675	580	5,023
Training and research centers	H					47
Research at educational institutions	H	710	618	675	580	4,976
National Science Foundation			3,220	10,109	34,952	122,820
Basic research	H		1,813	8,009	15,268	45,950
Research facilities	H				5,382	15,580
Fellowships	H		1,366	1,784	3,354	13,071
Institutes, course content improvement, and special projects	ES, H		41	316	10,948	48,219
Office of Civil and Defense Mobilization					707	1,741
Civil defense resident and extension schools	A					529
Training and education contributions to States	A				707	1,212
Small Business Administration						
Management training	A					
Tennessee Valley Authority		593	557	485	582	593
Cooperative research, tests, and demonstrations	H	593	557	485	582	593
Veterans' Administration		2,120,216	725,572	710,084	813,955	602,036
Vocational rehabilitation	H, A	176,875	57,769	40,770	30,598	22,307
Education and training	H, A	1,943,341	667,803	664,514	773,906	566,366
War orphans educational assistance	H, A	0	0	0	2,351	7,663
Fees to educational institutions	H, A	0		4,800	7,100	5,700

[1] Academic levels: ES=Elementary-secondary; H=Higher education; A=Adult education.

Many agencies are involved in area redevelopment, yet no adequate clue to this is found in the budget (the Budget, p. 175). This makes a cost-benefit evaluation impossible.

Similarly, it is doubtful that the table on water research (the Budget, table G–13, p. 404) performs any useful purpose. Here it is:

Obligations of Federal agencies for water research and surveys

[In millions of dollars]

Agency	1962 actual	1963 estimate	1964 estimate
Departments of:			
Agriculture	11.0	12.3	11.7
Commerce	2.1	1.9	2.0
Defense	1.8	2.4	3.8
Health, Education, and Welfare	8.2	19.0	17.4
Interior	17.5	24.8	34.9
Atomic Energy Commission	3.7	3.8	4.0
National S ience Foundation	1.9	1.9	2.0
Tennessee Valley Authority	.5	.7	.9
Total	46.7	66.8	76.8

The interests and purposes of the eight agencies (and, of course, many subagencies within these eight) may have only one thing in common: water. It is about as relevant as would be a table on food consumed by man, other mammals, nonmammals, insects, birds, fish, and dozens of other living things. For purposes of research and water use both the Government and the citizen may have an interest in water, but it seems unlikely that such interest would ever be served by the figures in this table. Several of these agencies are wholly unrelated one to the other, as is their interest in water. How many congressional appropriation committees and their subcommittees will find this table useful? The answer probably is, none. It would seem that this table symbolizes the all too frequent departures from functional budgetmaking. After hearings the Senate Committee on Interior and Insular Affairs reported favorably in 1963 on S. 2 dealing with water resources research centers without making any reference to this table.

At another level, how do we justify a jump in expenditures (or obligations) on water research from $46.7 million in 1962 to $66.8 million in 1963 and another increase of $10 million in 1964? or the changes within the eight agencies from 1962 to 1963 to 1964? Possibly every figure and every change is justified, but a study of the budget (in any of the three forms) provides little or no insight. The budget devotes only 20 lines to this $77 million subject. The appendix, of 1,200 pages, in its index carries no title of "Water Research," nor any clue under water or research as to where the content of the above table is discussed or elaborated upon.

The requirements for sound budgeting as a device for decisionmaking and control are the same everywhere. Most students of government budgeting, whatever their shade of opinion, both here and abroad, agree on certain broad principles of effective budgeting: (1) View as a whole; (2) functional approach.

1. The budget must be viewed as a whole at both the executive and legislative levels. Each program must be appraised in the context of all the other programs both complementing it and competing with it. This is not done now as we have seen. Funds allotted to each program and activity should be assessed in a compresensive context. Without an overview there is no sense of proportion or priority. Costing programs is a way of trying to make incommensurable programs comparable; it also forces program decisions to be consistent with overall resources available. Making programs and agencies compete against each other for bigger shares of the budget pie before the judgment of the highest level policymakers simulates market competition for the consumer dollar. The citizen's election vote may be indivisible, but the budget dollar is finely divisible, provided the decisionmaker is faced with a problem of allocating funds among competing programs, rather than with the voters' either/or choice among ranked priorities.

Comprehensive budgeting as an annual practice should focus on new programs and projects and on changes in the size and scope of existing programs. It is not practicable for Congress to reconsider in depth every year each and every item in the budget. For the budget includes many commitments beyond the current year and the budget is massive. Some of the commitments are contractual, such as interest payments on debt. Others, on the other hand, such as agricultural payments and various grant-in-aid payments to States and localities should be subject to periodic reconsideration.

The budget, by and large, initially is viewed and prepared as a comprehensive whole, under the aegis of the Bureau of the Budget. It is presented to Congress as a package. Proposed total expenditures are considered in the light of anticipated revenues; any requirements for additional taxation or borrowing are noted and appropriate legislation recommended.

The procedure for congressional consideration, however, is appalling. Tax proposals are considered piecemeal. Separate portions of the President's appropriations request are scrutinized by different committees, and not considered as a package. Tax legislation and appropriation legislation are enacted in splendid isolation one from the other. The piecemeal approach applies not only to appropriations and tax legislation, but also to the review of programs incorporated in the President's budget and of such additional programs and appropriations as Members of Congress may themselves initiate.

Various institutional improvements have been suggested, including expansion of congressional staff to perform some of the functions for Congress which the Budget Bureau performs for the executive branch. Students of the budget process agree on the urgent need for reform enabling Congress to consider all appropriation requests jointly rather than separately. Such a reform would make the budget a more useful instrument; it would strengthen congressional control over appropriations, and it would make such control a more positive influence.

The president of General Motors Corp. ought not to think in piecemeal terms; the President of the United States dare not think in such terms; but the Congressman who owes his election to particular groups in a minor portion of a single State is under great pressure to think merely in local terms.

Members of the Legislature are given committee assignments and develop special staffs; out of this division of labor arises "pigeonhole" thinking and some pet projects, vested interests, etc.

II. The second broad principle of effective budgeting is a budget breakdown by function, or functional budgeting. This is needed at the stages of budget-making in the executive branch and of budget evaluation and final determination in Congress. Various activities which are integral contributors to the same objective should be grouped, so that the cost of meeting the objective is visible and an informed decision may be made on its worth. Alternative programs for accomplishing the same objective should be grouped so that they can be compared in cost and effectiveness, so that duplication may be avoided, so that the objective may be achieved in the measure intended rather than unintentionally underachieved or overachieved. Such grouping of related programs also permits consideration of side effects, or spillovers, and a more meaningful reconciliation of program appropriations with overall budget objectives.

With functional budgeting, it would be possible to simplify and reduce the bulk of the executive budget which must be considered by Congress. With the data selected and classified for the purpose of facilitating evaluation, comparison, and choice, it would be apparent just where much unessential detail could be eliminated.

Just what is a functional classification of programs and activities is a matter for informed judgment. It should facilitate answers to the two questions: Are the returns worth the outlay, and are they equal to returns from alternative uses of the funds? There is no simple rule, no single classification. Yet, even without precise benchmarks, it is clear that the budget falls considerably short of being organized functionally.

For example, Federal regulatory and operating functions in transportation are spread over several departments and independent boards and commissions. Yet, perhaps common carrier transportation, whether by road, rail, air, or water, should be considered jointly. Subsidies and tax policies applying to one form of transportation vitally affect the others as well. Jurisdiction over river valley development is shared by several groups with conflicting objectives: the Corps of Engineers is interested in navigation and flood control, the Bureau of Reclamation in irrigation, Interior Department in conservation, the Federal Power

Commission in hydroelectric power. These conflicting claims on multipurpose project design and utilization are best resolved if forced into a confrontation. Policies and programs for depressed areas are scattered over many departments.

Functional budgeting can only go so far, without a parallel administrative organization. The lack of functional budgets only reflects nonfunctional agency and department breakdowns, which prevent the comparison of alternatives relevant for choice which fall under a different jurisdiction. In fact, such alternatives become bones of contention between functionally overlapping agencies and bureaus. Or, as in river valley development, multiple agencies with conflicting purposes contribute to piecemeal planning and programing.

A revolutionary experiment in functional budgeting has been instituted in the Defense Department.[3] Its $50-odd billion planning and programing is no longer divided solely according to the three service branches but among nine program packages: central war offensive forces, central war defensive forces, general purpose forces, sealift and airlift, Reserve and National Guard Forces, research and development, servicewide support, classified projects, and Department of Defense.

This grouping of programs, in accordance with their contribution to specified national security objectives (rather than by service branch), facilitates comparison and choice between alternative means of achieving the same objective and makes an approach to testing by the benefit-cost principle. The potential savings, without loss of security, are said to be great. Program elements within each program package will compete with each other in terms of their cost and effectiveness. Polaris submarines will compete for funds with Atlas missiles and certain other missiles (since all are part of the central war offensive forces program package), rather than with aircraft carriers, which are part of the general purpose forces program. Carriers in turn will compete with tanks. The choice among program elements is made in the context of two overriding decisions: the allocation of the defense budget among the nine program packages, in terms of their relative contribution to the joint goal of national security, and the legislative decision on the total size of the defense budget, in view of other conflicting claims, both public and private, for national resources.

So far as Congress is concerned, functional budgeting is a tool of limited use as long as appropriations are considered piecemeal and without reference to tax revenues. The congressional breakdown of committees and subcommittees no more corresponds to the realities of relevant alternatives and complementing activities than does the executive organization. The breakdown of legislative committees and subcommittees does not correspond to the breakdown of appropriations committees and subcommittees; even if it did, this separation of functions hampers rational decisions. Let us look at this in more detail.

CONGRESSIONAL ORGANIZATION FOR BUDGETARY CONTROL

Budget handling in the Congress is in relatively greater need of repair than in the executive branch. For some years the national chamber has urged that both the House and the Senate should provide each with "a center of financial management" so that it can more effectively examine the budget as a whole and base its actions on the overall fiscal situation, after giving consideration to the relationships of spending to receipts and borrowings and to the relative priorities of various programs.

One of the major difficulties to sound congressional control over budget matters stems from the manner in which its committee structure is organized. The basic work of Congress is, of course, done through its committees. The organization of Congress makes no provision for a budget committee in either the House or Senate, nor is there an operational joint committee to deal with budget matters.

Basic work in Congress on the several elements of budget and fiscal policy—revenues, expenditures and debt management—is accomplished by several committees. And most of the legislative committees get into the act in varying degrees, even though the principal committees assigned to deal with budgetary matters are (1) the House Ways and Means Committee; (2) the House Appropriations Committee; (3) the Senate Finance Committee; (4) the Senate Appropriations Committee.

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[3] H. C. White and R. J. Massey, "Program Packaging—Opportunity and Peril," United States Naval Institute Proceedings, December 1961, pp. 23–25.

The expenditure program is considered in a series of 12 to 15 separate appropriations bills which are dealt with and passed upon at different times. Neither appropriation bills nor new spending programs are considered in relation to the amount of estimated revenues or to the debt ceiling. The entire gamut of budgetary actions taken by Congress is conducted in a fragmented fashion, even though the budget comes to the Congress as a unit.

A major deficiency in control of public money is the failure of both Houses to organize their committee structures to provide a strong and authoritative "center of financial management" in each, to give study and consideration to all budget and fiscal matters and recommend to the House and Senate appropriate action.

The President, in his 1960 budget message, urged Congress to consider ways by which it can more effectively look at the fiscal situation as a whole and overcome the diffused consideration which results from present procedures on appropriations, other forms of new obligational authority, revenue bills, and the debt limit.

Minority party members of the Joint Economic Committee called on President Kennedy on March 20, 1963, to appoint a Presidential nonpartisan citizens Advisory Commission on Federal Expenditures as an essential step in controlling the rapidly rising level of spending. (This was also a part of their views presented in the annual report of the Joint Economic Committee, pages 84 and 85.)

The Commission would study and make recommendations in the following areas:

1. Establishment of spending priorities among Federal programs, separating the desirable from those that are essential, in order to serve as a guide to the administration in drawing up the budget, particularly in years of expected deficits.
2. Appraisal of Federal activities in order to identify those programs which tend to retard economic growth and for which expenditures should be reduced or eliminated.
3. Improvement of the Federal budgeting and appropriations process in order to increase the effective control of expenditures.
4. Examination of responsibilities and functions which are now assumed by the Federal Government, but which could be better performed and with superior effectiveness by the private economy.
5. Review of Federal responsibility and functions in order to determine which could be better performed at the State and local levels.
6. Improvement of Government organization and procedures in order to increase efficiency and promote savings, including a review of the recommendations of the Hoover Commission in order to determine how those already implemented have worked out in practice and whether those not yet implemented should be given further consideration.
7. Determination of policies with regard to the level of user charges and fees to be made for special services furnished to members of the public by the Government.

In his press conference of April 3, 1963, in response to a question about the proposals, the President, apparently not fully aware of the nature of the proposals, brushed it off in these words: "Well, I think we have the Bureau of the Budget which oversees and gathers together all of the recommendations which we wish to make for programs. We then submit it to the Congress, the House and Senate, and they finally appropriate the money. We do not. So that the House and Senate has its opportunities with its staff, the Appropriations Committee. We have probably the most effective staff in Washington, for the amount of work they do and the men employed, in the Bureau of the Budget. I am very satisfied with this procedure."

Clearly he ignored the significant proposals in his answer and certainly many other individuals are not satisfied with the present system, or lack of system. Such traditional thinking is not good enough with an annual budget of over $120 billion.

Numerous proposals for organizational changes in Congress in the fiscal machinery boil down to four main suggestions, one or more of which may be worth adoption, although several of them may be substitutes one for another.

1. One standing committee in each Chamber

A single standing committee in each Chamber would handle both taxing and spending legislation, to provide the basis for coordinated view of income and outlay. At present the House Ways and Means Committee and the Senate

Finance Committee tend to be tax-minded, while the two Appropriations Committees tend to be expenditure-minded. What is proposed is a budget-minded committee concerned with the coordination of income and outlay.

A number of objections have been advanced to a single committee for both revenue and expenditure measures. It might concentrate too much power and responsibility in the hands of a single committee. It would be too heavy a workload for one committee to bear without enlarging its size to an unwieldy number.

It would also be too heavy a burden on individual members to expect them to become expert on both the appropriation side and the revenue side of the fiscal process. Raising revenue and making appropriations are fundamentally different, and are approached in different manners. They are best handled by those who have studied the subject over a long period of time.

While these points have merit, the problem does remain and some fresh approach is needed.

2. Joint Committee on Fiscal Policy

A Joint Committee on the Budget or on Fiscal Policy has often been advocated to give overall consideration to revenues, appropriations, expenditures, and debt management by the Congress as a whole.

It has been suggested that the Ways and Means and Appropriations Committees of the House, and the Finance and Appropriations Committees of the Senate could meet as one joint committee on fiscal policy to consider the overall aspects of the revenue and expenditure programs.

This would provide Congress with a broad perspective of the Government's finances and would enable all appropriation and revenue measures to be viewed in relation to the Nation's needs and to what it can afford.

Senator John L. McClellan, Democrat of Arkansas, in 1963, again revived his campaign for creation of a 14-member joint House-Senate Committee on the Budget with members drawn from the House and Senate Appropriations Committees (S. 537 signed by more than 75 percent of the Senators) a move he and others feel is necessary before Congress can get a really firm hold on spending. The Senate has approved the McClellan plan in each of the five last Congresses, but it dies in the House on the ground that it would reduce the authority of the House Appropriations Committee.

3. Joint Committee on Appropriations

A Joint Committee on Appropriations has been advocated to make studies and investigations concerning the necessity of various appropriations. It would advise, but not supersede, the present House and Senate Appropriations Committees. Its functions relative to spending would be similar to those performed on the revenue side by the Joint Committee on Internal Revenue Taxation.

The present system requires that consideration of expenditure requests be acted upon separately by two bodies acting independently. It also provokes differences of opinion which are adjusted in conference committees, whose action is rarely completely satisfactory to either House.

4. Joint Appropriation hearings

The Appropriations Committees of the two Houses might hold hearings simultaneously on each general appropriation bill or could hold joint hearings.

Advocates say this would expedite congressional deliberations and avoid duplication without jeopardizing freedom of decision by the separate committees. This would also economize the time of both legislators and administration officers. S. 537 introduced by Senator McClellan provides for joint hearings, without forbidding, however, separate hearings as well.

Those opposing joint hearings point out that the time now spent in Senate hearings is limited. House hearings are always available to the Senate Appropriations Committee. There is little duplication because the usual purpose of Senate hearings is to appeal from House reductions. Joint hearings would deprive agencies of the opportunity to appeal cuts made by the House. The Senate hearings, being later, may give consideration to conditions which have changed since the House hearings.

CONSOLIDATION OF APPROPRIATIONS BILLS

Should appropriations committees consider approximately 15 separate appropriations bills as at present—or should appropriations be consolidated into one or at most two bills?

The current practice of the appropriations committees is to consider and report separately approximately 15 appropriation bills. A proposal frequently advanced for improving appropriations procedures calls for an omnibus or consolidated appropriation bill, although preliminary work would still be done by subcommittees.

It has also been suggested that instead two omnibus bills be used, one for Defense and one for civil matters. Many of our States use consolidated bills. They are also used in France, England, Sweden, and other countries.

Advocates of the consolidated bill procedure say that it will:

(1) Facilitate observance of the recommended ceiling on expenditures.

(2) Permit a comparison of total appropriations with the latest estimates of total receipts for the year.

(3) Focus responsibility for any increases in the public debt.

(4) Offer a method of financial retrenchment.

(5) Enable Congress to act on budget requests in a more intelligent and orderly fashion.

(6) Probably reduce the number of deficiency and supplemental bills.

But opponents of the omnibus treatment of appropriations advance the following potential disadvantages:

(1) Consideration of a consolidated bill at the full committee and floor stages would take more time than the other method and would cause undue delay in passage of the bill.

(2) It might increase the opportunities for logrolling by rival interests in Congress.

(3) It would be harder for the President to veto an appropriation bill containing objectionable items or legislative riders.

Advocates answer these objections by stating that the time requirements can be met with the aid of additional staff and by the holding of joint or simultaneous hearings. Logrolling will be more open to public view in an omnibus bill system and hence less widespread. Authorizing the President to veto single items of an appropriation bill would eliminate the all or nothing veto problem as it exists today.

ITEM VETO

The President should be authorized to veto individual items in appropriation bills and in other legislative measures authorizing expenditures as an additional check on the use of resources.

Appropriation bills at times contain items objectionable to the President, and extraneous riders are also attached to them, despite parliamentary rules to the contrary. Now, it is stated the President has little discretion with respect to these items and riders, since, if he vetoes a bill because of them, he may paralyze his administration through lack of funds. He must accept or reject an appropriation bill in its entirety, it being generally believed that he cannot veto specific items.

President Eisenhower requested item veto authority for use in considering appropriation bills and other legislative measures authorizing expenditures.

On June 29, 1949, S. 2161 was introduced to authorize the President to impound single items of appropriation bills which in his judgment were not in the public interest, but the funds could be released if Congress reappropriated them. Legislation of this type would seek to avoid the constitutional questions involved in granting item veto power to the President. The desirability of giving the President additional veto power by statute or constitutional amendment was discussed by Congress at some length in 1942.

Proponents of the item veto argue that it would enable the President to eliminate any rider and pork barrel provisions often contained in congressional action. It would deter and discourage Congress from taking unwise appropriation action.

The present necessity of accepting or rejecting a bill in its entirety prevents the President from considering separable provisions of appropriation bills on their own merits. The President often feels compelled to sign appropriation bills despite undesirable items and legislative riders rather than risk the stoppage of whole governmental departments for lack of funds.

But Congress has already recognized the value of the item veto by granting it to governments of our territories and insular possessions. Many States also have the item veto.

Those opposing the item veto argue that it would confer on the President a new and potent weapon with which he might force Congress to do his wishes in respect to legislation. The President might exercise the power for political and other reasons. The item veto power would lead Congress to pass the buck to the President by inserting indefensible items in appropriation bills and by appropriating funds in excess of governmental revenues. This would diffuse responsibility between the Congress and the President.

But considering the key importance of expenditure control and fiscal responsibility the case for item veto is strong, especially since a determined Congress can override a veto.

BACKDOOR SPENDING

Authorizations to expend Federal funds from the Treasury should all be subject to the appropriations process. Procedures such as backdoor spending which bypass this process, weaken Congress control of the purse. This further dilutes a unified examination by the Congress of spending authorizations as a whole. A center for financial management in each Chamber would circumvent such piecemeal approaches.

CONCLUSIONS

The Government of the United States has been extended to such a vast array of activities, the agencies and the programs involved are so numerous, and the budget figures are so large, that no citizen or taxpayer, even with great dedication and diligence, can grasp fully what it all means.

Even seasoned members of the executive branch or seasoned legislators can be thoroughly familiar with only a small part of governmental affairs.

The budget is misleading. Parts of it are subject to conflicting conclusions. Many new expenditure proposals are accompanied with scant or no supporting information. Estimates of expenditures and particularly of revenues are far from accurate. Instead of only a mid-year budget review, quarterly reviews would be helpful.

While the key Government decisions are made in Washington by the legislature and the executive and administrative agencies, they are implemented all over the planet. We commonly think of the National Government being located in Washington; actually only 10 percent of 2.5 million civilian employees are in Washington or in the Washington metropolitan area. The other 90 percent are scattered throughout the 50 States, in more than 3,000 countries, and 133,000 of them are located overseas. About 28 percent of the 2.7 million in the armed services are overseas.

The profit and loss statement of a business enterprise as a test of the use of resources is usually not available to check Government programs or the performance of these millions of people at home or abroad. With regard to nearly 1 million abroad, the scatter is such as to make it virtually impossible for legislators or congressional committees to keep track of their activities, with or without foreign inspection by them.

Yet, every Government program or activity absorbs resources. These, at least, can be measured. Wherever possible, attempts should be made to quantify or otherwise evaluate benefits and weigh them against costs.

In terms of economic jargon, the Central Government probably has grown beyond the most efficient size unit, and is descending beyond the point of diminishing returns. Little is known about improvement in efficiency of Government operation.

The consolidated cash budget, on a somewhat expanded basis, should replace or perhaps better, absorb the administrative budget. Keeping records and reporting monthly or at least quarterly, on national income and products account basis, may usefully supplement the cash statement. Even with the best data, judgment on economic impact is essential. More emphasis needs to be placed on functional budgeting in order to see all that is being done in a given field.

The budget, nevertheless, represents a plan or program of revenue raising and expenditures. Over the years, the budget, as a record or document, has greatly improved. There is a vast amount of useful and enlightening information available for those who will pursue the matter with diligence. Yet, much can and does go on which is not clearly reflected in the budget.

The greatest weakness in the budget process arises from the lack of unified congressional handling of revenue and expenditure matters. Centers for financial management in the House and Senate are greatly needed. The present disjointed method of handling revenue and expenditure proposals leads to waste.

User charges should be employed wherever practical and feasible. Backdoor spending should be replaced by the regular authorization appropriation process.

Congress should each year end the session with a single, or at most two, appropriation bills (if two, the second would cover Defense). The President should have the power to veto specific items in an appropriation bill, even though the Congress always should have the right to override the veto.

Our form of government rests ultimately on citizen support and understanding. Efforts to make the budget a more meaningful document, minimizing misconceptions and maximizing study and understanding should receive enthusiastic support. This subcommittee can play a key role in attaining this goal.

Senator PROXMIRE. Now I would like to ask Dr. Colm, Dr. Colm, you say:

> For purposes of administration and legislative control I believe that a program budget is most suitable—

referring to the Hitch statement.

Mr. COLM. Yes.

Senator PROXMIRE. And then you go on to say:

> The classification of expenditures and required obligationary authority by programs facilitates and evaluation of the budget items in terms of costs and benefits and also permits consideration of the merits of alternative proposals

Did you have in mind a cost-benefit use for the budget in a more extensive way than we have now or would you be more precise, just as Mr. Schmidt mentioned?

Mr. COLM. Yes, I do, I find myself in complete agreement on what my friend Emerson said.

I think the program budget is the only one which permits—and this is answer to Senator Miller—which permits right in the document, perhaps in a special volume, to present the reasons for a proposal in terms of costs and expected benefits.

I do not mean that that can always be done in dollars and cents. There must be lots of qualitative statements, because many of the benefits cannot be exactly estimated in dollars.

Senator PROXMIRE. Wherever they can be in dollars, of course——

Mr. COLM. They should be.

Senator PROXMIRE. It is a great deal more useful.

Mr. COLM. Yes.

Senator PROXMIRE. You can make a decision that if, after all, you do not get a benefit equal to your cost, you do not go ahead with it.

Mr. COLM. Yes.

Senator PROXMIRE. Provided, of course, that both the benefit and the costs are achieved honestly and with acknowledged assumptions which everybody agrees are sound.

Mr. COLM. Yes.

Senator PROXMIRE. Supposing you take two pages in this presentation by Mr. Schmidt involving Federal programs for education. Would it be possible to work out any kind of a benefit-cost ratio that would enable the Congress to evaluate these varied programs all for the same general purpose, at least, so that that we know the extent to which we were being wise or wasteful? After all, there is no more important investment than—that people can make—in the education of their children and investments in skills.

Mr. COLM. Mr. Chairman, I would suggest a somewhat different breakdown.

Senator PROXMIRE. This is on pages 31 and 32.

Mr. COLM. Not only by agencies; I think this is done by agencies.

Mr. SCHMIDT. Yes.

Senator PROXMIRE. That is right.

Mr. COLM. But also by level of education.

Mr. SCHMIDT. The level is indicated in the first column.

Mr. COLM. I see that now.

Mr. SCHMIDT. It is not assembled by——

Senator PROXMIRE. It is not broken down that way; it is not assembled that way.

Mr. COLM. Yes. There is some reference to the level of education, and then I could imagine that the analysis would be related to the requirements of economic growth—this is a topic with which economics has been concerned recently because we have recognized that the education is one of the factors of production as much as labor and capital and land, conventional factors, and quite a bit of work has been done on how we can evaluate the benefits from education.

Also I say that—because if Congressman Curtis were here, he would ask me that question, so I answer for the record—I would also say there should be for each case an evaluation or a statement of why this is of concern to the Federal Government and why it is not left to the States and local governments, and in some cases to private enterprise. There should be such an evaluation of the benefits, and the reasons why this is regarded as an appropriate Federal function.

Mr. SCHMIDT. This has been done rather extensively by someone under Milton Friedman of the University of Chicago. I have forgotten his name. He has written a very extensive book on this and, incidentally, in estimating the cost of education he includes the income forgone by going to school. This is part of the cost, because while you are going to school you are not engaged in productive labor, and I would agree with Dr. Colm that much could be done in the way of benefit-cost analysis.

Mr. COLM. Except that, if I may be permitted to throw in a little qualification, except that the costs may be less because if he does not go to school he has a very high percentage chance of remaining unemployed.

Mr. SCHMIDT. Or becoming a delinquent.

Mr. LEVY. By the way, I think the study that you referred to——

Senator PROXMIRE. In many cases, of course, when he goes to school he has a job; they have to have a job.

Mr. LEVY. I think the study you referred to is one by Gary Becker of Columbia University.

Mr. SCHMIDT. Gary Becker, that is the man.

Senator PROXMIRE. You say:

> Does the Federal sector in the national income account exclude government loans and loan repayments with the exception of price-support loans made by the Commodity Credit Corporation.

You say that this is a serious shortcoming. Why is this, why is it excluded?

Mr. COLM. Mr. Chairman, the national income account is a Department of Commerce account and was not constructed originally as an alternative to the so-called administrative budget. Here certain credit transactions appear in the private sector, for example, housing built with a Federal loan, through some of the provisions of FNMA.

Then in the national income account this appears as a capital investment in the private sector, but presumably not the same number of houses were built if the credit had to be obtained by private banks and not with a Government guarantee or by an outright Federal loan. So that is in the national account.

Senator PROXMIRE. I was not thinking so much of an insurance or loan guarantee. That is in a sentence or two down. I can see how that would be extremely hard to designate because there is a Federal element here. But, after all, the money comes from private sources. I am talking about the loan itself that is made from Government funds.

Mr. COLM. Yes.

As you have it under some FNMA provisions where outright loans are made in support of homes in certain categories, that would, in the national income account, appear in the investment sector, not in the Government sector.

Senator PROXMIRE. Why isn't this, why aren't these, loans in the administrative budget?

Mr. COLM. They are in the administrative budget.

Senator PROXMIRE. Only on a net basis.

Mr. COLM. On a net basis.

Senator PROXMIRE. But only on a net basis.

Mr. COLM. Only on a net basis.

Senator PROXMIRE. All right.

Now, you say:

> Then the President can, in his budget message, take account of the most recent development and current outlook and state to what extent they differ from the assumption and recommend changes in fiscal policy which follow from the economic outlook as it emerges.

I am wondering if some agency of the Government, maybe the Council of Economic Advisers, maybe the Joint Economic Committee, which would be vested with the responsibility of upholding the President's position, could update these estimates? You see what I am concerned about is that the great necessity of having estimates, should come from competent Government economists to correct the errors that have been made consistently in the past and they have been very consistent, as we all know, and they have resulted in gross underestimates or overestimates of the surpluses or deficits.

Mr. COLM. Yes.

Senator PROXMIRE. There is no reason why we should have to wait until the next year to correct them.

It seems to me as we go along now, for example, that finding the GNP would seem to be more than $570 billion, maybe it is going to be $585 billion. Anyway some recognition of this would be quite useful. You would think so, would you not?

Mr. COLM. Yes, I think so.

Senator PROXMIRE. On a quarterly basis?

Mr. COLM. Well, I would be particularly concerned at the beginning of the session of Congress that this is done at the time when the President's Economic Report and the budget has been submited, or shortly thereafter.

My thought is that, you see, the assumptions for the budget must be made by, at the latest, in June; that means more than 1 year before the begining of the fiscal year, and if that were based on an assumption, which is only an assumption, then the President, in the message—and the message is put to bed sometimes 24 hours before it is actually issued—I have been in on that sitting at night in the Printing Office and reading proof during the night, and the next morning the message came out—that in the last minute, that means 6 months later, it is possible for the President to state, "Well, this was our assumption. Things are now looking the following way," and then the Joint Economic Committee could debate that and see whether they agree or disagree with it. But it would be much more up to date as an estimate than if it has to be made at the begining of the budget process.

Senator PROXMIRE. I am talking about subsequent revisions of this process every quarter.

Mr. COLM. I think it would be very desirable to have a check on that every quarter of year.

Senator PROXMIRE. As a matter of fact, I just wanted to find out from you where you say, you break down into three different categories, three categories, I guess, and you say the third category are those programs where the timing could be modified in the light of desired Government influence on economic development.

Are you talking about expenditures that could be modified by the President or by the Congress which would have a subdivision, because the President tried to modify expenditures too, as I recall, in 1961, tried to speed up expenditures.

Mr. COLM. Yes.

Senator PROXMIRE. And the analysis I made suggested it was not able to speed up very much, probably $300 million, $400 million, at the outside, and in terms of $500 billion GNP, it was not very significant.

Mr. COLM. I would think of both, and I tried to be very concise here, but I would break this third category down into two subcategories, one, where modification is possible by executive discretion and one, where curtailment is always possible by executive discretion. I do not think expenditures are ever in the legal status of being mandatory. Therefore, only increases would depend on congressional approval in some cases.

Senator PROXMIRE. I see. All right.

Mr. COLM. May I make a remark, Mr. Chairman?

Senator PROXMIRE. Yes.

Mr. COLM. Just one thing: I agreed with so much of what Dr. Emerson Schmidt said, but I would like to comment on one of his statements. I got the impression that Dr. Schmidt said that the supplementals come as a surprise and are not in the original budget.

If you turn to page 40 of the budget document, there are the estimates for 1963, broken down by those enacted and those proposed for supplementals. In this case $3.9 billion are needed; and for 1964 future supplementals are already estimated at $3.2 billion, and they are included in the budget estimates. Of course, that is only as far as there is now some intention of submitting such supplementals, but actually in most cases—I do not have the figures for previous years—that has always been pretty accurately predicted. So this is not a deficiency in the budget presentation.

Senator PROXMIRE. At the same time, this is a supplemental which had been passed before.

Mr. COLM. Yes.

Senator PROXMIRE. This increases the past budget over what it had been and it raises a number of interesting questions, including the question which I think many people might raise, that the Congress goes through a minuet of cutting the President's requests in many areas. Many of these cuts and requests are cuts that they know are going to have to restore. Maybe they do not give the Commodity Credit Corporation as much as the President estimates it is going to need. In this way they show a nice cut of $1 billion or a half a billion dollars. Later on the President comes in with a supplemental and says, "We have to have the money anyway," and Congress passes it and is able to say, "We cut the President's request by $1 billion," and it does this in other ways where there are contractual obligations which have to be met anyway.

At the same time, I would certainly agree that a supplemental in our haphazard way of life is inevitable, because we are always going to make mistakes and have to supplement our appropriations. But I would certainly concur in what I take it is the basic argument that a lot of this can be avoided by foresight on the part of Congress when they pass the budget.

Mr. SCHMIDT. Yes.

Mr. COLM. All I tried to say, Mr. Chairman, was that the supplementals do not come as a surprise to Congress, but Congress is advised in advance that certain programs have not yet been formulated to the point of an appropriation request and are therefore intended for later submission.

Mr. MOOR. Mr. Chairman, Dr. Colm was very active in the early formulation of legislation which led to the creation of the Joint Economic Committee, and since you asked a question about that, I would like to follow up with one, if I could.

Is there any contemplation at the time—this is an historical footnote—was there any contemplation at the time that the Joint Economic Committee and the Council were established that the Joint Economic Committee would provide some sort of continuing review of the general fiscal policy actions, particularly through the budget, which were taking place? By "continual," I mean continual through the course of a particular year.

Mr. COLM. Mr. Moor, to the best of my recollection that question was not discussed in the group working for the Subcommittee of the Military Affairs Committee which had that legislation. I cannot be positive but I have no specific recollection.

You might remember that it was a time also when a Joint Budget Committee was considered. It might be possible this question was avoided in order not to get into any duplication of effort. I have no positive recollection that this followup during the year was contemplated.

Mr. MOOR. That is all I have.

Senator PROXMIRE. I have some more questions for the other three members of the panel right here, but Senator Miller would like to ask a few. So you go right ahead, Senator.

Senator MILLER. Thank you, Mr. Chairman.

Mr. Schmidt, you discussed monetary growth versus budgetary position, and you laid emphasis on money supply in relation to GNP. I am wondering if we should not also have a volume of outstanding credit to take into account as well?

Mr. SCHMIDT. Well, I think almost any economic categories of significance—and credit is of significance—should be included, but there is a special school of thought among economists who believe that the volume of circulating media, that is particularly currency and demand deposits, play a crucial role in economic growth and in the business cycle.

In fact a number of economists will go so far as to say that we have never had a major recession, let alone a depression, without a prior decline in the money supply or at least a decline in the rate of increase in the money supply as so defined.

So all I am saying on this is that while fiscal policy may be of great importance in the growth and in the business cycle, recession, and so on, they may be even more important as monetary policy and not just credit policy, but monetary supply really.

Senator MILLER. I realize that is what you say. But it seems to me that with a considerably expanding credit volume from one year to the next, that this could have almost a decisive bearing on GNP as distinguished from money supply.

Mr. SCHMIDT. Well, economists are somewhat in disagreement as to whether we ought to have a discretionary determination of the increase in the money supply or kind of a rule. The Chicago school, as it is called, the University of Chicago group tended to view human nature as being pretty frail and not too reliable, even in the highest places and, therefore, they would have a rule set down that the money supply as such, should increase, say 3 percent per year, and they actually believe, and do a pretty good job of demonstrating, that we probably would have less instability in the economy if you had that kind of an arbitrary rule than we do under discretionary Federal Reserve policy. I myself am not sure that this is correct, but this is the view of the Chicago school.

Senator MILLER. I am wondering how the Chicago school would come out if instead of increasing the money supply 3 percent a year we increased the credit supply 3 percent?

Mr. SCHMIDT. Well, it is, after all, pretty much the same thing; at least, it can be to the same degree; that is, the Federal Reserve would through open market operations or one way or another, increase somehow the total supply of currency, plus checkbook money, and checkbook money is normally regarded as credit.

Senator MILLER. What about consumer credit?

Mr. SCHMIDT. That would be included except insofar as consumer credit is financed by money savings. That does not increase the money supply directly.

If Sears, Roebuck finances through a bond issue its own durable goods sales, that has no direct impact on the money supply. But it may have an indirect impact, because, after all, they absorb funds somewhere and, therefore, it may have an indirect effect.

So I would agree with your point, I think, if I understand your point, that credit is important, but this is a somewhat more specific concept that I am dealing with on this particular page.

Senator MILLER. I have a feeling that——

Mr. LEVY. I just wonder if I may make a comment in this connection?

Senator MILLER. Sure.

Mr. LEVY. It seems to me that the point which you raised is exceedingly important. Under certain circumstances we can keep the money supply as it is, or make it grow at a certain rate, but this may have two different effects. In one case we might end up with a situation where there is not much active loan demand in the economy and, as a result, the easy money policy results in commercial banks buying a large amount of Government securities. This will support the money supply, but will clearly have much less of a stimulating economic impact than if this same money supply was supported by means of less buying of Government securities by the banks and more loan expansion to business.

So that I think this question of increasing the money supply in almost a mechanical way, versus credit expansion, is a rather crucial and important one. We should look into it more.

Senator MILLER. Thank you.

I have the feeling that one of the uses of a budget document, and from where I sit, perhaps, a primary use of it, is as a disciplinary tool, and I am afraid that its use as a disciplinary tool has been rather disappointing.

With that in mind, I am wondering whether or not you gentlemen would feel that it might be helpful to have included in the budget, where a deficit is indicated, the recommended way of financing that deficit, setting forth, for example, how much of this deficit is recommended to be financed through monetizing the debt, how much through the purchase or issuance of Federal Government securities?

Mr. SCHMIDT. As for myself, I would hesitate to see the Government bind itself in that way.

Senator MILLER. Understand this is not a binding thing. This is a recommendation coming from the President to the Congress. I would not want to give you the impression that this was anything binding.

But here is the President who comes up with his proposed spending or his estimated revenue receipts, his estimates of revenue from additional taxes, and he lays it on the line by saying, "Here, in our judgment, is the way we ought to finance this."

From then on Congress takes over. It is merely a recommendation. The Congress will bind the situation. But it seems to me we ought to have the executive branch come over with his recommendation in this respect.

Mr. SCHMIDT. I would see no objection to such a recommendation, particularly if it took account of the balance-of-payments problems and gold losses and the general state of the economy, the forecast of where the economy will be 6 months, 12 months, later on; I see no objection to such an inclusion in the budget document.

Senator MILLER. Well, can you see where this would be helpful as enabling the budget document to become a more effective disciplinary tool?

Mr. SCHMIDT. Well, it possibly could. It would certainly give an intent—it depends a little on what the President would say in the document. It might be just the opposite.

He might say, "We ought to finance this entire deficit by means of monetizing the increase in the debt." So instead of being a disciplinary tool it might be the reverse.

Senator MILLER. Well, it is not likely that if the result of this would be to promote inflation that such a recommendation would be made, I do not think. I have yet to find a President who is particularly happy about the thought of inflation. That is what I had in mind.

Senator PROXMIRE. If the Senator would yield at that point——

Senator MILLER. Yes.

Senator PROXMIRE (continuing). Of course, it depends entirely on the economic advice, and so forth, the President gets. This President might get advice from this Council of Economic Advisers that, in view of the level of unemployment, in view of the level of capacity utilization, that you could have a very easy money policy and, as you put it, finance the entire debt out of bank credit, the entire deficit from bank credit, without any inflationary effect, and you might have other people, however, who might very vigorously and vehemently disagree.

So that, as I think Dr. Schmidt is right, you might get a decision on the part of the President which, at least in the view of many economists, might have an inflationary effect although his own economists would argue it would not have.

Senator MILLER. Well, it seems to me that this ought to be laid on the line as a matter of policy so that Congress can derive the benefit of the executive branch's ideas on this, as to whether or not this is going to have an inflationary result and, if so, about how much, and whether or not this is something that should be undertaken in view of other considerations.

But, nevertheless, we have a picture of what this is going to be and, as of the present time, you look at the budget and one person will say that this is inflationary, and another person will say that this is not inflationary—nobody has a good estimate, and denials are made, and then we have an inflationary situation, and I would like to see responsibility put on this.

It would seem to me that if the Council of Economic Advisers advised the President that this would not be inflationary and it turned out to be inflationary, it might be a good excuse for getting rid of the Council of Economic Advisers and putting somebody else in. Let us try to fix a little responsibility here.

Senator PROXMIRE. If the Senator would yield just for a minute more, now the responsibility is firmly fixed, and it is beyond the control of the President completely, it is beyond the control of Congress in view of the fact that we have given it over to the Federal Reserve Board.

The Federal Reserve Board has the power, and the Federal Reserve Board can do anything they wish in this particular matter, and all we can do is make speeches about it on the floor.

But if they want to handle this deficit in such a way as to monetize it, if you want to put it that way, they are free to do it.

If they want to handle it in such a way that is entirely on the basis of selling bonds to the public so that this deficit has much less economic effect, they can do that, and it is up to Mr. Martin largely because he has such influence with his Federal Reserve Board.

If the President wants to interfere, the Constitution makes it clear that he cannot, and custom makes it probable we in Congress will not, although we should.

Mr. SCHMIDT. I think what Senator Miller is getting at is all to the good, but all of this is done in the Economic Report of the President and the report of the President's Economic Council.

Senator PROXMIRE. I think Senator Miller is right that the President can have great influence on the Federal Reserve Board, but it is up to them. He will or will not, depending on how they want to react.

Mr. SCHMIDT. But I think you are exaggerating the range of choice that the Federal Reserve Board has. As a matter of fact, I think anybody who has to make a business prediction ought to predict what the Federal Reserve Board will do because it does not have the freedom that people commonly think it has. It cannot go wild in this direction or be restrained in this direction. It is also working in the constraints of gold losses and balance of payments and collective bargaining and many other factors. So that actually its decisions are to a considerable degree predictable.

Senator PROXMIRE. Well, that may be but they make the decision; they make the decision, that is the important thing.

Senator MILLER. Let me try to pinpoint this a little further. It seems to me that if the Executive presents a budget, and he sees fit to say that this is not an inflationary budget, that he ought to be willing to lay it on the line as to how a deficit contained in the budget should be financed so that it will not be inflationary in his judgment.

Now, if Congress or the Federal Reserve Board wants to depart from that, well, that is up to them.

But, nevertheless, it seems to me that if they follow the President's recommendation and you have fixed responsibility for the approach used in financing this deficit.

I am not trying to dodge responsibility which is already placed, but I am trying to place responsibility for recommendations so that everyone will know who made the estimates, who made the forecasts, who made the recommendations, and who followed them or who did not follow them.

Dr. Colm?

Mr. COLM. I agree entirely with Senator Miller, with one small amendment. I would not put this statement in the budget message. I would put it in the President's Economic Report because the financing of the deficit should be influenced by all economic considerations and not only by the budget.

This has not been done in the past partly because of internal questions of jurisdiction between the Federal Reserve and the executive branch. It was the feeling on the side of the executive branch that this has to be left to the discretion of the Board of Governors of the Federal Reserve System.

I happen to agree entirely that it is up to the President to make recommendations on credit policy and, coming back to Mr. Moor's question, on this I have a definite recollection, that this was the intent of the subcommittee of the Senate when it did consider the Employment Act.

Senator MILLER. Thank you.

Go ahead.

Senator PROXMIRE. Well, OK, fine.

I just want to say I agree, and I think it would be fine, and I think we will have a better opportunity for the economy to move ahead but, at the same time, I am convinced that President Kennedy has had the intention that this deficit be financed in such a way as to be as expansionary as possible under the present circumstances, and I am convinced that the Federal Reserve Board is determined not to finance it that way, and the Federal Reserve Board is sovereign in this particular position, unless Congress decides it wants to abolish the Federal Reserve Board, which it can do, if it wishes to, but it is not going to do it.

Senator MILLER. If I may, there is too much pulling and hauling here, and it is too easy to shift the blame on some of these things.

I think that when the President is willing to come out and say, "this is a minimum expenditure here," or "this is what we have got to do on revenue," that certainly it is within his jurisdiction to make a recommendation on credit policy, and I would be very surprised if any Executive would shrink from that.

I think it is just a case of where we have not gotten around to refining the data or the recommendations of the President. I have no particular theory about whether this ought to be in the budget or in the economic report, just so it is there for effective recommendation to the Congress.

Senator PROXMIRE. President Eisenhower, as I recall, did not make such recommendation and, as I——

Senator MILLER. I do not think anyone has.

Senator PROXMIRE. That is right. I feel the business community and, particularly the banking community, would feel very resentful if the President of the United States put himself in a position where he was dictating credit policy.

I think it would not be a bad idea, but I think the people who are deeply concerned with our credit policy and have great experience in the field would raise a tremendous cry of opposition, if the President took this position, took it forcefully, it would be hard for any Federal Reserve Board to stand up to him but, at the same time, I think this would be viewed by the business community as a serious departure from past practice. Their feeling is that monetary policy is something, as they put, that should be taken out of politics, out of whatever vagaries of opinion the President or the Congress might have, and put into the hands of people who act in the scholarly and objective, dispassionate way—I do not think they act that way—but this is the way they are supposed to act, and this is the view that business has taken, and it has been accepted by the establishment.

I agree with you we ought not to knock it out of the establishment's control.

Senator MILLER. I do not see why the President's view on this credit matter should be considered dictation more than a recommendation of the President in certain spending or certain tax matters. He is not dictating the policies.

Senator PROXMIRE. He appoints the members of the Federal Reserve Board, including the Chairman, and if he should make a recommendation and his recommendation would be flaunted, and flaunted persistently and, he would recommend a very expansionary monetary policy and they would follow a very conservative monetary policy, then it seems to me it is pretty much up to the President to act to correct it by making appointments to the Federal Reserve Board of people who will follow his proposals, which means that he is laying down the monetary policy, the credit policy, of our country.

Mr. LEVY. I wonder, may I make a brief comment here?

Senator PROXMIRE. Yes.

Mr. LEVY. It seems to me that to some extent recommendations of that kind have been submitted; namely, in the last report. The report of the Council contained some broad statements about financing——

Senator PROXMIRE. Right.

Mr. LEVY. Financing the deficit which, I think, in broad terms did exactly what Senator Miller asked for.

The only problem is, since these statements cover a relatively long periods of time in terms of economic forecasts, they have to be conditional statements, viewing the present economic situation and outlook, and stating that under current conditions a specific type of financing—in this case, fairly expansionary financing, as they suggested—might be appropriate.

On the other hand, once the economy gathers momentum and we are pressing against capacity, a shift in financing may then be called for. I think this is stated by the Council, and I do not know whether, in covering in advance a fiscal year or a longer period of time, one can be much more specific than that without straitjacketing oneself.

Senator PROXMIRE. I think informal conversations—I do not think this is telling anything out of school—with the people who have the economic responsibility in the executive branch, I won't be any more specific than that, has convinced me that they disagree quite sharply with the Federal Reserve Board, and I think if they should speak out specifically and forcefully with the voice of the President that you would have a clash which they just do not want to suffer, and the result is that we are following the policy of relatively tight monetary policy; certainly it is less expansionary than some of us thought it should be.

Senator MILLER. Let me ask one thing. What I would like to see is someone laying it on the line that, on the one hand, we are not going to have an expansionary policy and, on the other hand, saying, but this is not inflationary. Let us make up our minds what we are going to have. If we are going to have an expansionary policy and they say this is not going to be inflationary, let us lay it on the line, and if it does turn out to be inflationary, then we will know that there was error.

If, on the other hand, they say this is an expansionary policy and it is going to be an inflationary thing, "but here is why we need it, and the equities of inflation outweigh the inequities," this is something for public policy to help resolve through the Congress.

While I have not been here very long, I have been here long enough to know it is pretty difficult to point the finger at anyone on some of these matters of inflation or deflation or expansion or contraction. All kinds of charges are made and, sometimes unfortunately politically motivated rather than economically motivated, and there is a lacking of the fixation of responsibility for recommendations.

This is what I am searching for, and I come back to my original concept of the use of the budget or the use of the Economic Report as a disciplinary tool in helping us to come up with the right solutions.

Senator PROXMIRE. Very good. I do not think we are far apart, really.

Mr. Lowry, in your statement, you say:

> However, the budget document is not a good source for finding out what these economic assumptions are.

You point out that there are only two paragraphs in the budget for 1964 expressing what the economic assumptions are, and these deal with the calendar rather than fiscal years.

I think this is an excellent criticism. We raised this point this morning with the representatives of the Budget Bureau.

However, they said to us that adequate information is available in the Economic Report, and they feel that the budget should be—it is too big now and they feel that to repeat what is in the Economic Report would be adding more detail that is not necessary.

I presume that your people, statistical users, have access to the Economic Report, know it, and I presume maybe the budget should make more of a reference to it, as the basis for its estimate.

Mr. LOWRY. But the Economic Report generally addresses itself to the calendar year; the budget addresses itself to a fiscal year. There are 6 months from January to June which are uncovered and, to the best of my knowledge and belief, the Economic Report does not really cover that period, and the Government programs we are talking about in the budget are really going to run through that period.

Senator PROXMIRE. Yes. As I recall, the Economic Report, however, deals with more than one——

Mr. LOWRY. It cuts across.

Senator PROXMIRE. More than 1 fiscal year.

Mr. LOWRY. That is right. It has in it the last half of one fiscal year and the first half of another fiscal year.

Senator PROXMIRE. So it deals with the calendar year.

Mr. LOWRY. It is traditional to look at the economy over a 12-month period, and the 12-month period traditionally taken is the calendar year.

Senator PROXMIRE. I suppose this is a correction which could be taken care of in one sentence. In other words, all they would have to do would be to indicate what the estimates were for 2 calendar years by the President's Economic Report, and then calculate the fiscal year.

Mr. LOWRY. What is the economic assumption for the last half of the fiscal year 1964?

Senator PROXMIRE. The last half of what year again?

Mr. LOWRY. Fiscal year 1964. What are the economic assumptions for the period January 1964 through June 1964?

Senator PROXMIRE. I see. Mr. Lowry, these are not stated anywhere. Even in the President's budget, when it speaks of GNP or of personal income or of corporate profits before taxes, it is speaking about those categories for the calendar year 1963.

Senator MILLER. Would the chairman permit an observation?

Senator PROXMIRE. Yes.

Senator MILLER. During our colloquy this morning with Mr. Schultze, the Assistant Director of the Budget, it was brought out when they prepared their estimates they used a model GNP in which I am sure the assumptions are in, and they vary from year to year.

When they estimate the revenue, this is based on a model. What I think it comes down to is that they do indeed build the model on a fiscal year basis. They have to.

Mr. LOWRY. They have to.

Senator MILLER. And so why not have the model set forth in the Economic Report for everyone to see?

Mr. LEVY. May I comment? I am not quite sure about this because the important items which vary with the level of economic activity are on the revenue side of the budget, apart from unemployment compensation.

Now, most revenues are based on calendar year income, so that the calendar year income for 1963 would really determine the revenue of the budget of fiscal 1964. For those estimates you really do not have to cover very precisely the next half-year period.

On the other hand, we have got now some data on the national income accounts budget, and for corporate profits and other items which are on an accrual basis, for those you cannot produce an estimate unless you cover the complete fiscal year, which means the next half-year period.

Since we have moved toward national income accounts budgeting which requires this knowledge, we could expect that they have some estimates and we could find out a bit more about it, I think.

Senator PROXMIRE. I think that is a very useful criticism Mr. Levy. I think it is excellent. I think it is something which obviously is an oversight and ought to be specified, no question about it.

Mr. LOWRY. There is no question about it, it should be more explicit.

Senator PROXMIRE. Doctor Moor would like to ask a question.

Dr. MOOR. We had another answer to a couple of these questions. We asked Dr. Schultze of the Bureau of the Budget about some of the other types of information that each of the four of you have indicated would be desirable. The answer that was given to us was that a lot of this type of information was not in the Budget—I am thinking specifically, Dr. Schmidt, of benefit-cost analyses, and so on—but a lot of this information, although not in the Budget could be found in Appropriations Committee hearings.

The question then that we might ask you is, Why are you dissatisfied with the lack of information in view of this type of answer given by the Bureau of the Budget?

Mr. SCHMIDT. I would say it comes too late. Presumably the agencies have already made, at least in many cases—say the Bureau of Reclamation and the Corps of Engineers have already made—this kind of cost-benefit analysis, but you find no evidence. In fact I quote to you a classic illustration from your own document of the 2-mile electron accelerator to be built somewhere out on the west coast, and you said——

Senator PROXMIRE. $100 million.

Mr. SCHMIDT. You said the only information in the Budget was that it was 2 miles long.

Senator PROXMIRE. Didn't they say in the Budget $200 million? At the time it was announced and approved they said $200 million. The only information in the Budget is that it is 2 miles long.

Mr. SCHMIDT. He says that is all there was.

Senator PROXMIRE. That is $50 million.

Mr. SCHMIDT. Why was it at Stanford? How much did it cost? Was the know-how extant to build it? Dr. Moor asked all those questions. Last year I got a news release from Stanford University which said it was their accelerator, whereas Dr. Moor implied it still belonged to the Federal Government. I do not know which implication was correct. But this is the kind of gap that you find, and it really is quite confusing. So I would say that the agency, somebody got that one-line proposal of that 2-mile-long thing into the Budget, but somebody must have done some work on that prior to getting it into the Budget in 1960, I guess it was.

So it would be very helpful, even if there were just mimeographed analyses rather than in the Budget document or in the Appendixes, if the mimeographed analyses were available to parties of interest, with good indexing and with good publicity, so that we know that these things exist, because once the thing gets before the Appropriations Committees, for the most part it is too late.

Mr. LOWRY. Mr. Chairman, I would like to add something to that.

Senator PROXMIRE. Yes.

Mr. LOWRY. I think Mr. Schultz was exactly right. If, as I understood your remarks, Dr. Moor, he suggested that anyone who is interested in the Budget, and following the economic impact of governmental activities and expenditures, he should read not only the Budget but the Appropriations Committee hearings. This is exactly true. No budget could ever present all the detail that is presented in an Appropriations Committee hearing.

However, if you read Appropriations Committee hearings, it becomes quite clear that there is no established pattern in agency presentations, in justifications, or in the type of questioning that goes on within the committee.

Now, for some things, as in some defense programs, the cost of these programs and the estimated obligations or expenditures for 4 or 5 years, year by year, are indeed spelled out.

Take something else, for example, that is far removed from defense and is not a public works project.

The Department of Commerce is very rightly concerned, as is everybody else, about the balance-of-payments situation. One of the things that the Department of Commerce wants to do is to encourage the expansion of American exports.

So we are doing a number of things to expand American exports. We are participating in trade fairs, we are establishing trade centers abroad, there are travel bureaus, and we are expanding the economic reporting from the regular Foreign Service officers and all of those things.

Now, no one has ever really said, to the best of my knowledge and belief: "We are really trying to increase exports by x billion dollars or by x percent, and these are promotional activities that we intend to undertake in pursuit of that objective. We expect these things to be accomplished so that during the period of the next 2 or 3 years this will happen."

Well, how in the world has the Appropriations Committee or the Congress any basis for judging the effectiveness of this kind of program without this specific kind of information?

But this never appears, and you should have this kind of information to make a sound judgment. With this kind of information you can tell in the course of a year or 2 or 3 whether it is worth while to do all of this. Without specific program goals you have no basis for judging the effectiveness of the program, just a general idea. All you can do is to accept the general proposition that it is a good thing to expand exports and we ought to do it.

Mr. Moor. As you know, a further step in the legislative process is a subsequent review of many activities of the Government by the General Accounting Office. I take it you would make roughly the same sort of comments with respect to their review in terms of the nature of, not the adequacy of their coverage, given the purpose that they are designed to fulfill, but rather in terms of its usefulness for the sort of economic analysis you need.

Mr. Lowry. For economic analysis those reviews come out much too late. But the Bureau of the Budget does something, and what it does is this: After appropriations are passed and the program is laid out, the executive departments are all under a general obligation to incur no deficiencies. This is a provision of ancient law back about 1910 or some such time, an antideficiency——

Mr. Colm. 1906.

Mr. Lowry. I missed it by a few years.

But in any event, this is an ancient law, and one of the purposes in creating a budget was to have some sort of executive control and managerial control over these programs. So these moneys are apportioned by quarters and for some programs, indeed by months. These apportionments are reviewed every quarter and are sometimes revised.

Now, is this apportionment just an academic exercise to keep some accountants and bookkeepers busy or is this to be a real managerial tool?

If it is a real managerial tool, certainly in some form it would be very useful for economic analysis because it would tell you something about the relative impact of these programs in the first quarter, second, third, and fourth quarters of the year.

Senator Proxmire. Very good.

Also in your statement on page 5 you point out that the Federal Government asks businessmen, State governments, local governments to project their plans for investment spending, and so forth, for 3 months in advance.

Mr. LOWRY. That is right, or a longer period.

Senator PROXMIRE. Then, therefore, the Government expects others to do what they should do themselves. To what extent does the Government make a projection and how far does it go?

Mr. LOWRY. Well, the Federal Government itself, for its own administrative purposes, does something of this order in its own devices of apportionment and its recordkeeping of expenditures.

In addition, I believe that the Defense Department has a special report from defense contractors which requires them to report month by month or, I do not know what the time period is, what their anticipated expenditures will be, under the contracts they have.

This was a program that was introduced back in 1957 when the Eisenhower administration was much concerned about the possibility that defense expenditures were sort of getting completely out of control.

Senator PROXMIRE. You say that you think it is kind of ironic that the Government is asking the defense contractors——

Mr. LOWRY. No, this is a program that was proposed but never really carried forward. There was a proposal that the Bureau of the Census should conduct a survey of businesses as part of its regular survey of manufacturers, sales, new orders and inventories which would seek to get separately new orders which businessmen received from the Government.

Now, a very substantial part of this would be going back to the same people who are already reporting the same stuff to the Defense Department. It seems a little ridiculous when the Government, as a buyer, has all these records at hand that it should ever contemplate going out and asking the businessman to do this.

Senator PROXMIRE. How much of a projection of this kind would you want? What would be practical?

Mr. LOWRY. It would seem to me, on the basis of the Government's own records, that you could project quarter by quarter for the fiscal year.

Senator PROXMIRE. You would want one fiscal year in advance, you would want the projection by quarters for the full fiscal year?

Mr. LOWRY. For the full fiscal year. This is done, and then it is revised, but this would probably have to be changed in shape and in some form to make it convenient and useful for economic analysis.

Senator PROXMIRE. Very good.

Mr. LEVY. You say:

> In my opinion, the most essential information on this count could be provided in two consolidated summary tables which would present both the legislator and the economic analyst with a greatly improved picture of the authorization, obligating, and spending process.

These are the columns, I take it, that follow, table 1, table 2, and so forth, and this is similar to the kind of proposal which Mr. Lowry has just suggested.

Mr. LOWRY. Also similar to the thing that is done.

Mr. LEVY. Yes. I think this is in perfect agreement with the statement which was just made.

I would fully endorse that, and I think there is great need for it.

Senator PROXMIRE. I am wondering if this kind of a breakdown, which I can see is valuable for overall economic analysis, if it is satisfactory, and that overall economic analysis has been probably the least accurate and the least useful in some ways of all of the contributions of economics in the absence of detail, the kinds of things that I think would be most useful would be a specific breakdown of this sort of projection showing just exactly what kind of expenditures, in what areas of the country, what industries, involving how much employment, involving what kind of demands for resources, some of which might be in short supply and not available; wouldn't this kind of a breakdown, more detailed breakdown, be the kind of thing that would be really useful if you were going to make predictions?

Mr. LEVY. Well, I think a breakdown like the one I indicated here would be exceedingly useful. The question would be how much detail you would need in your stub heads, so to speak. In other words, to what detail of program would you go? This would not—I am not referring to this as being on an aggregative level for the entire budget operation, but presumably all these details would be shown at least for major functions such as defense spending. Then ultimately, maybe, we can get it under defense spending by major activities or programs.

Some people at the Bureau of the Budget seem to think you should start by classifying it by inputs other than by programs.

Senator PROXMIRE. Now if you are going into that if you are going to make it of any use for industry, you would need to break it down by region, by State.

Mr. LEVY. Well, that is true. I have not been thinking so much in terms of specific industries. I have been thinking more in terms of getting a better understanding as to what the Government spending process really does to the economy as a whole.

Senator PROXMIRE. Yes, and what it does in terms of the economy, in terms of excess capacity and excess of surplus labor.

Mr. LEVY. I would agree with you fully that ultimately if we could get it in more detail by regions or industry, this would be highly desirable. But given the extreme lack of knowledge, I think we have to start at one point.

Senator PROXMIRE. I see.

Mr. LEVY. If we could start in an area where we could at least develop some overall information on the lags between obligating for certain programs and the subsequent expenditure, then we could hope, as we improve our knowledge, to get a more refined breakdown and increased knowledge, and maybe break it down by regions or industries.

But it seems to me that if we start from almost complete ignorance and attempt to aim immediately for this refinement, we may try to undertake too much and end up with nothing very precise.

Senator PROXMIRE. But in moving into an economy in which certain kinds of skills will be in short supply and will be needed greatly, and presumably or possibly in the future, we will also need specific facilities, this kind of a breakdown by industry and by regions would be enormously useful, not simply in terms, but being able to predict what would happen and doing something about the unemployment situation, but as modifying the programs.

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In other words, the Government might be moving into an area, I think it definitely is in scientific manpower, engineering and that kind of manpower, where it is pirating one program against another. You have a space program and a defense program and various industry efforts to move ahead in research fields in which you have very limited manpower available, and if you can have this kind of a breakdown relating to the limited supply, I should think that this would be helpful from the standpoint not only of economic prediction and economic policy but also from the standpoint of the specific programs themselves to compel the executive branch to somehow rationalize their program and make a choice of priorities.

Mr. LEVY. Well, I am not quite——

Senator PROXMIRE. Didn't you have that much in mind?

Mr. LEVY. No. I am not quite sure whether the framework I suggested here would readily lend itself to this exploration.

Senator PROXMIRE. I see.

Mr. LEVY. At least in the near future. With regard to some of the very specific questions which you raised, shortages of manpower, of high skills, and the like, I suspect that a more direct attack on these problems—surveying what is going on and seeing some of the problems and deficiencies—might be more useful with regard to this particular question.

Senator PROXMIRE. You do not think we could have an overall running study of it so we could be apprised constantly of what our situation is? You think you would have to make an ad hoc study in a particular area and settle for that?

Mr. LEVY. It seems to me there are very severe problems here because of a great deal of flexibility in shifting orders especially with regard to defense contracts.

We know that what looks like the contract of one region might end up being the contract of another one. As to manpower, when the Government tries to get certain skills and cannot readily outbid the market with its resources, it probably solves this problem in other ways. I mean that there is substitution of inputs in the economy.

Senator PROXMIRE. Yes.

Mr. LEVY. I also think with our present state of knowledge it is very hard to get at these problems except through some very specific studies that address themselves directly to these problems.

But what I proposed here would set a broad framework for getting somewhat better knowledge of the overall impact. After all, we know much too little about the general impact of the Government and its major activities on the total level of activity in the economy.

You mentioned, for instance, your attempt to try and see by how much our spending programs can be accelerated. We know very little about it. You suggested, not much can be done, judging from what you saw.

Lewis in his study, trying to measure the 1957–58 speedup, reached the same conclusion. But those are a few isolated instances where we tried for the first time to get knowledge on such a basic question. I believe that we first have to learn a great deal more as to what the Government operations really mean in terms of the timing and the magnitude of the impact on the economy. This is something very different from what a naive analysis of broad figures seems to tell us. We have played around a bit too much with broad figures, looking at the surplus or the deficit or shifts, and very quickly concluding that they do all sorts of things for the economy. I truly think we know much too little about what the real effects are for the economy. Given the size of the Government operations, it seems to me very crucial to first learn a great deal more about that.

Senator PROXMIRE. Dr. Colm, you wanted to comment?

Mr. COLM. I would like to make one comment. I agree entirely with Mr. Levy that it would be highly desirable in having this quarterly breakdown, at least for broad programs.

With respect to the details, we have the problem of contracts and subcontracts. For those programs which are under direct contract, I think estimates can be made of the regional breakdown because it is known to the Defense Department through the reports which Mr. Lowry mentioned. It is more difficult in case of subcontracts to find out where they are located, and so on.

But for those programs which are planned but for which contracts have not yet been let, it would be difficult for the Defense Department to estimate exactly where, I mean locally, the impact would be.

Now, Mr. Chairman, you raised the question of the manpower requirements, and that leads me to an additional point. Manpower requirements do not change so drastically from quarter to quarter. We have a pretty good idea of what the program requires, although we may still need a better idea. But where we are really entirely without information is the long-range impact.

Take the NASA program. I have seen estimates of the qualified manpower requirements for the present NASA program which differ, I think, by something like 100 percent. I mean some estimates are double those of other estimates, perhaps partly because of semantic difficulties in defining scientific manpower. Some estimates may include the technicians and others not. I do not know what it is.

But we try to look into that—we tried to look into that and just found a terrible lack of knowledge, and I cannot see how one can even evaluate the feasibility of a program like the NASA program without knowing what the manpower requirements are.

The manpower requirements would have to have an impact, say, on education and training and other related programs. So I would like to amend Mr. Levy's statement about quarterly estimates by emphasizing the need of longer range estimates. The lack of knowledge simply makes it hard to evaluate some of the major existing programs.

Senator PROXMIRE. Mr. Lowry?

Mr. LOWRY. I would say, in support of some of Dr. Colm's statements, that I was in the Bureau of the Budget some years ago when there was a very direct attempt to sort of ration manpower just like you do money, and there was a quarterly review of manpower requirements, and this went program by program to the most intimate kind of detail known to the appropriation structure.

Senator PROXMIRE. When was that?

Mr. LOWRY. This was during the war and in the immediate postwar period. I think it was carried forward until about 1949 or 1950. It was one of the most fruitless exercises anybody ever engaged in.

The only result of this is that it probably employed a certain number of additional people in the personnel offices of all the Government agencies just to do this. It really was not very helpful.

On another point, Mr. Chairman, the interest in the regional impact of Government expenditures, I think this is very real, but at the present level of knowledge and Government bookkeeping and one thing and another, I think this is really just an area of major frustration for years to come.

Let us take the case of a dam being built by the Bureau of Reclamation. It hires some engineers, it lets a contract. The contract may go to some people from California.

The project gets beyond the design stage. They actually go into construction, some contracts are let, and maybe some contracting firm from Chicago wins the award. In turn, this firm may have some subcontracting arrangements with a number of people in the Mountain States, and the contract for cement may go to somebody from Pittsburgh or some other place.

It is just very hard to try to figure out what the regional impact is of this project. There is obviously the regional impact of the crew that is there building the dam. There is obviously the permanent economic impact of the dam itself. But the economic impact of the actual spending to build that dam is very difficult to determine.

Senator PROXMIRE. Senator Miller has a question.

Senator MILLER. I would like to ask all of you really, but Dr. Schmidt, in particular, about gross national product.

Now, on page 50 of the budget we have economic assumptions set forth on the basis of which revenue estimates have been made. At the top of the page:

> The estimates of receipts of this budget are based on the assumption that the Nation's total output of goods and services in calendar year 1963 will amount to $578 billion, which is $24 billion more than in the calendar year 1962.

Now, I get the impression from other people that gross national product increase is rather meaningless standing by itself, certainly on the basis for an assumption of revenue. For one thing, it seems to me we have to crank out of there the amount of inflation that may be contained in it.

For another, it seems to me we ought to be interested in knowing where this gross national product is showing the increase. Is it showing the increase across the board or is it showing it in the field of State and local government effort or in Federal Government effort or in the private business sector?

How would you suggest that this be made more meaningful?

Mr. SCHMIDT. Well, in the Economic Report, of course, they use the concept of net private GNP to take the Government sector out. That is one way of getting at it, because you could have a rising per capita GNP, but it could all go to more policemen, and obviously this would not represent a real rise in real income.

So I have a lot of sympathy with the idea of segregating out any fictitious elements, certainly inflationary elements.

In fact, I mention this in my paper, that we ought to correct most of these figures, and I make this additional suggestion which I do not believe Dr. Moor did suggest, that the Bureau of the Budget itself ought to allow for changes in the population in the various categories, at least at times. But sometimes you are interested in the per capita, sometimes you are interested in the per family expenditures; that is, Government expenditures per family, and so on.

So this is an everlasting problem. As a mater of fact, on the next page of the budget it is pointed out that these estimates on the point you just read were also based on the tax legislation which has been proposed.

Now, who knows whether the tax legislation will go through as recommended by the administration. I think nobody believes it will go through in that form.

Senator MILLER. I recognize the impossibility of determining that. But when the Bureau of the Budget comes over here and makes an estimate on the basis of revenue that could be expected from current tax laws on the books, and ties that into a mere increase in gross national product, I just wonder. I do not say they do that in preparing their estimates, but in looking at the budget right here, it appears that they do.

Mr. SCHMIDT. I think they actually do. I think they figure that at the present level the marginal increase will be on the order of 30 percent in Federal revenue; isn't that correct, increase in the GNP?

Mr. MOOR. Yes.

Senator MILLER. They did testify this morning that they prepared a model. I would think that they would have to. But what I am getting at is for purposes of analysis of business and industry, shouldn't we have more information set forth in this budget than a mere increase in the GNP as a basis for these assumptions so that we can analyze them? I mean so you can analyze them, and you can make some predictions.

Senator PROXMIRE. Dr. Colm has a comment.

Mr. COLM. I would like to say that for revenue estimating the most important distinction is between personal incomes and corporate profits, because on corporate profits, as you know, the tax rate per dollar is so much higher than on personal incomes, on the average, and considering the margin of error on all these figures, I would say these are the most important distinctions.

I cannot quite follow Dr. Emerson Schmidt as to why the income of the policemen is fictitious from the point of view of estimating Federal income because when he drinks liquor—perhaps he should not but he does—he pays the tax as everybody else; on his income he pays Federal taxes. So I think his income is not fictitious.

You may have different opinions about whether his services are fictitious or real, and I think those services are real, too.

For many purposes we want to distinguish between income originating in the public and private sector, but just for tax purposes I do not think this is a relevant distinction.

Senator MILLER. Dr. Colm, would it make any difference to you in evaluating a budget from the standpoint of estimating revenue if that line on gross national product was completely eliminated, as long as you have the other two items?

Mr. COLM. It would make a difference, I think. I think some—when we come to some—specific taxes as excises, let us say, for things bought by business, I would think that they cannot be correlated so well with personal income or corporate profits. Here one may want to use the correlation with GNP.

Senator MILLER. What you are really saying is in order to arrive at a reasonable estimate you would like to have this GNP broken out——

Mr. COLM. Yes.

Senator MILLER (continuing). So you could not only get personal income and corporate profits, that is a basis for them, but a basis for estimating other types of taxes.

Mr. COLM. Yes.

Senator MILLER. But we do not have that when we just have gross national product.

Mr. COLM. It is not presented here in detail, and I entirely agree with the point previously made by Roye Lowry that we should have more detail. I only commented half jokingly on this one remark. I thing Mr. Schmidt has got the wrong example for the breakdown in this particular case. For the Economic Report I would agree with him entirely. But here for revenue purposes we need another breakdown.

All I want to say is that a few years back the Treasury made their estimates entirely independent of the Budget Bureau and independent of the Council of Economic Advisers.

To the best of my knowledge, this whole process has got much better coordinated during the last, let us say, 5 years or so. So I think that even this little bit that is now presented in the budget document—previously it was just in the statement made by the Secretary of the Treasury at a press conference—I just want to acknowledge some progress has been made, and I am in favor of further progress.

Mr. LOWRY. I am not quite sure I understood you, Dr. Colm. Did you say just several years ago it was in a statement made by the Secretary of the Treasury at a press conference or it was a misstatement by the Secretary of the Treasury at a press conference? [Laughter.]

Senator MILLER. Let me ask just one last question. How do you think we can improve the Economic Indicators to make them more useful for our people whom you people represent?

Mr. SCHMIDT. I think a very good job of improvement has been made in the last 2 years. I think the committee circulated a lot of people, didn't it, to request a lot of people to submit the recommendations? I know I got a questionnaire, and I filled it in, and I added a lot of other suggestions, and a good many of my suggestions were accepted.

So I have not, you catch me kind of unaware, and I probably could think after reflection of additional ways of improving it, but I think it is tremendously improved over what it was several years ago.

Senator MILLER. I asked this question because one of you testified that the only way to really analyze this budget was in conjunction with other documents, and I would assume frequently you do take a look at the Economic Indicators, along with the budget in arriving at your conclusions on it, and so certainly it has come a long way the way it has. But we are constantly striving to improve it, and if you have any ideas on how you think it might be improved, I think it would be helpful to hear from you.

Yes, Doctor?

Mr. COLM. I have a small suggestion. There is also published by the Bureau of the Census in the Department of Commerce, economic development indicators—I wonder whether a one-page summary of what is there called leading indicators, lagging indicators——

Mr. SCHMIDT. Coincident and lagging.

Mr. COLM. Leading, coincident and lagging indicators, one summary out of that, using one page in this document, a one-page summary, might not be very useful. That information is already compiled.

Senator PROXMIRE. A one-page summary of what?

Mr. COLM. A one-page summary of the Census Bureau's document included in the Indicators would give this work done by the Government at great cost a much wider distribution.

Senator MILLER. I want to make sure that I am clear and I understand it. You suggest a one-page summary from the current economic developments published by the Department of Labor——

Mr. SCHMIDT. Not Labor, the Bureau of the Census.

Mr. COLM. The Department of Commerce, Bureau of the Census.

Mr. LOWRY. May I correct the title, Mr. Chairman?

Senator MILLER. Department of Commerce.

Mr. SCHMIDT. Bureau of the Census.

Senator MILLER. Is that a monthly report?

Mr. LOWRY. Yes. The correct title is "Current Business Cycle Developments."

Mr. COLM. It is a highly technical document which has not the same wide distribution as the Economic Indicators and, therefore, I think one summary page out of that would add to the value of the indicators.

Mr. SCHMIDT. Should all that data be seasonally adjusted? That is another important question because it can be very misleading if it is not seasonally adjusted.

Senator MILLER. I do not know what that Business Cycle Development is.

Mr. COLM. It is seasonally adjusted, where it is feasible.

Mr. LOWRY. They have every seasonable adjustment known to man.

I would, Mr. Chairman, like to draw your attention to a publication not of the Federal Government but of the Federal Reserve district, Federal Reserve Bank, of St. Louis.

As you know, all of these Federal Reserve banks, or most of them, put out regular monthly publications which contain certain statistical information, and in the most recent publication, monthly publication, from the St. Louis bank, there is a very intriguing page devoted to what I think is a rather unique kind of presentation of GNP.

GNP as a total is very noticeable for being fairly stable, and if you will look back over the years as more figures come in and adjustments are made and everything gets on a constant dollar basis, you find that recessions disappear or almost disappear.

Well, the Federal Reserve Bank of St. Louis has taken and charted GNP by several breakdowns. It has broken down some items which it calls cyclical components in GNP which includes business inventories, investment, Federal Government spending, and consumer expenditure on durable goods, and then it has another breakdown of noncyclical components in GNP which is a lovely straight line which generally moves upward and to the right, and this has in it consumer expenditures for nondurable goods, consumer expenditures for services, and State and local government expenditures.

It is a very convenient way of separating out these factors which are more volatile than those which are more stable in the economy in an overall aggregate which generally is fairly stable.

Senator PROXMIRE. We will take a look at that.

Mr. LOWRY. It is very useful.

Senator PROXMIRE. I think one of the great advantages of the indicators is that they are limited.

Mr. LOWRY. Yes.

Senator PROXMIRE. And we have tried hard to keep them limited so that it is a small, relatively small, document.

Mr. LOWRY. That is right. This is a one-page chart.

Senator PROXMIRE. Incidentally, one of the new things which has been added in the last 4 or 5 months is the Federal budget on national income accounts basis. This puts all three budgets one after another here, and it gives the three views, which brings me to my—I wanted to question Dr. Schmidt on this very point.

You say, in the first place, the nomenclature of the budget is outrageous. I thought your statement was very interesting and provocative and very good; that there are three different budgets. Don't you feel that even if we do put these administrative budgets into the cash budget, as you suggest, or at least have considered always together, we should if we want to get a picture of what is going on completely, have all three budgets? This administrative budget does have certain advantages from a congressional standpoint? The Appropriations Committee standpoint and from the standpoint of Congress as the agency which produces the economic indicators, is probably always going to have it, and probably going to persist in discussing much of our Federal policy in terms of the administrative budget and, at the same time, these other budgets, as you indicated, have really great and much greater economic import.

Wouldn't you concede that we probably are going to have to live with this and maybe the problem is how to persuade the users of it to recognize what they are, and their specific different use?

Mr. SCHMIDT. Well, that is a long-term prospect that you are holding out.

I would prefer, and I use the word rather carefully, to have the administrative budget absorbed into the consolidated cash budget and then let those people like yourselves who have to use it for, let us say, hearing purposes or one purpose or another, it would still be there, but I would not start the thing out with that as the budget did this year in the budget document, because people pick out——

Senator PROXMIRE. Dr. Moor tells me this is just what was done with the 1964 budget.

Mr. SCHMIDT. Yes, except it started with it, you see. It started with the administrative budget, so people got to that total of $98.8 billion, you see, of expenditures, and this was the figure that was played up, whereas Mr. Kennedy said, and most economists would say, that the $119 billion or $122 billion, whatever it is, is the much more important figure.

Senator PROXMIRE. I suspect that this year there was a particular digital reason why this was important. Whether you want to go to two digits or three digits with the budget, once you get over that magic $100 billion figure with the administrative budget, you won't have to worry about that as much.

Mr. SCHMIDT. I made that same point in my statement.

Senator PROXMIRE. Then you talk about 100 different concepts, many of which are complicated with trust funds and all kinds of things.

Every one of those concepts that you have mentioned, as I followed you, was a concept which is a distinct and legitimate and appropriate concept. I do not know how you can eliminate them or consolidate them or simplify them. Maybe you can.

Mr. SCHMIDT. I think something could be done. Certainly they cannot all——

Senator PROXMIRE. By and large, with some exceptions, it seems to me with a little effort they can be understood.

Mr. SCHMIDT. Well, with 100 different items it is pretty difficult for somebody who is not familiar with it, who does not work with it year after year, it is really pretty difficult to derive the meaning of the figures.

Senator PROXMIRE. By and large, I would agree that economists are inclined to talk in a language which nobody else can understand partly because, like any other profession, they do not want to let people know how little they know.

Mr. SCHMIDT. The director of the budget in Connecticut said that they used to have a multiplicity of these budgets themselves, and he consolidated them, I think, into a singe budget.

Now, every department of the U.S. Government has many of these kinds of budgets, many separate kinds of budgets, so that the thing, if you really want to grasp the totality and see where the thing is thing is going on a net basis or a gross basis, you have very great difficulty.

Senator PROXMIRE. You would not discourage additional detail in its proper place. For instance, wouldn't you feel that the appendix to the budget should continue to be detailed?

Mr. SCHMIDT. Oh, yes.

Senator PROXMIRE. And even more detailed?

Mr. SCHMIDT. Maybe even more.

Senator PROXMIRE. Some of the suggestions we get in these hearings suggest that additional information is wanted.

After all, if a scholar—this is a reference book and nothing to sit down and read an evening.

Mr. SCHMIDT. Yes, sir. I would agree with that, and also I would suggest that possibly the Bureau of the Budget should do more of what it has been doing in the last few years, and that is have these special analyses, like on statistics, for example, and they have two, I think, that deal with something approaching the capital budget which Dr. Colm discussed in this year's report, and nowadays there is great interest, for example, in education as an investment in people.

I think a special analysis just on this subject, say, for next year, would be extraordinarily useful to see what the Government is doing, and in that sense, I would go much further and I would think it would be very useful to bring all this material together in the field of education, what we are doing, what the problem is.

Senator PROXMIRE. Now, you suggest an item veto, I notice. Isn't that correct? I have been interested in the item veto, and I know a lot of people, particularly those who have been Governors of States and now Senators, feel it is a good thing. I know Frank Lausche is strong for it.

Ken Keating has introduced a bill of which I am a cosponsor, to permit an item veto, and I am wondering whether this is necessary. One was on the continued programs of the B-52. They wanted to cut it, so I introduced an amendment to support them, and the Appropriations Committee overruled it. The same with respect to the B-70, and I have lost overwhelmingly, and it does not matter because the administration does not spend it anyway.

Mr. SCHMIDT. This is a kind of item veto.

Senator PROXMIRE. Yes. This has always been true to a lesser extent of appropriations by Congress, I think in the National Institutes of Health, way above what the administration says they can possible use efficiently.

Why don't we have an item veto anyway in an administration in which the President, who can exercise the discipline of just ordering his people only to spend as much as he thinks is appropriate?

Mr. SCHMIDT. I think there are certain laws, aren't there, that prohibit him from underspending certain types of appropriations.

Senator PROXMIRE. He certainly gets away with it in the defense area.

Mr. SCHMIDT. In the defense area he has it. Whether it is legal or not I am not sure.

Senator PROXMIRE. I believe there is an awful lot of pressure on the administration to spend money there.

Mr. SCHMIDT. I am told there are certain kinds of expenditures he is required to make. For instance, if Congress, let us say, raises salaries, I do not think he has a choice of not putting that salary scale, new salary scale, into effect. I am not sure of that, whether that is a good illustration or not.

Senator PROXMIRE. Well, that is on appropriations. If, on the other hand, he does not want to pay that many people he does not have to hire them, even though the Congress provides for it.

Mr. SCHMIDT. I would agree with you.

Senator PROXMIRE. Anything that you could submit that would indicate the limitations on the President's power to restrict spending, that would be changed if he had the item veto power, I think would be very helpful.

Mr. SCHMIDT. I will take a look into it.

The one objection to the item veto, of course, is the power of the President to punish Members of the House or Members of the Senate. I know Congressman Curtis, for example, is pretty skeptical of the item veto for this very reason, and there is, of course, a certain amount of special legislation, regional legislation, and sometimes special bills, and the President could, of course, by having the item veto power, do a lot of slashing here and there. But I think——

Senator PROXMIRE. With the old pork barrel it might be a good idea.

Mr. SCHMIDT. As long as Congress has the power to override the veto, say, by a two-thirds or 60 percent majority, I see no particular objection.

Senator PROXMIRE. Would you have an observation, Mr. Lowry?

Mr. LOWRY. All I wanted to say, Mr. Chairman, is I am not sure what the exact legal provisions are which the President relies on for his putting moneys in reserve and not spending them. But I do know that Members of Congress very frequently challenge him very openly as to the legality of his action in subverting, in their view, the will of Congress.

Senator PROXMIRE. Well, depending on the force and self-confidence of the particular department head, the President, if he can involve himself in these details, can do a great deal. But the President usually cannot do that. He has other responsibilities that are so great and exacting in time, and so forth that he cannot do it.

But if you have a fellow like Secretary McNamara, who knows that he can rally the support of Congress and can achieve a sufficient public support and Presidential support so that he can refuse to spend hundreds of millions of appropriations, he is more likely to refuse than another department head who may be lacking in some of these qualities. So I suppose there is a human application here.

That is important.

I want to thank you gentlemen very very much. This has been extremely useful.

I am delighted that we were able to conclude our hearings on the budget as an economic document with such an excellent presentation today by you four gentlemen.

This does conclude our session. We will hold the record open for a few days for subsequent insertions.

Thank you very much.

(Whereupon, at 4:50 p.m., the committee adjourned, subject to the call of the Chair.)

APPENDIX

Material Submitted by International Monetary Fund

IFS GOVERNMENT FINANCE STATISTICS

The government finance data reported by IFS refer to the cash transactions of the central government arranged to provide separate entries for revenue, expenditure, the resulting deficit or surplus, and the means by which the deficit has been financed or the allocation of the surplus, i.e., net borrowing in domestic and foreign currency, foreign aid, seigniorage, other monetary transactions, and the use of cash balances.

The central government can be described as all those departments, agencies, and institutions whose transactions are recorded in the national budget and including, where data are available, the social insurance system.

The data being cash transactions data, record transactions, other than intragovernment transactions, when they occur regardless of the accounting period to which they refer. Generally, therefore, the statistics can be described as being on a collections and checks-issued basis.

There are three sources from which the government finance statistics may be derived: Closed (audited) budget accounts (e.g., Austria), the cash balance records of the Treasurer (e.g., United States), or the central government's banker (central bank) (e.g., Germany).

Budget accounts used as source materials cover the ordinary budget as well as extra-budgetary accounts. The government finance statistics are, therefore, a consolidation of transactions recorded in the current, capital, investment, and other extraordinary budgets including government trust, revolving, and other special funds.

Budget accounts are constructed, to a very great extent, to demonstrate the discharge of responsibility within the limits of budget laws or regulations by those entrusted with public funds. The accounts include, therefore, intragovernmental transactions and entries to credit or to charge the income and payments to the proper budget period, e.g., appropriation carryovers, and investment reserve accounts. Adjustments are made in the IFS data to record the actual expenditures when they occur.

Generally, central governments do not use commercial accounting techniques. Hence, the problems of moving from an accrual accounting basis to a cash accounting basis are not especially difficult. The principal "accrual" elements in budget accounts are most often those of interest payments on the government debt and of valuation of debt. Adjustments are made to omit these "accrued" payments from the IFS data.

The cash balance records of the treasurer, as well as the records of central banks that record debits and credits to the government's deposit accounts, being on a cash basis, are simply rearranged to report the separate entries for revenue, expenditure and financing transactions.

A last point to be mentioned concerns the recording of government enterprise transactions in the government finance statistics. These are recorded on a net basis, i.e., the net profit of enterprises transferred to the government is recorded as an item of revenue and the net loss financed by the government through grants, subsidies, or other transfers is recorded as an expenditure item.

Transactions of the consolidated government accounts with the private sector are recorded as revenue and expenditure respectively. These transactions exclude all so-called financing items, i.e., debt transactions (borrowing and redemptions), use of cash (payments to (with a minus sign) or drawings from deposit accounts), monetary transactions proper and foreign aid receipts.

Monetary transactions include profits on seigniorage. Treasury depository functions, that appear among the financing transactions for Austria and Belgium, measure the temporary finance made available to the treasury from balances required to be deposited with the government under various legal arrangements.

The financing data may include an entry for finance from foreign aid. (There are similar entries in the data for France and Italy.) These measure the releases during the period for central government use from the counterpart funds set up under U.S. aid programs.

The net balance of revenue and expenditure, thus defined, represents the surplus or deficit. The sum total of the financing items adds up to this surplus or deficit with reversed signs.

NOTES TO THE COUNTRY STATISTICS

Austria

Data are derived from the "Bundesrechnungsabschluss" (budget accounts) of the Republic of Austria.

The budget includes accounts that record transactions on current and investment accounts. These are consolidated in the IFS data. It includes also the transactions of state monopoly enterprises, the railways, and certain public utilities. The IFS data reflect only the profits of these entities transferred to the Treasury (as a revenue component) and the subsidy or grant from the Treasury to these enterprises (as an expenditure component).

Belgium

Data are compiled by IFS by adjusting Ministry of Finance data for the cash receipts and payments of the Treasury. The Ministry data are addressed to the short-term financing problems of the Treasury. Hence, in the Ministry data, expenditure for redemptions of long-term (consolidated) debt are a component of expenditure and of the deficit or surplus. In the IFS data, such expenditures are omitted in the calculation of the deficit or surplus and are included in the data for net borrowing.

Canada

Data refer to transactions of the Dominion Government through budget and extra-budget accounts as reported by the Bank of Canada in the "Statistical Summary."

Receipts and payments of the social insurance system are not included in the revenue and expenditure data but its net deficits are a component of expenditure.

Advances to exchange fund: In IFS data holdings of gold and foreign assets by governments or government exchange funds are consolidated with such holdings of the monetary system on the ground that transactions in international reserves are the function of the monetary system. Hence, Government purchases and sales of foreign assets or financing of exchange funds are omitted from the calculation of the deficit or surplus and recorded separately as an item which, like the deficit or surplus, requires or provides Government finance.

Finland

Data are derived from the cash balance accounts of the Treasury for IFS by the Bank of Finland.

France

Data are derived by IFS from statistics on the cash transactions of the Treasury published by the National Institute of Statistics and Economic Studies in the "Monthly Bulletin of Statictics."

Germany

Data are as published by the Federal Bank in its "Monthly Bulletin" and measure Federal Government cash transactions as recorded in its account with the bank.

The equalization of burdens fund and the social insurance system, for which the cash deficits or surpluses are given separately, have not been consolidated with the Federal Government principally because of lack of data. However, the 1962–63 supplement to IFS includes a consolidated statement. The supplement includes also a note on the equalization of burdens fund.

Italy

Data are derived from the "Flow of Savings and Money Supply" as published in the Bank of Italy Annual Report.

The data given in IFS differ with similar data derived from Treasury records principally because the profits or losses of the Government-owned railways and railway borrowings are included in the IFS accounts and not in Treasury accounts.

Netherlands

Data are derived from the Netherlands Bank Annual Report, table on "Changes in the Treasurer's Cash Position" which is based on the Treasurer's cash accounts.

The financing entry for "Other operations" measures mainly the temporary finance available to the Treasury from undistributed balances of taxes collected by the Ceneral Government for local governments.

Sweden

Data are a consolidation of transactions through the working and capital budgets as recorded in the checking accounts of the Treasury and National Debt Office at the Bank of Sweden. The consolidation does not cover the social insurance system due to lack of data.

Switzerland

Data are Treasury cash transactions data as derived by IFS from the Treasury accounts given in the Message of the Federal Council to the Federal Assembly on the Accounts of the State.

See also note to Canadian data concerning Government transactions in gold and foreign assets.

United Kingdom

IFS data are based on the Bank of England, Quarterly Bulletin, table 1, Exchequer Finance. For further explanations of the data see the March 1963 issue of IFS and the Bank's Quarterly Bulletin.

United States

Data measure cash transactions of the Federal Government with the public as reported in the Treasury Bulletin.

Austria

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
	Billion schillings	*Billion schillings*	*Billion schillings*	*Billion schillings*	*Billion schillings*	*Billion schillings*	*Billion schillings*	*Billion schillings*	*Billion schillings*	*Billion schillings*
Government finance:										
Deficit (−) or surplus	−1.53	−0.48	−1.36	−1.08	−1.59	−6.27	−4.3	−3.1	−1.5	----------
Revenue	15.37	17.73	19.35	21.30	25.36	25.96	27.9	31.1	36.7	----------
Expenditure	16.90	18.20	20.71	22.39	26.95	32.23	32.2	34.2	38.2	----------
Financing:										
Net borrowing	.67	1.46	----------	.47	1.14	5.64	4.2	3.3	1.8	----------
Finance from foreign aid	.90	.94	.37	.40	.34	.50	.3	.2	.1	----------
Treasury depository functions	.41	−.22	−.47	.26	−.09	.69	−.2	−.7	−.5	----------
Use of cash balances	−.45	−1.71	1.44	−.05	.20	−.56	----------	.3	.1	----------
National income	64.4	73.0	84.3	92.5	102.4	106.0	110.2	124.9	135.3	----------
Gross national product	83.0	93.2	107.6	118.0	130.8	136.2	143.2	161.4	176.1	----------

Belgium

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
	Billion francs	*Billion francs*	*Billion francs*	*Billion francs*	*Billion francs*	*Billion francs*	*Billion francs*	*Billion francs*	*Billion francs*	*Billion francs*
Government finance:										
Deficit (−) or surplus	----------	−12.5	−7.5	−3.4	−2.0	−19.8	−26.4	−20.4	−8.3	----------
Revenue	----------	78.9	81.2	88.1	95.7	84.7	100.4	108.4	120.8	----------
Expenditure	----------	91.4	78.7	91.5	97.7	113.5	126.8	128.8	129.1	----------
Financing:										
Net borrowing:										
Francs	----------	15.8	7.1	4.6	2.8	18.1	21.2	12.0	7.7	----------
Foreign currency			2.0	1.0	1.7	3.3	4.7	10.2	2.7	----------
Treasury depository functions	----------	−4.2	−1.7	−1.4	−1.6	−1.7	−1.0	−.2	−2.5	----------
Use of cash balances	----------	.9	.1	−.8	−.9	−1.0	1.4	−1.6	.4	----------
National income	334	350	371	393	413	414	421	447	473	----------
Gross national product	436	459	482	520	554	551	572	608	----------	----------

Canada

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
	Million Canadian dollars	*Million Canadian dollars*	*Million Canadian dollars*	*Million Canadian dollars*	*Million Canadian dollars*	*Million Canadian dollars*	*Million Canadian dollars*	*Million Canadian dollars*	*Million Canadian dollars*	*Million Canadian dollars*
Government finance (year beginning Apr. 1):										
Deficit (−) or surplus	309	107	116	490	−199	−1,257	−402	−242		
Revenue	4,530	4,270	4,683	5,463	5,168	4,818	5,755	5,925		
Expenditure	4,221	4,289	4,424	4,851	5,039	5,354	5,719	5,958		
Net lending		−126	143	122	327	721	438	209		
Advances to exchange fund (−)	15	−25	30	−71	46	−20	36	−64		
Financing	−323	−82	−146	−149	152	1,279	367	306		
Net borrowing	−209	−211	193	−518	−12	1,445	325	235		
Canadian dollars	−142	−130	257	−513	−11	1,466	328	238		
Foreign currency	76	−81	−63	−4	−1	−21	−3	−3		
Use of cash balances	−104	128	−340	99	165	−166	42	71		
Canadian dollars	−95	137	−325	78	158	−166	33	88		
Foreign currency	−9	−9	−15	20	7		8	−16		
	Billion Canadian dollars	*Billion Canadian dollars*	*Billion Canadian dollars*	*Billion Canadian dollars*	*Billion Canadian dollars*	*Billion Canadian dollars*	*Billion Canadian dollars*	*Billion Canadian dollars*	*Billion Canadian dollars*	*Billion Canadian dollars*
National income (year ending Dec. 31)	19.27	19.00	20.69	23.12	23.95	24.99	26.37	27.10	27.83	
Gross national product (year ending Dec. 31)	25.00	24.85	27.11	30.57	31.88	32.91	34.78	35.92	36.81	

Finland

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
	Million new markkas	*Million new markkas*	*Million new markkas*	*Million new markkas*	*Million new markkas*	*Million new markkas*	*Million new markkas*	*Million new markkas*	*Million new markkas*	*Million new markkas*
Government finance:										
Deficit (−) or surplus	−17	83	−97	−111	2	45	−37	90	99	
Revenue	1,970	2,131	2,195	2,513	2,838	2,991	3,251	3,642	3,960	
Expenditure	1,987	2,047	2,292	2,624	2,836	2,946	3,288	3,553	3,861	
Financing:										
Net borrowing:										
Markkas	13	−32	93	114	18	39	50	−34	81	
Foreign currency	−26	−30	5	1	−23	−27	−68	−22	44	
Use of cash balances	30	−21	−1	−4	2	−56	55	−33	−27	
National income	6,130	6,796	7,678	8,654	9,033	9,613	10,175	11,499	12,781	
Gross national product	7,506	8,210	9,092	10,279	11,092	11,825	12,558	14,294	15,834	

France

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
	Billion francs	*Billion francs*	*Billion francs*	*Billion francs*	*Billion francs*	*Billion francs*	*Billion francs*	*Billion francs*	*Billion francs*	*Billion francs*
Government finance:										
Deficit (−) or surplus	−8.17	−7.73	−7.68	−10.53	−10.46	−6.98	−6.28	−4.17	−4.36	
Revenue	30.20	32.78	33.91	37.21	43.42	51.78	60.44	65.55	70.49	
Expenditure	38.37	40.51	41.59	47.74	53.88	58.76	66.72	69.72	74.85	
Financing:										
Net borrowing	7.36	5.80	5.64	10.07	10.07	6.45	8.47	−.25	.81	
Finance from foreign aid	1.59	1.09	1.06	.49	.05	.08		.02		
Use of cash balances	−.78	.84	.98	−.03	.34	.45	−2.19	4.40	3.56	
National income	111.8	119.3	129.6	143.8	160.4	182.3	195.0	216.2	232.2	
Gross national product	150.4	159.2	170.5	188.3	210.6	239.6	260.0	286.0	309.1	

Germany

[Calendar years]

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
	Billion deutsche marks	*Billion deutsche marks*	*Billion deutsche marks*	*Billion deutsche marks*	*Billion deutsche marks*	*Billion deutsche marks*	*Billion deutsche marks*	*Billion deutsche marks*	*Billion deutsche marks*	*Billion deutsche marks*
Government finance, Federal Government:										
Deficit (−) or surplus	1.52	1.37	1.96	1.13	−2.44	−0.22	−4.85	−1.36	0.32	−1.53
Revenue	21.62	23.03	25.68	28.37	29.42	31.31	33.93	39.29	43.65	48.51
Expenditure	20.10	21.66	23.72	27.24	31.86	31.53	38.78	40.65	43.33	50.04
Financing:										
Net borrowing	.24	−.14	−.48	−.17	−.50		1.51	1.04	−.35	1.38
Seigniorage	.12	.04	.03	.08	.08	.08	.09	.09	.09	.10
Use of cash balances	−1.88	−1.27	−1.51	−1.03	2.86	.14	3.25	.23	−.07	.04
Equalization of burden fund: Deficit (−) or surplus	−.50	−.56	−.14	.24	.04	−.39	−.56	−.14	−.16	−.34
Social insurance system: Deficit (−) or surplus	1.20	.33	.04	.84	.69	.26	.55	1.45	1.27	
National income	110.6	119.7	137.5	152.1	168.5	177.5	191.8	219.4	240.4	260.2
Gross national product	145.5	156.4	178.3	196.4	213.6	228.5	247.9	282.4	310.4	336.8

Italy

[Years ending Dec. 31]

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
Government finance:	*Billion lire*	*Billion lire*	*Billion lire*	*Billion lire*	*Billion lire*	*Billion lire*	*Billion lire*	*Billion lire*	*Billion lire*	*Billion lire*
Deficit (−) or surplus	−466	−455	−438	−189	−210	−280	−336	14	−38	----------
Revenue	2,006	2,084	2,301	2,586	2,800	3,061	3,344	3,821	4,074	----------
Expenditure	2,472	2,539	2,739	2,776	3,010	3,341	3,680	3,807	4,112	----------
Financing:										
Net borrowing	375	436	417	166	203	230	324	−28	27	----------
From monetary system	204	256	259	79	179	289	−108	−18	−62	----------
From others	171	180	158	83	24	−59	432	−10	89	----------
Finance from foreign aid	74	20	20	21	15	36	----------	----------	----------	----------
Monetary operations	17	----------	2	2	−8	14	12	14	11	----------
National income	9,410	9,931	10,859	11,614	12,514	13,468	14,338	15,692	17,151	----------
Gross national product	11,831	12,616	13,807	14,885	15,992	17,114	18,290	19,937	21,912	----------

Netherlands

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
Government finance:	*Million guilders*	*Million guilders*	*Million guilders*	*Million guilders*	*Million guilders*	*Million guilders*	*Million guilders*	*Million guilders*	*Million guilders*	*Million guilders*
Deficit (−) or surplus	358	267	−146	38	−463	−119	176	195	−92	----------
Revenue	5,817	6,067	6,370	7,096	7,411	7,253	7,792	8,831	9,880	----------
Expenditure	5,459	5,800	6,516	7,058	7,874	7,372	7,616	8,636	9,972	----------
Financing:										
Net borrowing:										
Guilders	−526	−396	355	8	−316	876	341	300	1,034	----------
Foreign currency	−410	−506	−264	−80	348	−567	−300	−91	−283	----------
Other operations	164	−246	−248	−300	103	234	−389	−306	−836	----------
Use of cash balances	193	453	45	211	−36	−441	172	−710	177	----------
	Billion guilders	*Billion guilders*	*Billion guilders*	*Billion guilders*	*Billion guilders*	*Billion guilders*	*Billion guilders*	*Billion guilders*	*Billion guilders*	*Billion guilders*
National income	19.15	21.59	24.54	26.46	29.00	29.54	31.40	34.84	36.22	----------
Gross national product	24.27	27.05	30.27	32.54	35.28	35.91	38.38	42.47	44.38	----------

Sweden

[Years ending June 30]

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
	Million kronor	*Million kronor*	*Million kronor*	*Million kronor*	*Million kronor*	*Million kronor*	*Million kronor*	*Million kronor*	*Million kronor*	*Million kronor*
Government finance:										
Deficit (−) or surplus	−804	−932	−1,156	−933	−1,371	−1,496	−800	−1,578	....	....
Revenue	8,064	8,853	8,920	10,172	10,691	12,044	13,576	13,916	....	....
Expenditure	8,868	9,785	10,076	11,105	12,062	13,540	14,376	15,494	....	....
Financing:										
Net borrowing	487	1,055	937	953	1,341	1,544	812	1,487	....	....
Use of cash balances	317	−123	219	−20	30	−48	−12	91	....	....
	Billion kronor	*Billion kronor*	*Billion kronor*	*Billion kronor*	*Billion kronor*	*Billion kronor*	*Billion kronor*	*Billion kronor*	*Billion kronor*	*Billion kronor*
Gross national product	39.53	42.06	45.36	49.02	52.75	55.04	58.25	63.50	69.27	81.30

Switzerland

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
	Million francs	*Million francs*	*Million francs*	*Million francs*	*Million francs*	*Million francs*	*Million francs*	*Million francs*	*Million francs*	*Million francs*
Government finance:										
Deficit (−) or surplus	291	−21	−92	249	98	102	216	588	343	
Revenue	2,290	2,560	2,396	2,876	2,852	3,382	3,016	3,714	4,128	....
Expenditure	1,999	2,581	2,488	2,627	2,753	3,280	2,800	3,126	3,785	....
Sales of foreign assets	−282	63	294	266	364	11	−39	−22	68	....
Financing:										
Net borrowing	31	14	−171	−130	−608	−492	−124	−304	−207	....
Use of cash balances	−40	−57	−32	−385	146	380	−53	−262	−203	....
	Billion francs	*Billion francs*	*Billion francs*	*Billion francs*	*Billion francs*	*Billion francs*	*Billion francs*	*Billion francs*	*Billion francs*	*Billion francs*
National income	20.7	22.1	23.5	25.1	26.7	28.9	29.4	31.5	34.7	....
Gross national product	....	25.7	27.5	29.4	31.2	32.5	34.1	36.8	40.8	....

United Kingdom

[Years and quarters ending at bank makeup dates]

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
	Million pounds sterling	*Million pounds sterling*	*Million pounds sterling*	*Million pounds sterling*	*Million pounds sterling*	*Million pounds sterling*	*Million pounds sterling*	*Million pounds sterling*	*Million pounds sterling*	*Million pounds sterling*
Government finance:										
Deficit (−) or surplus	−472	−176	−444	−145	−153	−101	-----	−238	−175	53
Revenue	-----	-----	-----	-----	-----	-----	-----	5,896	6,521	6,942
Expenditure	-----	-----	-----	-----	-----	-----	-----	5,541	6,090	6,380
Net lending	737	616	950	451	711	594	-----	593	606	509
EEA sterling receipts	−198	−78	254	41	−59	−247	-----	−189	25	228
Net IMF position (−)	−56	−40	-----	202	2	−5	-----	−121	344	−338
Other foreign currency borrowing	−128	−147	−61	−49	53	−89	-----	−89	−53	−27
Sterling deficit or surplus	−854	−441	−251	49	−157	−442	-----	−637	141	−124
Sterling financing:										
Bank of England	101	109	78	89	100	34	-----	257	132	−177
National savings	−94	24	−12	41	62	197	-----	273	138	113
Tax certificates	31	103	−83	−17	4	24	-----	22	15	−52
Treasury bills and bonds, deposit money banks	387	−63	−275	−151	197	−89	-----	636	−114	89
Oversea official holders	243	−31	48	−17	−124	−115	-----	62	−9	−95
Other holders	186	199	495	6	−82	391	-----	659	−303	246
	Billion pounds sterling	*Billion pounds sterling*	*Billion pounds sterling*	*Billion pounds sterling*	*Billion pounds sterling*	*Billion pounds sterling*	*Billion pounds sterling*	*Billion pounds sterling*	*Billion pounds sterling*	*Billion pounds sterling*
National income	13.60	14.46	15.36	16.76	17.67	18.44	19.24	20.43	21.55	-----
Gross national product	16.94	17.93	19.16	20.84	21.94	22.93	23.96	25.31	26.74	27.94

[Years ending June 30]

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
	Billion U.S. dollars	*Billion U.S. dollars*	*Billion U.S. dollars*	*Billion U.S. dollars*	*Billion U.S. dollars*	*Billion U.S. dollars*	*Billion U.S. dollars*	*Billion U.S. dollars*	*Billion U.S. dollars*	*Billion U.S. dollars*
Government finance (calendar quarters and months):										
Deficit (−) or surplus	−5.27	−0.23	−2.70	4.47	2.10	−1.52	−13.14	0.78	−2.29	−5.82
Revenue	71.50	71.63	67.84	77.09	82.10	81.89	81.66	95.08	97.24	101.89
Expenditure	76.77	71.86	70.54	72.62	80.01	83.41	94.80	94.30	99.53	107.71
Financing:										
Net borrowing	2.92	2.51	1.81	−4.37	−3.10	5.76	8.68	1.82	.70	9.62
Seigniorage	.06	.07	.03	.02	.05	.06	.04	.05	.06	.06
Use of cash balances	2.30	−2.35	.86	−.13	.95	−4.30	4.42	−2.65	1.53	−3.85
National income (quarterly data, seasonally adjusted at annual rates)	305.6	301.8	330.2	350.8	366.9	367.4	400.5	415.5	427.8	457.5
Gross national product (quarterly data, seasonally adjusted at annual rates)	365.4	363.1	397.5	419.2	442.8	444.5	482.7	503.4	518.7	553.9

EUROPEAN BUDGETARY EXPERIENCE: ITS IMPLICATIONS FOR THE U.S. BUDGET PRESENTATION

(By Andrew H. Gantt II, Harvard University)

I. INTRODUCTION

The Joint Economic Committee has asked me to prepare a paper on the possibilities of changing the U.S. budget presentation in an efficacious manner, considering what I have been able to find out about European tendencies in the art.[1]

The theme of the paper is a dual one. First, I hope to visibly demonstrate that any particular method of computing a deficit or surplus is most likely to convey misinformation, rather than information. Therefore, I will recommend much more limited use of deficit or surplus figures as guides to the public for decisionmaking than is now the case. Second, I will comment on the use of the capital budget in European countries, the trend of thinking in European countries about the capital budget, and the possibility of its use in this country. Some tentative suggestions will be made which might, at some future date, make the capital device a useful one in governmental budgeting. These themes will be followed conjointly through the paper.

Since the capital budget is not a useful device at present, and since present emphasis on single budget deficit/surplus figures is extreme, I finally recommend a small but useful change in budget presentation which would provide the public with more information about governmental receipts and spending, while deemphasizing either deficits or surpluses as a unique tool for decisionmaking.

II. BUDGET METHODS AND THE RESULTING FIGURES

One can see from table I that in European countries, as well as in this country, different methods of budget presentation give different answers as far as deficit or surplus figures go. Additionally the various budget methods here presented involve differing definitions of what should be included in the budget, the timing of recording transactions, the question of what is and what is not the central government, and differing treatments of the various kinds of government organizations—general government, government enterprises, trading bodies, et cetera. On the surface it looks as if there are only three methods presented in the table. Actually there are six, since none of the countries listed compute the "budget" deficit in the same way. As the paper develops the reader will come in contact with even more methods of computation, as various other European country budget methods are presented.

One fallacy of using any one budget deficit or surplus to express an entire array of conclusions about fiscal policy is suggested pretty clearly by the complex of figures in table I. It will be brought out even more clearly in the next section. There is simply much more to be said every year about fiscal policy than "the deficit is so many dollars and (1) we need to remedy unemployment or, alternatively, (2) these deficits will cause the ruination of the country."

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[1] There will appear shortly a supplement to the "Review of Economics and Statistics" dealing exclusively with budgetary problems. I have tried to avoid duplicating those arguments, which are quite relevant in this paper.

Usually economists and other people concerned with fiscal policy do not concern themselves with the "administrative budget deficit" and wisely not. It really means almost nothing. But, searching for some keystone in support of fiscal arguments, these same people often fall back on the consolidated cash statement, or the national income budget deficit or surplus. The arguments for each of these can be summarized quickly. The consolidated cash statement is said to be superior because it is inclusive particularly, but also because it presents things on a cash, rather than accrual basis. The national income figures are said to be superior, since they measure the impact of Government action on the rest of the economy. The argument is that the national income budget is a better impact measurer, as it bases receipts of corporate taxes on an accrual basis, thus estimating business reactions better than the consolidated budget. Proponents of this latter budget argue that one shouldn't be too inclusive. Thus financial claims are left out completely, for instance. Without going much deeper into these arguments which have been presented at length elsewhere, let me simply make a few comments.

Neither one of these budgets is inclusive in the sense of gross accuracy. Government enterprises are often included in deficit or surplus form only, for instance. Thus, if the individual wishes some estimation of the total activity of the Government as compared to other sectors, he must be careful in understanding what the gross figures mean. Second, the cash consolidated figures include loans and other financial claims transactions which may be entered on a gross or net basis depending on the circumstances.

TABLE I.—*Budget comparisons for central governments*

Year	United States [1]			France [2]		Germany [3]		United Kingdom [4]		
	Cash consolidated	National income	Administrative budget	Cash consolidated	Budget	Cash consolidated	Budget	Cash consolidated	National income	Budget
1950	0.5	9.2	−0.4	(5)	1.98	(5)	−256.8	627	1,326	247
1951	1.2	6.4	−3.4	−2.40	−7.12	(5)	−1,309.0	−64	939	−158
1952	−.6	−3.9	−5.8	−6.27	−7.25	(5)	5.8	−448	769	−436
1953	−7.2	−7.4	−9.2	−6.70	−3.20	(5)	−640.7	−602	662	−297
1954	−1.1	−5.8	−3.7	−5.84	−2.92	(5)	−226.9	−40	873	−68
1955	−.7	3.8	−2.8	−6.33	−4.35	2,656	3,072.1	−47	1,140	−141
1956	5.5	5.7	3.8	−10.23	−5.80	1,582	0	169	964	−341
1957	1.2	2.0	.6	−10.59	−9.70	−3,307	744.2	−162	1,116	−212
1958	−7.3	−9.4	−7.1	−7.15	−6.06	−2,317	0	−86	1,218	−182
1959	−8.0	−1.1	−7.0	−6.20	−5.87	−4,034	−154.3	−264	1,140	−313
1960	3.6	3.8	2.0	−4.06	−10.37	−872	−46.1	−472	1,014	−394
1961	−6.8	−3.8	−6.3	−4.23	−10.58	−2,820	−160.8	155	(5)	−211

[1] United States: All figures on calendar year basis, from 1963 CEA report, pp. 238–241 (in billions of current dollars).

[2] France: Budget figures for 1951, 1953, 1955, 1957, 1958, 1960 actual; other years estimated in Le Budget, Ministère des Finances, various years; cash consolidated figures from my computations (in billions of new francs). All figures calendar year.

[3] Germany: Budget figures from Finanzbericht 1963, app. 1a, 1b, p. 518, and Bundesministerium der Finanzen, Bonn, 1961. Fiscal years ending Mar. 31, except 1960 April-December, 1961 calendar year. Cash consolidated figures are from my computations (in millions of current deutsche marks).

[4] United Kingdom: Budget figures from Financial Statement, Chancellor of the Exchequer, London, various years. National income and cash consolidated figures on a calendar year basis. Budget figures on fiscal year basis. National income and cash consolidated figures from my computations (in millions of current pounds).

[5] Not available.

NOTE.—Astute observers will notice that the deficit-surplus figures presented here are slightly different from my original presentation in the February 1963 edition of the Review of Economics and Statistics. These changes are a result of publication by these countries of more detailed information about their budgets; this information is used here, but appeared too late for use in the earlier article.

Exclusion of these financial claims transactions from the national income budget, and inclusion of them in the cash consolidated budget makes a great deal of difference in both the gross budgeting figures, and the surpluses or deficits. This is most dramatically displayed in the accounts for the United Kingdom. (See table I.) The argument that exclusion of these items from the national income budget helps better to measure the impact of government spending is relevant in only a very narrow, accounting-type context. The purchases of goods and services by the debtor of the government are included in other sectors than the government one; therefore they are included in other sections in the national income accounts. Yet it would not seem feasible to argue that the impact should be—totally—excluded as governmentally caused. The Federal sector has played a direct part in creating an impact. The truth undoubtedly lies somewhere between the statements made by either budget. It does seem clear, however, that the cash consolidated budget is a better one to use than the administrative budget, since it is more inclusive. The 1964 budget presentation of the United States reflects this idea; it is gratifying to note the emphasis on the cash consolidated budget as compared to the administrative budget.

The other question of relevance that needs to be discussed concerns the measurement by each budget of the timing—and degree—of impact of fiscal policy on the economy. The cash consolidated budget records expenditures on a checks-paid basis, and receipts as received. The national income budget records corporate taxes on an accrual basis, and attempts to record expenditures "as goods are delivered and services performed" with modified success.[2] On the receipts side, the accrual basis is said to be not only a better impact measure in itself, but also to make the surpluses and deficits of the national income budget more relevant impactwise than are those of the cash consolidated budget. Since recording on the expenditure side is approximately the same in both budgets, this claim is open to question. Assume the onslaught of a deep depression; corporate taxes are halved and accruals go down accordingly; an amount of orders for public works projects are placed equal to the tax cut, in order to stimulate the economy. The cash consolidated budget would show neither impact as it occurred. The national income budget would show the tax cut, but not the impact of the increase in orders. In this case the national income budget has done better in showing the direction of the impact, but it is not accurate. Let's suppose, however, that arch conservatives were able to affect an equal decrease in Government spending and in tax cuts. The national income budget would erroneously picture a great increase in impact on the economy, the cash consolidated budget would probably more correctly show not much change in impact during the early months after the new legislation.

In short the ideal solution from an impact point of view would be to have the timing correctly expressed on both sides of the budget. At present the national income budget is better in some instances as an impact indicator; in some cases, worse. In any event no budget can

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[2] Moor, Roy E., "The Federal Budget as an Economic Document," Washington, 1962, pp. 110–128. This document gives a good summary of the accounting differences between the budgets.

be drawn up in such a way that the deficit or surplus shows the impact effects really accurately, since information concerning the varying impacts of varying spending or taxing processes are only partially known.

The point of all this is that the conscious citizen must know more about Government spending and taxing than the budget deficit or surplus (stressed so much in the press in this country) in order to make rational decisions about the way he wishes his Government to run. Later on, I will present a short terse method or presentation of main budgeting items which I think would be of use for release to the press. The budget of the United States gives a lot of this relevant information. Unfortunately, all the press usually extracts and emphasizes is the surplus or deficit.

III. CAPITAL BUDGETING, EUROPEAN EXPERIENCE, AND A RECOMMENDATION FOR THE UNITED STATES

The main principle of capital budgeting as compared to other budgeting is that an attempt is made to separate out those items which, although built in the present, are intended to give up their services for some years in the future. Since they will cease to give services at some period, they should be charged off, depreciated, as being used up to some degree in each period under consideration. The basic differences between the configuration of capital and cash consolidated budget are illustrated in figure I.

FIGURE I

Cash consolidated

Credit	Debit
Taxes	Purchases of current items
Other receipts	Capital formation
Total receipts	Loans (net)
	Total expenses

(Deficit to be met by borrowing or drawing down cash balances.)

Capital budget

CURRENT

Credit	Debit
Taxes, etc.	Current purchases
	Depreciation
	Surplus on current account

CAPITAL

Surplus	Capital formation
Depreciation	Loans (net)

(Deficit to be met by borrowing or drawing down cash balances.)

The original idea in the use of capital budgeting in central government was expressed by the Swedish most explicitly in the early 1930's. "We should view the government as any other business," they said, "providing services to the public. The government forms capital assets as do businesses, and they should be treated similarly." The main result of this form of budgeting, however, was to permit expansion in the rate of government fixed capital formation, as compared to other types of expenditure, without increasing taxes to do so. Rather it was logical to borrow for the purpose, since the services of these fixed assets would be returned in the future. The people benefiting from these services should pay for them, rather than the people being taxed at present. Thus the deficit on current account was deemed the important deficit to look for. "Fiscal responsibility" extended this far and no farther. Swedish budgeting practices are pointed out in detail in Roy Moor's paper,[3] and I will not go over them again here.

Of course, the relevant remark to make is that this budgeting philosophy bases the allocation of governmental resources toward fixed capital formation, rather than to other services. Other services need to be paid for from taxation, and citizens usually attach a more intense avoidance function to taxation than to borrowing. Thus payment through taxation implies a lower level of government spending than payment through taxation and borrowing. With this comment stated, let me describe other European budgetary processes using various modified capital budgets as their main presentation.

The Netherlands has been described adequately in Roy Moor's appendix; it need only be said that in this country, in which economic planning is carried on to a relatively high degree, emphasis has shifted in the 1950's, from the Swedish philosophy, to what might be called the cash consolidated philosophy. That is, the Finance Minister of the Netherlands has repeatedly pointed out over the past 7 years that the overall deficit is a much more important measure than the current account surplus, which should not be heavily weighted.

West Germany exhibits a strange budget behavior philosophy. One immediately thinks of the ostrich and the sandpile when describing their budgeting process. Initially the German budget is always balanced in an overall sense. This is analogous to saying that the administrative budget would always be balanced when sent to Congress. These initial figures are called estimates. When the actual returns come in, however, it has frequently been the case that the overall budget has not been balanced, and the weight of the evidence in the fifties points to fairly steady deficits. See table I.

The interesting point is that the German Government always hopes that its budget will be balanced, and, from a capital-current point of view, puts in its below-the-line figures only the deviations from the estimates, no matter whether they come from fixed investment items or what normally would be called current items. Thus, the German budgetary authorities are always able to say that they have a balanced budget. The below-the-line items are borrower for as is the normal practice in an "honest-to-goodness" capital budget, and, by definition, what's left above the line is balanced. In this sense, the normal practice in an "honest to goodness" capital budget, and, impute to accounting practices the balanced-budget philosophy. As in most cases of this sort, of course, the whole process is a sham from any meaningful point of view.

[3] Moor, Roy E., supra, pp. 149–180.

In the United Kingdom, the use of budgetary accounting as a reflection of philosophy concerning fiscal policy is very unclear. The above-the-line and below-the-line distinction has come about as a result of a whole series of historical incidents—the present above-the-line and below-the-line distinction means very little, but, on the other hand, is not used to any significant degree in the formation of fiscal policy.[4] It has been true that a surplus has been continually achieved in the above-the-line budget, but this seems to have been incidental to the fiscal policy process, rather than because of direct policy efforts. In fact, there have been continual protestations about the present budget form, and it has been changed slightly in the past decade, but the United Kingdom's budget accounting methodology can still not be said to reflect any general fiscal philosophy.

In France, on the other hand, quite the opposite is true: the budget presentation reflects quite accurately the current fiscal policy point of view. The above-the-line and below-the-line distinction is made by answering the question: "Will this expenditure (loan) be one that is paid back in cash in the future?" If the expenditure is of this type, it can be put in below-the-line or "temporary" budget. All other expenditures, whether for fixed capital formation or not, go into the above-the-line, as "permanent" budget entries. Until very recently, the fiscal philosophy behind this type of accounting was as follows: "We are interested in a noninflationary budget. We can say with some justification that if loans made to the public are financed by borrowing from the public, then this will be noninflationary. Different criteria should be attached to the determination of this type of governmental activity than for other types, and expenditures of this type should not be a cause for concern. Therefore we should put them in the below-the-line or temporary budget. On the other hand, all other expenditures, whether transfers or purchases of goods or services, can be expected to be inflationary, if not covered by taxation, and therefore they should be put in the above-the-line budget, which we will plan to balance annually."

In the past year or two, however, emphasis seems to be shifting to the overall deficit or "impasse" as the proper measure of the impact of governmental interaction with the economy from stress on the above-the-line budget. As in the Netherlands, Sweden, and the United Kingdom, the above-the-line and below-the-line distinction becomes less and less relevant for fiscal policy formation. In Germany the distinction is only a fanciful one anyway: a "flag of convenience" which satisfies at the same time both the desire to have a balanced budget, without putting severe restraints on fiscal policy implementations, should the need for these implementations be necessary.

The deductions to be drawn from the discussions above are two. First, the budget in all of the European countries listed has to a large degree reflected current thinking about fiscal policy problems. When a below-the-line, above-the-line budget presentation is used, this has either reflected a feeling that returns were coming from below-

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[4] Items put below the line are—

(1) Receipts applicable by statute to debt interest which could otherwise be paid out of revenue.

(2) Receipts applicable to debt redemption.

(3) Payments for which the Treasury has power to borrow.

the-line expenditures in the future and thus that not all the burden should be carried by this year's tax surplus, or that in considering expenditures from an impact on the economy point of view, expenditures with neutral impact could be put below the line.

What implications can be drawn from the discussion as to the relevance of the capital budget for use as the main budget presentation of this country?

The argument cannot be refuted by debating the question of future returns from fixed capital formation. Fixed capital does give significant returns in most cases. Rather the argument for the capital budget is unhinged on two other grounds. First, the problem is that capital of a fixed variety is probably only a very small part of those Government expenditures which return to the country benefits in the future. We have not discovered a satisfactory way of measuring the present and/or future returns of defense expenditures which results in fixed capital formation. As has been often pointed out, health and education research and development, the training of the labor force in some branches of the armed services, all provide significant returns in the future. If people in this country have a preference for borrowing, over taxation, then overinvestment in fixed capital resources is likely to occur.

Second, even if there were no preference between taxation and borrowing as a method of financing, (implying therefore that the bias would not be in favor of fixed capital formation vis-a-vis other expenditures), the problem of burden allocation among time periods as balanced against the flow of returns in each time period in the future would remain.

IV. A SITUATION IN WHICH A CAPITAL BUDGET MIGHT BE USEFUL

Let me neglect for the rest of this paper the burden allocation problem, and concentrate on the first problem above. That is, I wish to discuss the expenditure side of the capital budget, and leave aside the receipts side. This will not prove to be restrictive, as will be disclosed shortly.

On the expenditure side of the capital budget, the distinction between capital and current can be looked at in a stock-flow context. Formation of fixed capital by the Government is the formation of a stock which results in a flow of services (depreciation) which is an expenditure in the current side of the budget—as are the other current items such as special purchases, etc. Expenditures that develop a stock from which future services may be drawn are put in the capital side of the budget. In the case of fixed capital formation, the capital is owned directly by the Government, and indirectly, by the people. In a sense, the capital available for a service flow owned by the populace is added to as the Government spends for fixed capital formation.

Expenditures on health, education, training, research, and development, etc., also add to the stock of capital available for future services. The singular difference for most of these expenditures, however, is that they directly build up the capital value of each individual in the economy. The stock of capital inherent in the people through Government increases with these types of expenditures. If the increased capital values of the populace could be determined by these types of governmental expenditures, the new capital budget could be constructed as follows:

CURRENT

Taxes.	Human stock depreciation.
Other receipts.	Surplus on current account.
Depreciation of fixed capital.	

CAPITAL

Surplus.	Capital stock.
Depreciation.	Human stock.

(Deficit to be covered by borrowing or changes in cash balances.)

This type of capital budget might well make a great deal more sense than the one presently in use. The limitation to it of course is that little information exists on the "value of human life." An increasing amount of research is being done in the area, however, and we may be in a position in the next decade when this type of account might be constructed. For example, retraining of unemployed workers and their subsequent movement to higher paying job positions would be reflected in increased taxation power. Concomitantly, it would make sense to depreciate this increase in capitalized earning power as a function of the years of working life left for each individual so trained.

This formulation of the capital budget also tends to lead to a solution of the borrowing versus taxation discussion, in the normal "classic" capital budget formation sense. Borrowing would be relevant for capital formation of both types—human and fixed. (This does not settle problems of anticyclical policy, which are not being discussed here.) Taxation would be relevant to pay depreciation on both types of investment, as well as for services providing their whole benefit stream in the current fiscal year.

Of course, the question of defense expenditures would still loom large, but at the same time it would be brought into focus much more clearly within the context of this argument. Defense expenditures obviously have little value as fixed capital, except as they act as permissive elements for the flows of both fixed and human capital services in the future. To take an extreme example, suppose that no defense expenditures were made. In addition suppose that this raised the probability of total destruction to one. Then the capital budget would be meaningless; all expenditures should be considered current expenditures. On the other hand, if defense expenditures are made, and this reduces the probability of total destruction to zero, all future income streams will be realized, and the capital budget is a relevant concept. In this sense, then, defense expenditures consist of two parts: costs to be allocated to present service flows, and costs to be allocated to future service flows. Defense expenditures incurred for future service flows should, by this reasoning at least, be allocated to both human and fixed capital formation costs incurred. The amount of borrowing in the present and the amount of taxation in the future is consequently increased.

Thus it would appear as if the outlines of a relevant capital budget have been formulated. All of the information is not presently available, however. For this reason, and because other countries experimenting with this older type of capital budget have generally discarded it, the capital budget should be discarded as a possibility for incorporation as our main budget presentation in this country. The Bureau of the Budget now separates capital type items in a special analysis; this approach is to be commended and should continue.

V. A POSSIBLE ADDITION TO THE BUDGET PRESENTATION

As was pointed out earlier, the present budget presentation is good but even the main points do not seem to get to the mass of voters.

Instead, the public is given three deficits which are used to advantage by the proponents of each of the three, but to the confusion of the populace. It would seem that some expansion of disseminated information that would tend to alleviate the heavy emphasis on the budget deficit/surplus (all three kinds) and that at the same time would give the public some additional information for decisionmaking would be worthwhile.

The ideal (or at least one ideal) would be to summarize both functionally and economically all budgetary information on one page, and while not actually presenting any surplus or deficit, to present a methodology by which any high school graduate could compute either the cash consolidated or the national income budget deficit or surplus. This obviously withholds information from noninterested parties, but the alternative (of giving them one or another deficit/surplus figure) is certainly not clearly superior, as it is more confusing than helpful.

The one-page summary method that I have chosen is a modification of the basic OECD presentation for central governments. It is modified in that all depreciation, the capital-current division, and the "surplus on current account" are deleted from the analysis. In effect, therefore, items are arranged with goods and services of most current nature at the top of the tableau, and with items having the characteristics of financial claims listed toward the bottom as these characteristics become more intense. Capital items are listed between current purchases and financial claims. In effect, what this presentation allows is the computation of any surplus or deficit one desires.

I suggest the following: Present the main items in this budget on a cash consolidated basis. Draw the heavy dark lines in such a way that if one were to add the figures down to the line on either side, the difference between these figures would represent the cash consolidated surplus or deficit. Print in a different color those items going into both the national income budget and the cash consolidated budget. Simply mention on the space left at right adjustments necessary for both the debit and credit sides to convert the items listed in distinctive colors to a national income basis. Thus, by adding the items of distinctive color, and by applying the adjustments, the national income surplus or deficit might be derived. Let me suggest boldly that the administrative budget not be mentioned. Three deficits are too confusing for any sensible voter to spend his time on.

This one-page tableau is rich in information. It explains how the Government has financed its deficit or surplus at the same time it shows how the deficit/surplus is figured. Presentation of the table on an annual basis would make a significant step toward educating the public. In addition, it could be used as a ready reference for purposes of discussion.

TABLE II.—*Modified OECD central government budget*

Expenditures	Amount	Receipts	Amount
1. Current purchases goods and services:		12. Income from property and entrepreneurship.	----------
(a) Trust funds (functional separation).	----------	13. Indirect taxes:	
(b) Other (functional separation)	----------	(a) To trust funds	----------
2. Interest on national debt	----------	(b) To other	----------
3. Subsidies:		14. Direct taxes on corporations:	
(a) To industry	----------	(a) To trust funds	----------
(b) To agriculture	----------	(b) To other	----------
(c) To veterans	----------	15. Direct taxes on households, etc:	
(d) Other	----------	(a) To trust funds	----------
4. Current transfers to households:		(b) To other	----------
(a) By trust funds (functional separation).	----------	16. Current transfers from the rest of the world:	
(b) Other (functional separation)	----------	(a) To trust funds	----------
5. Current transfers to rest of world:		(b) To other	----------
(a) By trust funds (functional separation).	----------	17. Current transfers from other public authorities:	
(b) Other (functional separation)	----------	(a) To trust funds	----------
6. Current transfers to other public authorities:		(b) To other	----------
(a) By trust funds (functional separation).	----------	18. Capital transfers from other sectors:	
(b) Other (functional separation)	----------	(a) From other public authorities:	
7. Fixed asset formation:		(1) To trust funds	----------
(a) Government enterprises (net)	----------	(2) To other	----------
(b) Trust funds (gross, functional separation).	----------	(b) Form corporations and households:	
(c) General Government (gross, functional separation).	----------	(1) To trust funds	----------
8. Changes in stock:		(2) To other	----------
(a) Trust funds (functional separation).	----------	(c) From the rest of the world:	
(b) Other (functional separation)	----------	(1) To trust funds	----------
9. Capital transfers to other sectors:		(2) To other	----------
(a) To other public corporations:		19. Borrowing from other sectors:	
(1) By trust funds (functional separation).	----------	(a) From other public authorities.	----------
(2) Other (functional separation).	----------	(b) From corporations and households.	----------
(b) To corporations and households.		(c) From the rest of the world	----------
(1) By trust funds (functional separation).	----------	20. Other changes (net) in claims and liabilities.	----------
(2) Other (functional separation).	----------		
(c) To the rest of the world:			
(1) By trust funds (functional separation).	----------		
(2) Other (functional separation).	----------		
10. Lending to other sectors:			
(a) To other public authorities:			
(1) By trust funds (functional separation).	----------		
(2) Other (functional separation).	----------		
(b) To corporations and households.			
(1) By trust funds (functional separation).	----------		
(2) Other (functional separation).	----------		
(c) To the rest of the world:			
(1) By trust fund (functional separation).	----------		
(2) Other (functional separation).	----------		
11. Net changes in Government cash balances and Government accounts with banks.	----------		
Total	----------	Total	----------

Notes.—Directions for computing surplus/deficit:
(1) Consolidated cash budget.
(a) Add items on expenditure side up to heavy black line.
Add items on receipts side up to heavy black line.
(b) Subtract total expenditure from total receipts. This is the surplus.
(2) National income budget:
(a) Add all items on expenditure side in red.
(b) Add all items on receipt side in red.
(c) Subtract (add) the following adjustment:
Expenditures ----------
Receipts ----------
(d) Subtract total expenditures (minus adjustment) from total receipts (minus adjustments). This is the surplus.

VI. SUMMARY

The task of this paper was to specify concrete suggestions for the improvement of the U.S. budget presentation. In general, the implication has been that the budget presentation is reasonably satisfactory. It was stressed that although a capital budget might prove feasible if defined more inclusively, that it would distort rather than clarify decisionmaking at present. In particular, the experiences of European countries was used to both suggest the limitations of the capital budget, and at the same time to stress the inadequacy of any one budget deficit or surplus for voter decisionmaking.

To avoid emphasis on any deficit/surplus figure, and to give the public a richer and yet more condensed form of information, a one-page tableau was urged as a possible annual press release.

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As indicated in the following introduction, the economic consultants to the U.S. Treasury Department conducted a meeting on the subject of the Federal budget sometime before the hearings by the Statistics Subcommittee on this same subject. The papers and views expressed in that meeting of the Treasury consultants were of sufficient general interest that the editors of the Review of Economics and Statistics fet they should be drawn together in a special supplement to the publication. Because of the relevance of this material in connection with the hearings of the Statistics Subcommittee, the editors of the Review of Economics and Statistics kindly consented to have the papers reproduced at this point in the hearings. The addition of this material, therefore, serves to bring together in these hearings most of the current views being expressed within the economic profession concerning possible changes in the Federal budget document.

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INTRODUCTION

Seymour E. Harris

IN 1962 we invited a number of experts to participate in a day-long symposium to discuss the Federal budget. Evidence of dissatisfaction with our budgetary accounting had been cumulating for years. From time to time Senator Morse would introduce a bill for a capital budget, and many experts considered with approval the British above-the-line and below-the-line budget accounting. With the size of the budget and of deficits, and the use of budgets to influence economic activity becoming major political issues, politicians and scholars increasingly examined the accounting practices. Since the early 1950's the Government has become increasingly interested in balancing its accounts rather than the budget.[1] Policy was increasingly being determined not by the merits of the case, but rather by whether the expenditures were reflected in the size of the budget. Guarantees became increasingly important, in part because they were not reflected in an increase in the budget. In three recent fiscal years, Federal loans rose by $20 billion; but guarantees by $54 billion, and sales of mortgages and CCC paper to private interests which improved the looks of the budget, increasingly appealed to the Government. The budget was thus relieved; but the effects on the economy might be adverse if governmental sales of assets absorbed credit that otherwise might have been available to the private economy. When in the mid-1950's President Eisenhower proposed a $100 billion road program to be financed out of a trust fund and thus escape the scrutiny of the budget director, Senator Byrd really exploded.

In the 9 papers contributed by 12 economists to this symposium, we have the most important analyses of United States budgetary accounting and policies made available in recent years. These authors do not agree on all points by any means. But they are in unanimous agreement that the current policies and accounting practices are not all that they ought to be; and that the Administrative Budget, which is the Budget for the Executive, the Congress, and the public, is far from satisfactory and is becoming increasingly inadequate as a measure of the Government's contribution to economic activity (cf. Eckstein). Much credit goes to the Council of Economic Advisers and to the Budget Director for raising questions concerning the shortcomings of current budgetary practice.

What conclusions are we to draw from this symposium? Perhaps the most important is that no one budget is adequate for all purposes. Thus Colm and Wagner ask for a program budget, a budget for financial analysis (cash receipts and payments), and an economic analysis budget (the Federal Sector in the National Economic Accounts or National Economic Budget). But some experts do not favor the last, the argument being that credit items, which are excluded, are relevant in assessing the effects on the economy (Cf. Taylor, Wendel and Brill and Goode). Jaszi, however, offers supplementary material, which would provide a national income budget of adequate comprehensiveness. (He finds a home for the unrecorded transactions of corporate taxes and government loans.) Shoup would limit the items to be included in a Fiscal Policy Budget to those that can be adapted to changing economic conditions — e.g. exclude trust funds because income and outgo should not be varied in response to changing economic conditions.

Perhaps the Cash Budget receives the largest support in this symposium. Its strength lies in its comprehensiveness, in its tie-in with operating statistics, and its relevance for revealing

[1] See my *Economics of the Political Parties*, 1962, Ch. 1[illegible] (Misleading Budgets).

economic effects of the budget. (Cf. Cohn, Eckstein, and Goode) Its inclusiveness is supported by the following statistics: the rise of expenditures in the Administrative Budget from FY 1946 to 1964 was $39 billion; in cash payments $58 billion or $19 billion more.

In the years of discussion of budgetary reform, much has been made of the need of a Capital Budget. But the Capital Budget has lost ground though there is some support for a Capital Budget restricted to self-liquidating enterprises (Musgrave) or as supplementary information in order to improve comparisons among countries of budgetary burdens (Eckstein). But on the whole the verdict in this symposium is against the Capital Budget and largely because (1) its use would distort spending, with a tendency to favor capital investments because they would have minimum effects on current budget totals; and (2) this kind of budget would operate against outlays on education, health, and the like (Colm, Musgrave). Musgrave also reveals how difficult it is to reconcile the objective of inter-generation justice (e.g. charge each generation appropriately for capital outlays) through a capital budget, and at the same time achieve the objectives of full employment and stability.

One aspect of budgetary accounting of vital importance is how different methods affect the budgetary "look." For example, the National Income and Product Account (NIPA) budget has one important advantage, the use of the accrual approach. Under this method deficits tend to be higher in recession years and lower in the early recovery. Since the public accepts deficits less reluctantly in recession periods, the NIPA approach improves the chances of adequate anti-cyclical policy, e.g. larger deficits at the outset of the recovery (Goode and Eckstein).

Cohn does find from 1948 to 1961 in using the present series (Administrative Budget), Administrative-trust Consolidation and the Treasury Deposits and Withdrawals budgets "that a shift of concept would have caused a change from deficit to surplus in only one year, 1952, when the balance was quite small." But Eckstein finds that whereas for the years 1958–62, the Administrative and Cash budgets both yield deficits of $25 billion, the NIPA budget reveals a deficit of only $10 billion, and the difference is largely explained by the exclusion of financial items in the list.

In current discussions of budgetary policy, the relations of budgetary and fiscal policies are increasingly stressed. For Bator the concern is adherence to such "dogmas" as borrowing only in depression, or a surplus of at least zero under full employment. Under full employment, the burden on monetary policy would be greatly increased, and with the liquidity trap (rising supplies of money absorbed by increased hoards) and unresponsiveness of spending to monetary ease, the effects on the economy would be unfortunate. For Goode, the important point is that deficits are correspondingly effective if monetary policy is permissive; but not so if monetary policy is restrictive. According to Taylor, Wendel, and Brill the GNP deficit advocates stress the spending aspects, whereas the Cash Budget advocates concentrate on liquidity and financial results. They would tie the budget to the Federal Reserve flow of funds.

In the course of the discussion of budgetary accounting, the contributors raise numerous related problems. Bator wants to know why the Budget Director does not consider at the assumed revenue what level of taxes would be required to achieve the desired output. Colm warns against repetition of the 1963 unfortunate *forecast* by relying not on forecasts but on likely estimates of growth. Though generally critical of the Capital Budget, Musgrave nevertheless is prepared to accept expenditure budgeting for periods in excess of a year so long as the Budget Director does not assign specific receipts to the Capital Budget. The political appeal of the Capital Budget is great, for it shows smaller expenditures than the Administrative Budget; but it has a smaller rating on its contribution to stabilization.

BUDGETARY REFORM: NOTES ON PRINCIPLES AND STRATEGY

F. M. Bator

THE point I wish to make is not concerned with the budget as an aid in program formulation, execution, and control, or as a device for financial planning. It has to do rather with the role of the budget in informing and guiding congressional and public consideration of the large questions of fiscal policy: the balance between total demand and potential output, and the division of output between public and private uses and between consumption and investment.[1]

It is evident that as regards these large issues, upside-down economics still has the better of it in our public discussions. To be sure, the quality of conversation has improved during the last several years, as shown by the currency, among the more sophisticated people who read and write the nontechnical commentary on economic affairs, of a number of therapeutic notions: for instance, that at times deficits are not a bad thing; that if one cares to assess the fiscal impact of the budget one should look to the "cash" or the "national income and product" (NIP) version and not the "administrative budget"; and — a quite subtle notion — that the "full-employment surplus (deficit)," on NIP or cash account, is a better measure of the weight of the fisc than the actual realized surplus or deficit. However, a little sophistication can be a mixed blessing. None of the above notions shifts attention from the "deficit" — some deficit, perhaps a benign deficit — as the crucial magnitude. Yet, as we know, the beginning of wisdom in these matters is that no deficit, however measured, is an indicator of the expansionary or contractionary effect of the budget on total demand. Even the "full-employment deficit", while it is less misleading than the uncorrected, observed deficit, can easily lead down the garden path.[2]

This is not merely an intellectual quibble. As long as the debate is about which deficit is the true deficit and about when it is and when it is not all right to run a deficit, any weakening of attachment to the strict balance-the-budget rule is likely to be accompanied by the hardening of new doctrine, not quite as rigid but equally arbitrary and possibly, because more readily applied, almost as hobbling. One likely candidate — in some quarters it is already full-fledged dogma — is the proposition that deficits are appropriate in "recession" but not during expansion. Another, less likely to gain immediate acceptance but a good bet if the more knowledgeable members of Congress and the newspaper people begin to take up the notion of the full-employment surplus, is that fiscal policy should assure a full-employment surplus of no less than zero. In a situation where private spending propensities are weak, and public resistance makes it impossible to expand government spending fast enough to take up the slack, such a rule would shift to *monetary* policy much of the burden for keeping total demand from falling behind potential output. If investment and spending on consumer du-

[1] I would not, of course, deny the importance of the former aspects of budgeting. The budget is a multi-purpose instrument; we must have an integrated system of sub-budgets. If this note appears to ignore that fact, it is only because the suggestion made below is entirely consistent with multi-purpose budget design. There is no conflic[illegible]

[2] Two budgets with the same full-employment surp[illegible] deficit, and the same revenue structure and expenditure composition, will have markedly different effects on total demand according to whether the level of expenditure (revenue) is $x billion or $2x billion or $1.03x billion. (The "full-employment surplus" notion has the great merit of distinguishing between shifts in schedules and income-change-induced movements along schedules. With a specified level of full-employment income, and if government purchases are constant, changes in the "full-employment surplus" provide a fair, if approximate [one parameter], measure of changes in the "weight" of the net-receipts schedule. For quantitative analysis, however, it is probably better to work directly with the "first-round" effects on the income flow, or, if it is government purchases that are changed, on the flow of spending. If there is a *parallel* shift in the total spending schedule, it makes no difference. If, however, the schedule "twists" — and if as a tentative working assumption one posits exact or near-linearity *nearby* and approximates the result by multiplying the autonomous change by some multiplier — then it is a better strategy, because of lags, to work "forward" and not "backward": later effects come later and the magnitude of subsequent spending effects is likely to be more uncertain. Moreover, there is less chance of cumulating error. (If the spending schedule is assumed to exhibit appreciable curvature, then one cannot use a constant multiplier anyway but must re-solve the entire system using the new schedule.)

rables should happen to be relatively unresponsive to monetary ease — a likely contingency in a sluggish climate — or if the money managers are frustrated by a very elastic demand for money (liquidity trap) or feel themselves hobbled by hot (footloose) money, the burden would be too heavy. There would result a chronic shortfall in total demand relative to potential output. Moreover, even if there were no troubles with sticky interest rates and inelastic investment spending or with the balance of payments, and hence if monetary policy could be made to work, there would be no cause for satisfaction. As a community we would be making our choices between investment and consumption blindly, as it were, uninfluenced by the relative desirability and the terms of trade between consumption now *versus* growth for consumption later. By imposing an arbitrary rule on our fiscal and monetary managers we will have lost an important degree of freedom with regard to the allocation of resources and/or, the purist might point out, the distribution of income (perhaps). (Needless to say, the bias of the zero full-employment surplus rule is not necessarily deflationary. In a situation of brisk private demand and fast expanding government spending, it would stack the cards in favor of inflation and/or tight-money-and-low-investment.)

The dilemma is plain. In our current situation a doctrine calling for a zero full-employment surplus would provide support for a badly needed reduction in the net fiscal load carried by the economy: for an increase in expenditures or a cut in tax rates or both. The "deficits are all right in recession" rule, in turn, could turn out to be useful during the next recession. Perhaps, like Churchill, we should welcome help irrespective of pedigree. However, one had better keep reminding oneself of the perils of such alliances. Employing specious crypto-rules in defense of sensible measures today may make it much more difficult to do the things that need to be done tomorrow.

It would be tempting, but wrong, to blame the problem entirely on the national neurosis about deficits. Wrong, because the truth that good fiscal doctrine cannot be based on the difference between expenditures and revenue would pose a throny problem for fiscal strategy even in the absence of deficit fixation. There would still be a need for budgetary principles which are simple enough to be persuasive at the level of serious newspaper discussion. The President, the Budget Bureau, the Treasury, and the Council can and do work with relatively complicated, unobvious rules; the President, if he will, has the ultimate say. But the Executive has to have a compelling rationale to justify the budget in relation to output, employment, and growth, in the Congress and the country at large. That need would not vanish even if Poor Richard and the fallacy of composition lost their hold.

Could the budget message be used to provide such a rationale? It is fair to say that the attempt has not been made.[3] Even in the 1963 *Budget*, a much more informative and sophisticated document than its predecessors, the assertion that the projected deficit or surplus is appropriate in terms of the goals of full employment and price stability has to be accepted on its face. In its discussion of the connection between revenues and total output the emphasis of the message is entirely on the revenue-yield of the forecast level of GNP ($570 billion). The much more important inverse relation — what level of taxes will help achieve the desired volume of total demand and output with the given expenditure plans — receives very little attention (see pp. 7–9, 19, 24–25). The budget makes it easy not to discuss that, the critical question, and to talk rather about the rights and wrongs of the surplus or deficit as such.[4]

It would be foolish to think that sensible and

[3] This is written before the publication of the 1964 *Budget*.

[4] In fairness, it should be said that last year the government did publish a sophisticated discussion of the 1962 prospects in the *Economic Report* (pp. 62–68), and that the budget message contains a reference to the *Report* (p. 19). However, it is the budget message which sets the tone and provides the grist for the newspaper people and politicians, and hence we cannot afford to relegate sensible discussion of fiscal policy to the *Report* and leave the budget message to treat fiscal policy as though it had to do primarily with raising money to pay for expenditures. The *Economic Report* should be considered as back-up for the interested few who are willing to read. (Ten pages stuck in the middle of Chapter 1 of the *Economic Report* are not likely to be given much publicity. In contrast, the entire budget message is published in the *New York Times*. To be sure, so is the President's report proper, and last year, for once, that did address the issues right-side up (pp. 11 and 12). Nonetheless, I would think that the point stands.)

explicit treatment of fiscal policy in the budget would be sufficient to assure congressional and public enlightenment. But would it not be a step in the right direction if the President were to present, as the centerpiece of his budget message, a quantitative exposition of the fiscal policy rationale of the budget? This would involve the presentation of the results of a trial-run "nation's economic budget" (NEB) exercise, which would show the expected pattern of net receipts and purchases of households, businesses, the rest of the world, state and local governments, and the federal government, in relation to the target level of "desired" output. The exposition could be relatively brief and refer to a full-length version in the *Economic Report*. It would have to emphasize the tentative, trial-run character of the exercise, its hybrid proposal-program-forecast nature, the large margins of error, the desirability of working with ranges of values (it might give ranges), and the need for revision, month by month, of the estimates, and more often than not, of the proposed policies. But if presented in the right way, such an exercise would make it possible to substitute reasoned discussion for *ex cathedra* pronouncement in the message itself and would help to provide the basis for more intelligent congressional and public consideration of the fiscal policy aspects of the budget.[5]

What are the objections to such a procedure? The objection that an NEB exercise involves illegitimate "planning" is, of course, untenable. If the government is to do an adequate job in terms of almost any widely held notion of the national interest, in terms of the requirements imposed on it by law, or in terms of its political future, it must take into account the fiscal impact of the budget and hence plan in precisely the sense of such an exercise. Arthur Burns could not avoid, any more than can Walter Heller, making estimates about the major components of total demand. He could not even avoid contamination with some notion of desirable, or tolerable, or "potential" output.

The serious objections have to do not at all with the internal use by the executive of such an exercise, but with the wisdom of a strategy of exposure, of publishing the quantitative results and using these to justify the government's fiscal program. A published NEB exercise will certainly draw fire. It will be attacked as a milestone down the road to serfdom. The target figures for total output and the major components will be attacked as too high, too low, inconsistent, and as reflecting dictatorial tendencies. As forecast, the exercise will be alleged to reflect both technical incompetence and foolish arrogance about the government's ability to predict spending behavior (even its own). Moreover, the betting odds are overwhelming that many of the allegations of inconsistency and bad forecasting will turn out — six or twelve or eighteen months later — to have been justified.

It could be argued, with some truth, that the government cannot hide that it has in fact planned, and cannot avoid revealing many of the specific estimates on which the budget rests, whether or not it publishes an NEB exercise. Even a pure money-raising, Byrd approach to the budget will get involved in the politics of target fixing and target achievement; the revenue estimate implies a target level of GNP. If the $570 billion had not been published, it would almost certainly have "leaked" and provided the basis for jeers by mid-summer and for pressure, desirable I think, for a large cut in taxes. Nonetheless, it is a fair guess that the use of an NEB exercise to justify the budget will stimulate rather than quiet controversy.

But would that be bad? The trouble with the present procedure is not that it gives rise to debate but that it fails to pose the true issues and hence makes it difficult to engage in sensible debate. We should welcome controversy

[5] It would be superfluous, here, to describe such an exercise, especially since the objections to its use, as proposed, do not generally concern matters of technical detail. (For comments on some technical issues, see the appended *Notes*.) The basis for the exercise would lie in a host of executive decisions about programs and targets and in a quarter-by-quarter forecast of total demand and its major components. The quantitative results could be summarized in a "G. C. table" (for G. C. read Gerhard Colm and see the first page of any issue of *Economic Indicators*) and presented in the fiscal policy section of the budget message (which should be moved forward to precede the sections on the composition of expenditures and revenues). The text would consist in a commentary on the choice of the target level of output, on the role of the budget in achieving that level of total demand, on the changes in policy that would be required if the projections were to turn out to be too low or too high, etc. Appropriate reference would, of course, have to be made to the fuller discussion in the *Economic Report*.

about the appropriate balance between personal consumption and various kinds of public consumption, or between consumption and investment for growth, as well as about whether the government's target for total demand is too high or too low in the light of the expected consequences for capacity utilization, the labor market, the price level, and the balance of payments. Vigorous public discussion of these issues, informed by quantitative presentation by the government of its own position in the budget message and the *Economic Report*, would perhaps begin to make inroads on the fixation on deficits and spending and taxes as evil in themselves. Not that sensible presentation of the issues in the budget message will result in miracles. But the current mode of presentation discourages and hinders nonmiraculous, slow improvement.[6]

There remains what is perhaps the most serious objection at the level of strategy and tactics: that if the government publishes an NEB exercise, or even if it merely commits itself to a target rate of output, it will thereby impair its freedom of maneuver. This, the flexibility issue, is not without its peculiar side. It not only involves flexibility to adjust policy when off (or on) target, but also flexibility *not* to adjust policy when the economy is off target. One can certainly sympathize with the discomfiture of a Secretary of the Treasury whose own targets and projections of January are being used to pressure him into action in August, action which he may judge undesirable and/or politically unfeasible.

However, the coin has another side. If the government decides in January that, say, $570 billion is a desirable and reasonable target in the light of its estimate of potential output, inflationary pressures, the balance of payments, and a host of political judgments, then it is conceivable that it might even welcome pressure on itself to take corrective action six or nine months later, should performance be substantially off the target. Certainly from the point of view of the national interest, if not the comfort of ministers, it is not evident that the pressure for action which a shortfall or overshoot would generate would be necessarily counter-productive. Moreover, if under such circumstances the President should decide in favor of corrective fiscal action, he would surely find it much easier to make his case with a target and an underlying NEB exercise on the books. Current practice, since it does not exhibit the quantitative links between the budget and the original half-avowed GNP target, does not provide the ingredients for a convincing brief. An intelligently designed exercise published in January, one which takes account of the inevitable margins of error, would be especially helpful at times when the need is for fiscal action which would make large deficits (or surpluses) considerably larger.

None of this is to deny the importance of flexibility. Unforeseen price pressures, changes in the balance of payments or in defense requirements, and the like, might well require changes in targets and appropriate adjustments (or non-adjustments) in policy. However, in most such situations it is not only possible but desirable for the Executive to articulate the need for the change. A case can be made that the government should not employ a tactic of comfortable silence even in situations in which it decides to obviate any need for changing policy by passively adopting a change in targets.[7]

[6] Nor would it be a bad thing if, as a consequence of greater public exposure, the technical quality of the forecasts and projections underlying the budget were subject to more systematic criticism from the outside. Apart from stimulating improvement in the state of the art, exposure might help to strengthen resistance, in the face of political pressure, against excessive "distortion."

Concerning the danger that an NEB strategy will inflame ideological controversy and divert attention from the true issues, I am prejudiced enough to think that the case for the defense is so strong — and that it can be made so simple, compelling, and even interesting — that one might almost welcome attack and a "great debate" as an opportunity for powerful rebuttal and useful public education about the role of taxes and government spending in relation to price-market institutions.

[7] It could be argued that the requirement to make a public commitment to a target will distort the choice of the target, that is, that the government will want to play safe in January and pick a target which is relatively easy to attain. On its face, it would not appear obvious which way, if at all, the countervailing temptations of ambition and caution are likely to bias the choice. In general, if the anticipated pressure to live up to target makes the President and his advisers even more careful and sober about what target they pick than they would be otherwise, that is probably all to the good. Sober seriousness is not, of course, equivalent to a preference for a lower rather than a higher output target. To pick a "low" target is to acquiesce in advance — and, given an NEB exercise, in public — in a loss

All the above is relevant to what may be the real political sticking point. The more explicit is the government's commitment to an output target, and the more explicit are the calculations which underlie such a target, the more clubs one gives away to one's political opponents. Moreover, and quite apart from political warfare, there is always the danger that poor performance — and every now and then performance is bound to be very poor — will be used by the ideologists to discredit systematic quantitative fiscal planning.

Unfortunately, it is not clear that there exists a strategy for the improvement of our fiscal politics which will avoid these dangers. Moreover, sensible and sophisticated presentation of an NEB exercise can do much to blunt irresponsible attack. By emphasizing the tentative quality of the projections and the need to keep re-examining and re-adjusting both the projections and, quite likely, the proposed policies; by avoiding *point* estimates; by scheduling and publishing a re-estimation in June and then quarterly during the entire fiscal year; by indicating the stand-by policies that might have to be invoked, should the gap between performance and target turn out to be large — by all such means the government can both build a strong defense against the charge of naive crystal-ball gazing and, more important, provide for itself a position from which to recommend and undertake changes in policy as circumstances warrant (and pin blame on the Congress when congressional intransigence prevents needed adjustments in policy).[8]

Last, it is perhaps not idle to hope that a strategy of planning and operating fiscal policy rather more in the open will help to create public support for giving the Executive some limited discretion to vary tax rates. As people get used to the notion that taxes and spending are like the brakes and the throttle of a car — that to lock them in place is dangerous, and that small marginal adjustments, made in time, may avoid the need for drastic adjustment — resistance to giving the Executive some freedom of fiscal maneuver is likely to decline.*

of output, wages, and profits; in unemployment and sluggish growth.

[8] Sensible presentation of an NEB exercise, and especially the use of ranges of values, can help to get around the problem that the executive budget is only a proposal to the legislature and hence contains items on the enactment of which the betting odds are poor.

* *Notes on Technical Issues of Budget Design*

(1) Offhand, I can think of no strong reason why the summary NEB exercise — which would appear in the fiscal policy section of the budget message and the purpose of which would be to guide congressional and public discussion — should not follow National Income Division conventions and procedures. Moreover, there is good reason why it should do so, e.g., the need for coherence between the federal sector and the other sectors as regards timing, transactions coverage and exclusions, etc. (My preference for NIP timing [receipts by and large on accrual and purchases on delivery] is not motivated by strategic calculation of how to minimize the damaging effects of deficit-fixation. It is not so motivated because I am not clear on strategic grounds where I would come out. I wish I were more convinced by the Schultze argument — or its opposite.)

(2) When it comes to the use of the budget figures for quantitative analysis of the effects of the budget on total demand, the situation is more complicated:

a) As regards agency coverage, the administrative budget is inferior to the Cash and NIP Budgets. We need a consolidated statement for the federal government as a whole.

b) As regards the inclusion or exclusion of "asset-transactions," there is no clear answer and neither the cash nor the NIP version alone will do. Loans and purchases of old assets will have important portfolio-effects on total demand and hence the budget statement should provide information on the government's plans with regard to both categories. The NIP Budget is, on this account, incomplete. On the other hand, it would be a mistake not to try to maintain the distinction between "fiscal" and "monetary" effects and simply to lump, as does the Cash Budget, bona fide loans with expenditures — the more so since much the larger part of the government's capital operations (debt management and Federal Reserve open-market) are anyway not included. Why not add two more non-NIP columns to the five now provided in the NIP version (purchases, transfers, interest, grants-in-aid, subsidies less surplus)? The two new columns could be ignored in the unavoidable calculation of the NIP deficit. (Loan guarantee and other indirect subsidy programs had best be covered in connection with the particular functions and activities they are designed to support.)

c) On the question of *timing*, it is best to be eclectic and not make a categorical choice between "cash" and "accrual" on the income/receipts side, or for that matter, between "obligations (orders)", "deliveries" and "cash" on the product/expenditure side. All five time-profiles will be significant for the analysis of the effect of the budget on total demand (no doubt differentially so according to cyclical circumstances and, on the expenditure side, according to what is being bought). To the extent feasible, the budget should provide estimates on all five flow-rates. (I suppose if I were made to choose, for purposes of back-of-the-envelope fiscal analysis I should follow NID and use accruals in timing the impact effect on the income stream, and rather more doubtfully, deliveries on the expenditure side. Needless to say, the choice depends on one's notions about the determinants of various components of private expenditure, production lags, and the like.)

(3) It would be useful if the fiscal policy section of the budget message were to point out what the NEB exercise shows to be the estimated effect of the budget on the public share, federal and state-local, in GNP, and on the non-defense public share, and if it were to make some comparisons with prior years. (Appropriate reference would have to be made to subsidies as reflecting some degree of federal absorption of output and also to federal finance of state and local purchases).

(4) The fiscal policy section of the budget message should also point out the implications of the "fiscal policy plan" for the investment-consumption mix in the economy as a whole.

(5) The lead table on budget expenditures by function should be supplemented by a larger table in which the expenditure figure for each function is broken down into purchases of goods and services, outright subsidies, transfer payments to individuals, grants-in-aid, interest, loans, and purchases of old assets.

(6) The above seven-way split should be carried through in the detailed discussion of the "Federal Program by Function."

(7) I would think it a bad idea — on grounds both of concept and of strategy — for the federal government to adopt a two-budget system involving a full-fledged capital account. Such a system would almost certainly result in the enthronement of the shibboleth that it is all right to debt-finance capital expenditures but the current budget should be balanced or in surplus. Except under very strong "classical" assumptions, such a rule would not assure "neutrality" as regards the saving-consumption choice, and would lose us an important degree of freedom, making it much more difficult to achieve through fiscal and monetary measures whatever total demand, income distribution, consumption-investment mix, and public-private balance we might desire. (A related secondary danger is that "investment" would come to be defined as bricks and mortar or the purchase of self-liquidating assets and, in particular, that investment in education, public health, etc., would not qualify.)

(8) The above does not imply that we should continue to lump together public consumption and public investment. It would be most useful to distinguish, on the expenditure side of the budget, between consumption-type expenditures, investment in tangible assets, and what Musgrave calls "expenditures for future benefit not resulting in acquisition of assets." The burden of (7) above is only that we should not associate particular receipts with particular types of expenditure.

THE CONSOLIDATED CASH STATEMENT OF FEDERAL FINANCIAL TRANSACTIONS — SOME ISSUES

Samuel M. Cohn

THE present statistical series of Federal cash receipts from and payments to the public (consolidated cash statement) has two important characteristics which are winning it much support as the series best qualified to reflect Government fiscal trends and results.[1] Like the administrative budget and unlike the national income accounts, it is a body of operating statistics based directly upon accounting records of Federal agencies. Like the national income accounts and unlike the administrative budget, it is comprehensive, including transactions of Federal trust funds, which now total between $25 and $30 billion per year — in fact, it is a more complete representation of Government than covered by the national income accounts in that it includes such transactions as Federal loans, which do not affect income or output directly.

Briefly, Federal cash receipts from and payments to the public represent a consolidation of operating data arranged so that the difference between receipts and payments equals the combined change in the Government's cash balance and in its net cash borrowing from the public.

A careful examination of this definition discloses a number of issues which have counterparts in almost any adaptation of operating data to economic statistics. Many of these issues are currently under study in the Bureau of the Budget and other Government agencies, and some changes in present concepts and measures may be forthcoming. The present article draws on some of this internal Government work, but any evaluations given here are strictly the personal views of the writer.

Coverage

What is the Federal Government and what is private (or who is the public)? The simplest

[1] Cf. Chamber of Commerce of the United States of America, *Report of the Committee for Improving the Federal Budget*, October 19, 1962; presented to President Kennedy November 19, 1962. An old proponent, the Committee for Economic Development (*Taxes And The Budget*, November 1947), has recently been exploring new pastures (*Fiscal and Monetary Policy for High Employment*, December 1961).

concept would be a straight consolidation of administrative budget funds and trust funds; next would be the present series of Treasury cash deposits and withdrawals, which includes as well any other transactions clearing through the Treasurer of the United States.[2] The respective surpluses (+) or deficits (−) in each of these will give some notion of the statistical effect of the choice:

(In $ billions)

Fiscal year	Present series	Administrative budget-trust consolidation	Treasury deposits and withdrawals
1948	+$ 8.9	+$11.2	+$ 9.0
1949	+ 1.0	+ 0.1	+ 1.2
1950	− 2.2	− 3.4	− 2.1
1951	+ 7.6	+ 7.7	+ 7.7
1952	..	− 0.5	+ 0.3
1953	− 5.3	− 5.8	− 5.1
1954	− 0.2	− 0.7	− 0.2
1955	− 2.7	− 3.2	− 2.1
1956	+ 4.5	+ 3.9	+ 5.1
1957	+ 2.1	+ 3.0	+ 2.7
1958	− 1.5	− 2.6	− 1.1
1959	− 13.1	− 13.9	− 12.4
1960	+ 0.8	+ 0.9	+ 1.4
1961	− 2.3	− 3.3	− 1.4

It is interesting to note that a shift of concept would have caused a change from deficit to surplus in only one year, 1952, when the balance was quite small. Although no series shows a larger net surplus or net deficit in all cases, the Treasury cash deposit and withdrawal series seems to improve the deficit or surplus position most frequently.

But to return to the basic question, who constitutes "the public" — the non-Federal Government universe? At the present time, the Federal Reserve Board, the Postal Savings System, the International Monetary Fund, and other international organizations are part of "the public." On the other hand, various Government-sponsored enterprises — secondary market operations of the Federal National Mortgage Association, Federal Deposit Insurance Corporation, Federal intermediate credit banks, banks for cooperatives, Federal land banks, and Federal home loan banks — are defined as part of the Federal Government, presumably because they all have a call on the Treasury for any funds needed in an emergency and they all are subject to some congressional or executive branch suasion; in two cases (land and home loan banks), however, Uncle Sam no longer owns any stock of the enterprises.

A related issue has to do with the proper place—public or private—of "deposit funds," which consist chiefly of custodial and suspense accounts maintained by the Treasurer of the United States.

[2] This is the series shown each day on the *Daily Statement of the United States Treasury.*

Timing

If we assume the consolidated cash series should remain as a *cash* (as distinct from accrual or partly cash) series, we are still faced with the issue of defining "cash." Should a non-interest bearing Treasury note which the International Monetary Fund could convert into currency at a moment's notice be considered as cash — or as the debt instrument it seems to be? The terminal leave bonds issued to veterans after World War II are another example. Similarly, is the interest accruing on savings bonds each six months a cash payment or a note (borrowing)? In all cases, they are not now considered as cash payments until redeemed.

There is another issue for which the present treatment seems to the writer much more questionable; namely, the total of cash payments reflects checks cleared rather than checks issued. The checks cleared (or checks paid) basis derives from an underlying effort to tie the excess of cash payments (or receipts) to the combined change in cash balance and cash borrowing. From the Federal Government's point of view, it would seem to be at least as reasonable (if not more so) to have checks issued be the cash payments and to use the "float" as a reconciliation item on the cash balance and borrowing side.

Additional Clarifications

The issues mentioned above affect the balance between receipts and payments. A few other issues are noteworthy even though they do not affect the balance. First, grossing; to provide additional information about Government transactions it has been recommended that all Federal transactions should be shown on a gross basis.[8] For example, refunds of overpaid taxes are now netted against tax collections; outlays for new loans by most Government enterprises are now shown net of the collections on old loans; and only those postal expenditures met by the general taxpayer are shown, with receipts from postage stamps and other postal services deducted from gross postal expenditures.

One should note that (1) grossing is not essential to full disclosure, particularly since published budget schedules already reveal gross transactions and many other details, (2) recording of gross money flows does not seem to be the proper rationale for defining the Government sector, (3) a presentation of outlays for public use (distinguished from private use as in the case of the postal service) seems a better rationale, and (4) double counting (as in tax receipts and refunds of overpaid taxes) can be justified only on a money flow and workload basis.

Second, payments and receipts for retirement of Federal employees seem to be treated inconsistently. Although taxes withheld from a Federal worker are correctly considered a (wage) payment to the public (the employee) and a receipt (taxes) from the public (the same employee), the same employee's contribution to his retirement (Government trust) fund is considered as an intra-governmental transaction which does not involve the public. The justification for the latter situation is that the Treasury does not have to raise (borrow) cash currently to pay this portion of salary and retirement costs; but the same logic could be applied to withheld taxes on the Government's employees. For consistency's sake, the same treatment seems indicated, and defining the employee as part of the public and not part of the Government universe seems sensible.

Similarly, Federal agency payments (as employer) to the Federal employees' retirement trust fund are now considered intra-governmental transactions, and not payments to and receipts from the public (the covered employees). Although these retirement contributions are certainly a cost of employment, the argument can be made that it would be double counting to include them as a payment when part of wages, and also as a payment when the annuity is paid after retirement. A related argument could also have been made for the employee contribution.

For those Federal employees (mainly blue collar workers) covered by social security, the treatment is again inconsistent. In this case the employee is considered part of the public (like any other wage earner covered by the old-age and survivors insurance system) and not part of the government, and the government payment as employer is also treated as if it came from a private employer.

Conclusion

After 15 to 20 years, the basic approach of the consolidated cash concept has proved itself, but the time has come to re-examine it for the purpose of making those improvements which seem logical and sensible to the public as well as to the Government.

[8] Cf., Dan Throop Smith, "An Analysis of Changes in Federal Finances, July 1930–June 1938," this REVIEW, XX (November 1938), 158; Murray L. Weidenbaum, "Government Spending: Process and Measurement," Boeing Airplane Co., 1958, B 86; and Roy E. Moor, "The Federal Budget as an Economic Document," Joint Economic Committee, 87th Cong., 1962, 31–93.

SOME OBSERVATIONS ON THE BUDGET CONCEPT

Gerhard Colm and Peter Wagner

DURING recent years official and non-official statements have emphasized the existence of a number of valid concepts of the Budget and the public has become familiar with, and has been greatly confused by, the various computations of the Administrative Budget, the Consolidated Cash Budget, the National Income Budget, to say nothing of references to a possible Capital Budget and an Accrual Budget.

The use of various budget concepts is justified by the fact that the budget serves different purposes. We may distinguish (1) program analysis, (2) financial analysis, and (3) economic analysis. For these purposes there is need of (1) a program budget, (2) a statement showing cash receipts and payments with consequent changes in the national debt, and (3) the Federal sector in the National Economic Accounts or National Economic Budget. The present Administrative Budget performs none of these functions satisfactorily.

While there is justification for the use of different budget concepts for different purposes, we need one budget concept which can be the basis for decisions within the Executive Branch and by Congress concerning the government programs. This basic concept should be the Program Budget. However, the decision-makers, and the public for appraising the actions by the decision-makers, need certain supplementary information. We regard the cash concept and the Federal sector in the National Economic Accounts or National Economic Budget as providing such essential information for the decision-makers and for an appraisal of the significance of government action by the general public.

Therefore, perhaps the most important task is to transform the present Administrative Budget into a true Program Budget. It is fully realized that the transformation of the Administrative Budget into a true Program Budget would involve substantial modifications; the present structure of that Budget — with some items on a cash and others on an accrual basis, and incorporating many other incongruities — has come about solely as a matter of historical accident, and has no logic to recommend it. To become a true Program Budget, the annual aspect of the Administrative Budget must be de-emphasized. Much more emphasis should be placed on functional aspects and a clear distinction must be made between programs involving only current expenditures, and others that may take many years to be completed. The Defense Department is moving in this direction under the guidance of Secretary MacNamara and Assistant Secretary Hitch. A budget for each program would begin with the total cost of the program until completion, and then would annualize a portion of such cost in accordance with the anticipated schedule of progress of such a program. It is quite unrealistic, in many cases, to show the first year's figures of a specific program, as these may only amount to a fraction of what will ultimately be spent. The NASA program or multi-purpose dam construction are examples in this category.

With respect to the longer-range programs, the Program Budget would primarily give the estimated costs of the program as a whole and only as a secondary estimate a proposed phasing of the expenditures over a number of years. Any estimate of income and expenditures for any particular year must be based on such estimated phasing of the longer-range programs. What is referred to as the Administrative Budget is an estimate of year-by-year receipts and expenditures. Such estimates are based on the authority to incur obligations under existing and proposed programs. However, in translating the programs into yearly expenditures, no clear concept either of cash expenditures or of accruals is used. There are also internal transfers from one fund to another which are not eliminated so that what is called the Administrative Budget does not give a clear picture of all yearly expenditures, either under the cash or the accrual concept.

For purposes of financial planning, particularly debt management, it is necessary to use a cash concept and eliminate all intra-fund transactions. Only such a consolidated cash statement permits conclusions with respect to the increase in the government debt either held by the public or by government agencies or government controlled funds. This leads to the first supplementary statement, namely the Consolidated Cash Account. This should take the place of the summary statement which is now given in the Budget document and which is often referred to as the Administrative Budget.[1] However, it should clearly distinguish between those transactions which lead to a change in the government debt held by the public in general (which would include the debt held by the Federal Reserve System and private banks) and the changes in the debt held by government agencies, government corporations, and government trusts.

For appraising the impact of the government operations on the economy in a particular

[1] This article was written before the publication of the 1964 Federal Budget. We are pleased to note that the new Budget incorporates this suggestion to a considerable extent.

year, another auxiliary statement is needed. For this purpose, a modified version of the Federal sector in the National Income Account is most useful. The word "modified" is used deliberately because the Federal sector of the National Income Account is deficient in one important respect — it does not include the impact on the economy made by government loans and loan repayments with the exception of price support loans made by the Commodity Credit Corporation. This is a serious shortcoming if we want to measure the Federal Government's influence on the economy. The impact of all Federal transactions, including both loans and expenditures, should be analyzed by their effect on the flow of income and employment. It is not intended to criticize the way the Commerce Department has developed these National Income Accounts. They were not originally designed to furnish guidance in the area of Federal Finance; and given their original concepts, the loan figures were correctly left out of the Federal sector of the Department of Commerce statement since they appear in another category of their National Income figures. However, if we wish to use the Federal sector account as a guide in the future, the loan transactions of the Federal Government, separating those involving existing assets, must be included.

There is one other aspect that deserves mention in this connection. The economic impact of Federal Loan Insurance and guaranty activities should be stated in a supplement to the modified National Income Account. The economic impact of these programs may be of substantial importance even though they are reflected only with negligible amounts in budget expenditures. All these activities should be readily visible when reviewing the total impact of the government's activities in any one year. In general, it must be left to the user of the information to decide what part of the loans would be extended even if there were no Federal insurance or guarantee. However, insurance operations of such bodies as the FDIC and the FSLIC could be excluded for this purpose.

This modified type of a National Income Account is preferred because it is (for the most part, though not entirely) on an accrual rather than on a collection and payments basis, and thus particularly useful in the type of economic analysis which uses the "Nation's Economic Budget" as a framework.

While showing expenditures on an accrual basis is useful for appraising the impact of government actions on the economy, this cannot be a perfect means of measurement. Thus, for example, even the accrual concept as used by the Department of Commerce is deficient in respect to awards for military hardware. In many cases the decisive influence of such awards on the nation's economic activity is initiated by the issue of authorization or the issue of a letter of intent. Thus, supplementary information should be provided which indicates the orders placed and similar facts with an immediate impact on the economy.

The accrual concept of expenditures is superior to the cash concept for measuring the Federal Government's impact on the economy. However, it does not follow that the accrual concept should also be used for the decision-making of Congress. The Hoover Commission had proposed such a shift in order to give Congress more immediate control over Government transactions. Congress had felt frustrated so often because appropriation actions which affect the authority to incur obligations would have little impact on the cash expenditures of the ensuing year, but would often have only an impact on the cash expenditures of two or three years later. This led to the idea that appropriations should be based on the accruals, meaning on the work to be undertaken during the ensuing year. Public Law 84–863 provides some step in the direction of an accrual type budget for appropriation purposes. We doubt the desirability of such a development. A shift to accrual basis appropriations would deprive the Federal Government of much-needed flexibility with respect to the longer-range programs. Any change should be in the direction of providing greater flexibility rather than in extending such a restrictive appropriation base in the execution of longer-range government programs.

The proposed Program Budget, in itself, would shift the emphasis for at least a part of the Budget from the short-run to the longer-run aspect. In addition, the informational Federal sector of the nation's Economic Budget should give guidance for policies in support of longer-term growth and stability. For these reasons, it is suggested that complete economic budgets for the nation should be drawn up and presented to Congress for the year under consideration, for the preceding several years, and for a number of years ahead. In addition, a longer-term projection of the national economy ten years hence should be included, and a "flashback" of the position ten years ago would also be useful. While the responsibility for the presentation of the National Income Accounts for the past and current years should remain with the Department of Commerce, projections for National Economic Budgets for future years should be under the responsibility of the Council of Economic Advisers. Such a complete economic budget would include the figures for Federal receipts and expenditures each year. This requires parallel projections of Federal Budgets with the corresponding economic projections. The pricing of future government programs should be the responsibility of the Bureau of the Budget, while projections for resource allocation should be the province of the Council of Economic Advisers.

Concerning future projections of the nation's economy, Congress and the nation can make more meaningful decisions when they can visualize the consequences of these decisions in terms of their impact on future years. Annual budgets should never be viewed in isolation, although this practice did little harm at a time when the Federal sector was of little account in the evaluation of the American economy as a whole. Today, when Federal receipts from and payments to the public account for 20–25 per cent of our GNP, the trend of such government receipts and expenditures forms an important determinant shaping the course of the economy in future years. Knowledge of the Budget outlook covering a number of years ahead is essential when policy decisions based on budget considerations are being made.

It is most important that long-term outlook projections should be based on a reasonable estimate of economic growth rather than on prediction. Similarly, National Economic Budget projections should be developed in accordance with freely published assumptions rather than as forecasts.

Today, budget estimates of revenues and expenditures pretend to be forecasts, but are really only estimates based on certain assumptions. This is inevitable because departmental estimates have to be prepared for a period up to two years ahead. The present practice has had unfortunate results, evidenced by the wide discrepancies between budget estimates and the actual out-turns. It is also subject to political pressures in the formulation of the underlying assumptions. For example, the temptation to show a balanced budget may have the result of forecasting unduly optimistic economic developments for the preparation of the revenue estimates.

This dilemma could be avoided if the preparation of Federal Budget estimates were based on clearly defined assumptions of a reasonable rate of economic growth. Of course, it is recognized that in practice there would often be deviations from the projected path. The President can deal with these in his Budget Message and the Economic Report which are finalized only shortly before publication. At the same time he could couple this with specific proposals for getting the economy back on the pattern of reasonable economic growth.

The introduction of a separate Capital Budget seems inadvisable. However, all capital expenditure items should be enumerated separately, and should be prominently featured. In this respect, the 1963 Budget tabulation on pp. 25/27 of the Federal Budget Document represents a great advance. More prominence might be given to the capital expenditure content of each budget, and capital expenditures for each agency should be mentioned separately and prominently.

Proponents of the Capital Budget concept maintain that it could be used to justify budget deficits up to the amount spent on such capital items, since even business firms do not find it "unsound" to go into debt for the acquisition of capital assets. However, there is a great deal of difference between business and government accounting. Also, it is felt that the existence of such a separate Capital Budget might distort Federal expenditures in ways that may not always be most desirable. It may well result in a preference for expenditures on physical assets rather than greater spending for intangibles such as health and education. A more convincing case for the introduction of Capital Budgets could be made if we could gradually evolve a concept of capital expenditures which would include both physical assets and investment in human capital, as two types of investments in economic growth.

A case can be made for the introduction of Capital Budgets for such agencies as the Post Office where the existence of a chronic perpetual deficit may unduly inhibit the approval of substantial capital expenditure items which would improve efficiency. Also, in the case of FHA, FNMA, and other agencies which are required to operate programs on a self-sustaining basis, the separate financing of capital expenditure by means of bonds with redemption dates in alignment with the rate of depreciation of these assets may well be considered, provided their financial operations are geared into the Treasury program for debt management and the general economic situation. The point to be made here is that scope for the useful adoption of capital budgeting in the Federal Government is considerably more limited than proponents of the idea allow, and that, with the exceptions mentioned above, no real economic purpose would be served by the introduction of a separate Capital Budget. However, it would be highly useful if projects could have separate classifications for investment in physical assets and in human capital, but would regard all such expenditures as investments in economic growth.

More education concerning the merits of the proposed Program Budget as well as the two supplementary statements is necessary, not only as regards Congress, but also — and ultimately perhaps even more important — in order to create a better informed public opinion. It is essential that Congress and the general public have a clear idea of the different functions of each of these concepts. Public and Congressional approval of the necessary changes will come more quickly if the various figures shown as Budget out-turns, depending on which of the three concepts has been employed, could be reconciled without too much strain in a similar manner to the process involved when the average citizen reconciles his bank statement at the end of each month.

It is felt that the adoption of these improvements would put us in a much better position to make economic policy decisions on the basis of economic and fiscal data, and would facilitate a more efficient allocation of our resources. Businessmen could make their investment decisions with the full knowledge of government programs for a number of years ahead while economists could make their recommendations with a greater degree of confidence and such recommendations would gain a greater measure of Congressional and public acceptance.

ON CHOICE OF CONCEPTS FOR THE FEDERAL BUDGET

Otto Eckstein

THIS paper compares the three common concepts of the Federal Budget and also presents some notes on the use of a Capital Budget. It is concluded that the Cash Budget represents the single most useful set of accounts.

Differences Among the Three Budgets

Given budget symbolism, greatest popular interest attaches to the deficits shown by the several concepts. Table 1 summarizes recent results.

The total deficit is almost identical under the concepts of the Administrative and the Cash Budget. In earlier years, the Cash Budget tended to run somewhat more in surplus because of the Social Security Trust Funds. In the late 1950's and early 1960's, however, the Social Security Trust Funds were just about breaking even.

The Cash Budget has the important virtue of comprehensiveness. The Administrative Budget has been eroded by succeeding Administrations, and it has simply ceased to be a reliable account of the Federal government's fiscal activities. The Cash Budget comes very close to completeness. Of course it contains some netted figures such as the postal deficit rather than

TABLE 1. — DEFICITS, THREE BUDGETS, 1958–62 (Fiscal Years)

	1958	1959	1960	1961	1962e	Total 1958–62
Administrative Budget	−2.8	−12.4	+1.2	−3.9	−7.0	−24.9
Cash Budget	−1.5	−13.1	+0.8	−2.3	−8.5	−24.6
NIPA	−4.9	− 4.8	+2.2	−2.2	−0.5	−10.2

total postal expenditures and revenues, but this has no impact on the deficit and is not an important matter from the point of view of measuring economic impact. Since there is no logical justification for the lack of comprehensiveness presently in the Administrative Budget, I shall not discuss it further.

Cash Budget and the National Income and Product Account Budget (NIPA)

The total difference between the Cash Budget and the NIPA budget in these five fiscal years is over $14 billion, or about $3 billion a year. Although much of the justification for the use of the NIPA runs in terms of the timing of receipts, it is not the receipts that make the longer-term difference between the two budgets; there is only a total difference of about $0.8 billion in the receipts for the five years. It is on the expenditure side that the NIPA leaves out some very large items which cut the deficit. (See Table 2.)

TABLE 2. — EXPENDITURES: CASH BUDGET AND NIPA

	1958	1959	1960	1961	1962e
Cash Budget	83.4	94.8	94.3	99.5	111.1
NIPA	82.8	90.2	91.9	97.0	106.1
Total Difference	0.6	4.6	2.4	2.5	5.0
Difference in Agriculture and Housing	0.5	6.1	3.2	1.3	n.a.
All Other Differences	0.1	−1.5	−0.8	1.2	n.a.

While many items contribute to these differences on the expenditure side, a very large part is accounted for by the transactions in financial assets and used assets which are excluded from the NIPA. These are concentrated chiefly in Agriculture and Housing, as Table 2 shows.

Should the Budget be on an Accrual Basis?

I think it would generally be agreed that much of the economic impact of corporation income taxes occurs at the time the liability is accrued, rather than when the payment is actually made. This is not to say that the payment flows are irrelevant, for they do withdraw funds from the short-term capital market. Thus, analyses of the investment plans of corporations are carried out better with the accrual concept, but analyses of the trends in the capital markets are better done with a cash concept.

In recent years, change from cash to accrual budgeting would not have changed surpluses into deficits, or vice versa. It would have added to deficits in recession years and reduced deficits in the first year of recovery. From the point of view of sound, modern fiscal policy, assuming public acceptance of deficits in recession only, it is of course desirable to have the deficits reported during the recession which caused them rather than in the first year of recovery. Projected deficits in recovery put pressure on the government to switch quickly to restrictive policies. The recession of 1958 and the subsequent recovery illustrate the importance of this point.

However, I believe that in the future the timing point will lose significance. First. the recessions are becoming milder as the economy fades further from its potential in non-recession times. As a result, deficits are incurred in most years and the temptation to strike for quick budget balance becomes more remote as it becomes more unrealistic. Further, the public, or at least the informed portion of it, now understands that there are collection lags and is more forgiving about the deficit in the first year of recovery.

An Accrual Budget also suffers from one major difficulty: it is impossible to verify it with objective data. Whereas Cash Budget revenues are ultimately confirmed or denied by the actual tax collections, no similar objective set of figures is produced for accrual accounting. It is also more difficult to forecast an Accrual Budget, since the forecasters do not have the benefit of historical data about corporate profits on which to base future profits tax projections. I assume that expenditures could not be put on an accrual basis in the near future for technical reasons.

Should the Financial Transactions be Omitted?

While the economic significance of transactions in mortgages and other financial assets and in used assets may not be the same as the purchase and sale of goods and services or transfer payments, a good budget clearly cannot skip them. The major fault of budget practice of the last fifteen years has been the gradual loss of comprehensiveness, the gradual exclusion of more and more items from the Administrative Budget. To now institute a new budget which has the same fault, perhaps to a worse degree, does not seem at all reasonable. Nor will the public accept a new budget which leaves out large chunks of expenditures.

This is not to deny the importance of the NIPA budget for analysis within the National Income framework, and the Department of Commerce must continue to prepare these figures along with the rest of the National Income accounts. But as a budget document, presented to the public as a description of the revenue and expenditure activities of the Federal government, obviously the financial items cannot be overlooked. Apart from comprehensiveness, they also have economic significance. For example, some of them add to the financial capital available to the private economy.

What Form Should Future Budgets Take?

The above comments suggest that budgets serve two kinds of purposes: on the one hand, they must be a complete and honest account of the activities of the Federal government, based on objective data which can be verified when the period is over. On the other hand, they serve economic analysis; not all kinds of expenditures have the same impact, and revenues may have economic significance when they are accrued rather than when they are collected. It may be that no one set of figures can serve both these purposes adequately, although if it is feasible, it would be very desirable to have just one budget, or at least to present all the figures in one cohesive scheme.

To show the public how the various figures hang together, and also to serve the needs of economic analysis, I present a set of model accounts which could be featured in the budget document.

EXHIBIT I: A CASH ACCOUNT OF THE FEDERAL GOVERNMENT

	Revenues	Expenditures	Surplus or Deficit
Cash Budget			
Less omissions			
Plus transfers inside the government *			
Equals Administrative Budget			

* There may be a neater way to dispose of the intragovernmental transfers than to have a separate line for them. Perhaps the Cash Budget should be put on a basis which does not net out these transfers.

Exhibit I presents "The Budget." It first gives the Cash Budget and then goes to the Administrative Budget by explicitly showing the omissions (and adding in the intra-goverment-al transfers). This table is important because it shows very clearly that the Administrative Budget is not a complete statement of Federal finances.

EXHIBIT II: ECONOMIC ANALYSIS OF THE CASH BUDGET

CASH EXPENDITURES	Total	Current	Capital
Purchases of goods and services			
Transfer payments			
— to individuals			
— to businesses			
— to governments			
Net interest paid			
Subsidies less current surplus of government enterprises			
Loans to businesses, individuals and governments			
Other expenditures not in NIPA			
Total cash expenditures			
Adjustments to NIPA basis			
Total expenditures on NIPA			
CASH REVENUES			
Personal taxes and non-taxes			
Income			
Estate and gift			
Other			
Corporate profits taxes			
Excise taxes			
Other taxes and non-taxes			
Contribution for social insurance			
Other trust fund receipts			
Receipts from capital transactions			
Total cash receipts			
Adjustments to NIPA basis			
Total NIPA receipts			

Exhibit II seeks to combine the best qualities of both the Cash Budget and the NIPA. It starts with the totals of the Cash Budget and then breaks them down by the Income and Product Account economic categories. It then adds those items which the NIPA leaves out and shows the adjustments for netting and accrual.

Whether the "capital" vs. "current" distinction should be made is an open question. I append a note which discusses some of the issues of setting up a Capital Budget for the United States.

EXHIBIT III: CASH EXPENDITURES BY FUNCTION

This exhibit could follow present practice, that is, a breakdown of the Cash Budget into the functional categories, such as National Defense, International Affairs and Finance, Natural Resources, etc.

EXHIBIT IV: CASH EXPENDITURES BY AGENCY

This exhibit would present the Cash Budget broken down by agency, analogous to the present agency breakdown of the Administrative Budget. The major difficulty lies in the handling of the intra-govermental transfers. Since the agency figures must account for all agency expenditures including these transfers, they would have to be included here and the resultant total expenditures would be the present concept of payments to the public, plus the transfers within the government. Tradition may also require separate lines for the trust fund expenditures.

Concluding Note

This note is not meant to be a definitive proposal. Questions of feasibility would have to be explored. Many technical details on specific items would have to be settled and the nomenclature must be improved.

I have emphasized the Cash Budget rather more than the NIPA budget, even though many other students of the problem are now emphasizing the NIPA budget. I have done so for six reasons. (1) The Cash Budget is comprehensive. (2) The Administrative Budget is indefensible because it is not comprehensive. The NIPA budget shares this fault while the Cash Budget is free of it. (3) The Cash Budget is based on objective figures and can be verified. (4) The Cash Budget will reflect the surpluses of the trust funds over the next several years and both for purposes of economic analysis and public presentation, the total Federal cash deficit must be correctly identified. (5) While the NIPA budget is essential for certain analytical purposes, it is possible to classify the Cash Budget along the NIPA concepts. (6) The improved timing of deficits in relation to recessions of the NIPA is of some importance, but I believe of declining importance in the coming years.

The best solution to the problem lies in some combination of the present concepts, containing the comprehensiveness of the Cash Budget, and the sound economic concepts of the NIPA budget.

APPENDIX: A CAPITAL BUDGET FOR THE U.S.?

For the United States, the Capital Budget can be viewed as serving five purposes: (1) to introduce a better fiscal principle than annual balance of the Administrative Budget; (2) as a form of development program; (3) as a device for administrative reform; (4) as an information program to indicate to the public how the government contributes to capital formation and economic growth; (5) as a device for putting the American budget on similar concepts as other advanced countries, to reassure foreigners about American fiscal responsibility, and to prevent gold flows.

The Capital Budget and Fiscal Principles

The origin of the idea of the Capital Budget was to find a sound principle for the state of balance of budgets.[2] Just as the accounting

[2] See R. A. Musgrave, "The Nature of Budgetary Balance and the Case for the Capital Budget," *American Economic Review*, XXIX (June 1939), 260–71. Burkhead surveys the doctrinal history of the principle of the Balanced Budget.

statement of a business indicates the net income and change in net worth of a business, so a Capital Budget should indicate the change in net worth of the government. One degree of fiscal soundness would be to keep the net worth of the government constant, which would require that revenues would equal current expenditures plus depreciation of the government's capital stock plus interest on the national debt. A Capital Budget, with depreciation charged to the current budget, would assure this standard. A "sounder" principle would require the capital stock to grow at some rate.

The principle of annual balance in a unitary budget, which is roughly the American principle, does not guarantee any particular degree of soundness. On the one hand, it is possible to balance the budget by drawing down the capital stock by such methods as (1) not making replacements; (2) slowing down the rate of increase of new capital formation; (3) switching to leasing and renting of capital assets rather than buying; and (4) selling assets. On the other hand, because the basic idea is to balance revenues against all expenditures, the actual balancing principle is probably of an extremely "high" degree of soundness, higher than in the countries which use Capital Budgets. Thus, whatever departures from "soundness" the fuzziness of the American concept permits is hardly likely to outweigh the impact of insisting on financing all expenditures, both current and capital, out of revenues.

From the point of view of economic analysis, these concepts tell us little. They do not reveal the proper size or composition of the budget, correct revenue structure, or the proper relation of expenditures to revenues. These answers can only come from analysis of the benefits and costs of programs and of the effect of the budget on the advancement of economic objectives.

The Capital Budget as a Development Program

The Capital Budget has been frequently advocated as a means of mobilizing resources for economic development. By bringing all the capital items together, at least the capital side of government is put into a development focus, and, thus, both traditional public works programs and new public investments are planned for the development budget, such as taxes which fall on capital (estate taxes), or new taxes which the population is willing to have imposed on the condition that they be spent for the future development of the country.

For underdeveloped countries, this approach has the failing that it puts all the emphasis on physical capital, but it could still be useful. For the United States, some interesting exhibits may be prepared which show how different programs within the budget contribute to the several elements that go into economic development, that is, capital, productivity of the labor force, technological progress, etc. But I do not believe that we are now ready to reorganize the basic structure of the budget into a development program, particularly since, in fact, the development objective is only one of many objectives which the budget pursues.

The Capital Budget as an Administrative Device

The Capital Budget has been advocated as a device for putting those government programs which primarily consist of the administration of assets on a more businesslike basis. This is of particular relevance in countries where there are nationalized industries and other state enterprises.

In the United States, asset-administering programs play a limited role. The chief examples are the Commodity Credit Corporation, the FNMA, and perhaps some of the resource programs. Much progress has been made in recent years in improving the accounting for such agencies. No doubt much remains to be done, but this is no justification for adopting a general Capital Budget.

At the state and local levels, the Capital Budget is chiefly used as a method of devising a consistent, coordinated public works plan, and for making decisions among competing investments. Because of limitations on borrowing and general acceptance of the idea that current expenditures must be financed out of current revenues, it turns out that capital projects in different fields compete with each other for the scarce borrowing authority, and represent the

See his "The Balanced Budget," *Quarterly Journal of Economics*, LXVIII (May 1954), 191–216.

real margin of decision-making. In New York City, for example, capital budgeting is a separate process from the usual department-by-department budgeting, in which capital projects compete with each other, at least to an extent, across fields.

In underdeveloped countries, some distortions have arisen from this method: with capital items to be financed out of borrowing and current items out of scarce taxes, there is an automatic pressure to overspend on capital items and underspend on current items.

In the Federal government, capital projects do not, in fact, compete with each other in the budgeting and political process any more than they do with other expenditures, so this factor is no reason to adopt the Capital Budget.

The Capital Budget as an Information Program for Growth

The budget now contains special Aanlysis D which brings together many growth-facilitating expenditures. It would be desirable to continue to refine this analysis. It may also be desirable to have the agencies present more materials suitable for this analysis, if only to make them more conscious of the larger economic objectives. The hazard of this kind of analysis is, of course, that every program, whatever its main objectives, will be also labelled as growth-facilitating.

Capital Budget for International Comparisons

The paper by Andrew Gantt [8] brought attention to the toughness of American budget concepts. He viewed European budgets through American concepts. It would be desirable to also construct the American figures on the definitions used by European countries, including their concepts of Capital Budgets. The Fiscal Committee of the OECD and similar groups at EEC might be requested to prepare budgets on uniform concepts. They now collect country figures, but so far these lack comparability.

[8] Andrew H. Gantt, II, "Central Government Cash Deficits and Surpluses," this REVIEW, XLV (February 1963).

BUDGET CONCEPTS AND ACCOUNTING

Richard Goode

ALTHOUGH no one set of budget concepts and figures will serve all purposes equally well, a single basic set of figures is needed for public information and for rough-and-ready analysis of fiscal policy questions. This set of figures should include not only the deficit or surplus, but meaningful totals for expenditures and receipts.

The Administrative Budget is disqualified because it is seriously incomplete and because the omissions conform to no acceptable principle. The consolidated cash statement (Cash Budget) and the federal government sector account in the National Income and Product Accounts (NIPA budget) are consistent statements and are complete in their own terms. The NIPA budget, however, is less comprehensive than the Cash Budget and is also less familiar and less easily verifiable from official records. These characteristics give the Cash Budget greater public acceptability than the NIPA budget and make the former preferable to the latter for the purposes mentioned in the first paragraph, unless it can be shown that the NIPA budget is greatly superior as an indicator of the economic impact of fiscal activity.

Corporate profits tax accruals, as shown in the NIPA budget, are almost certainly a better indication of the timing of the initial economic effects of this tax than the collections shown in the Cash Budget. The delay in obtaining reliable estimates of corporate tax accruals and the necessity of revisions in the NIPA preliminary estimates, however, are obstacles to the acceptance of the NIPA receipts estimates as basic figures for the formulation and discussion of fiscal policy. For the individual income tax, the difference between the NIPA budget and the Cash Budget is smaller. Both series are on a collection basis except that the NIPA statistics are adjusted to report the withheld portion of the tax when it is deducted from salaries and wages rather than when it is remitted by employers. In the NIPA seasonally adjusted quarterly estimates of personal tax receipts, the method employed by the Department of Commerce results in certain discontinuities.[1]

If the accrual basis of reporting corporate profits taxes gained acceptance, opposition to expansionary fiscal policy during recovery periods — when aggregate demand still needs support — probably would be reduced because the reported deficit would be smaller in those periods. The risk that countercyclical action during recessions would be inhibited by adoption of the accrual basis seems less important, for two reasons. First, there is wider acceptance of the desirability of a deficit in recessions than of the appropriateness of a deficit after the trough has been passed. Second, the expansionary fiscal actions undertaken in the post-war period have become effective only after the recession troughs, and owing to unavoidable lags this pattern may be characteristic of short recessions in the future. If the time at which corporate tax revenue is reflected in the budget is considered highly important, perhaps a change in the tax law, completing the transition to a current-payments basis for corporations, would be preferable to an attempt to win acceptance for the accrual basis of reporting revenue.

On the expenditure side, the largest source of difference between the NIPA budget and the Cash Budget is the exclusion of loans and other capital transactions from the NIPA totals. Although perfectly logical within the social-accounting framework, this exclusion is questionable for fiscal policy purposes. Many government credit and capital transactions are intended to make possible private income-generating activities; variations in these expenditures have long been regarded as countercyclical fiscal measures. Formulation and discussion of fiscal policy primarily on the basis of a set of accounts that omits important government expenditures is likely to give rise to public confusion and suspicion. It will complicate the explanation of the relation between fiscal policy and monetary policy and may in some circumstances increase the practical difficulties of coordinating the two.

The deficit in the NIPA budget equals the government's contribution to the net worth of the private sector. The deficit in the Cash Budget approximately measures the net borrowing of the government from the private sector and the Federal Reserve System (with reductions in government cash balances treated as borrowing).

The impact on aggregate demand of either an NIPA deficit or a cash deficit depends to a great extent on monetary conditions and the means by which the deficit is financed. Under permissive monetary conditions, a deficit can be financed without diverting a significant amount of credit from private borrowers, whereas under more restrictive conditions government borrowing will displace private borrowing. In a permissive monetary environment, the cash deficit will constitute a fairly accurate summary measure of the government's contribution to private purchasing power, provided government net lending represents an addition to the credit extended to borrowers and not merely a substitution for private credit. In a restrictive monetary environment, the cash deficit will indicate the magnitude of the government's share in total credit expansion. But, again, the figure may be rather artificial if government lending merely substitutes for private lending.

In several countries, liquidity effects are stressed and long-term government borrowing is considered similar to taxation while redemption or repurchase of long-term government securities is assimilated with other cash disbursements of the government. This approach may not be suitable for the United States (and indeed may not always be appropriate for the countries that use it). It does, nevertheless, suggest the need for recognizing the implicit assumptions with respect to the monetary environment which underlie the interpretation of a budget deficit or surplus. This is particularly desirable in international comparisons.

[1] U.S. Department of Commerce, Office of Business Economics, *National Income*, 1954 ed., 145, and Wilfred Lewis, Jr., *Federal Fiscal Policy in the Postwar Recessions* (Washington, 1962), 80–81, 280–88. Lewis provides quarterly estimates of individual income tax accruals, 1946–59.

For fiscal policy purposes, I am not convinced that the recent tendency to center attention on the NIPA budget is well advised. I am inclined to continue to emphasize the Cash Budget. However, I believe that the subject deserves further consideration.

THE FEDERAL BUDGET ON NATIONAL INCOME AND PRODUCT ACCOUNT: THE NEXT STEP *

George Jaszi

MOST of the contributions to this symposium comment on two features of the Federal budget on National Income and product (NIP) Account: The recording of corporate taxes on a liability-accrual rather than a payments-receipts basis, and the omission of government transactions in financial assets and liabilities ("loans"). I think it would be fair to say that these comments conclude that for many types of analysis the two items now omitted for the NIP accounts are needed; and that they also suggest that no systematic place can be found for them in the NIP accounts, so that makeshift procedures must be adopted to bring them into the picture.

In a previous note in this REVIEW [1] I have explained the accounting and economic logic of the treatment of corporate taxes and government loans in the NIP accounts as now published. The purpose of the present note is to show that the transactions now omitted can be recorded systematically within the framework of these accounts by a simple elaboration of them.

The NIP accounting structure implies the ex-post equality of saving and investment as defined in business accounting and economic theory. Therefore, the present NIP budget cannot be modified to include loans, and it would be inadvisable to base it on business tax receipts instead of accruals. But the two items now omitted can and should be accommodated in a systematic fashion by setting up a second budget within the framework of the NIP accounts. This budget would show the changes in the assets and liabilities of the Federal Government. It would record the loans excluded from the present (current-account) NIP budget, and it would also record changes in tax accruals. In conjunction with the tax accrual item in the current-account budget, the changes in tax accruals would measure tax receipts. Finally, an overall budgetary balance could be read off under the "borrowing" heading.

The present and proposed NIP budgets are presented in a highly schematic way below — some important transactions have not been made explicit, because they have no bearing on the subject matter at hand.

Present NIP Budget (Current Account)

Purchases	Tax accruals
Transfers, etc.	
Surplus	

Proposed Additional Budget (Capital Account)

Changes in assets	Surplus
Loans	Changes in liabilities
Tax accruals	Borrowing
Cash, etc.	

The proposed additional budget is a sources-and-uses-of-funds statement. Similar statements should be developed for the other sectors of the economy (households, various types of businesses, etc.) to complete in a systematic way the elaboration of the NIP accounts implied by the addition of the Capital Account government budget. As social accountants will realize, this is really a proposal for the ultimate integration into one comprehensive system of the NIP accounts and of flow-of-funds accounts of the type now prepared by the Federal Reserve Board. Over the last decade there has been considerable progress in this direction, but some conceptual and statistical work remains to be done. However, the project is

* The following represent the personal views of the author.

[1] The Federal Budget on National Income and Product Account, this REVIEW, XLIV (August 1962).

desirable, feasible, and will eventually be accomplished.

The proposed NIP budget set-up can be reconciled very simply with the Cash Budget, which seems to have a great deal of appeal. The Cash Budget is simply a consolidation of the two budgets that I have proposed. (Again, I must warn that I am writing at a high level of generalization, disregarding many specific points that would have to be dealt with in the practical task of reconciling the two.) I have a strong preference for the splitting of the Cash Budget into two parts. From the standpoint of social accounting, a consolidation would be most undesirable; moreover, I feel that the distinction between current transactions and transactions in assets and liabilities which underlies the split is a fruitful one in economic analysis.

It may be added that the presentation proposed is adapted to record tangible capital formation by government, if desired. (Personally I am not convinced that this should be done.) This can be seen from the table which follows. "Purchases" have been modified to exclude tangible assets. The latter appear in the Capital Account statement. Depreciation appears in both the Current and the Capital Account statements. The surplus is increased by an amount equal to purchases of tangible capital assets net of depreciation. (In principle, imputed net income on tangible assets should be included both as receipt and purchase in the Current Account budget, but is omitted because the idea to measure it is so far-fetched.)

There can be no doubt that the above represents a neat and systematic framework for the orphaned transactions — corporate tax receipts

Current Account

Purchases, except tangible assets	Tax accruals
Depreciation	
Transfers, etc.	
Surplus	

Capital Account

Changes in assets	Surplus
Tangible	Depreciation
Loans	Changes in liabilities
Tax accruals	Borrowing
Cash, etc.	

and government loans — for which we set out to find a home. The main objection against the proposal will come from those who fear the undesirable effects that a double budget may have on fiscal policy. The most important of these is the possible emergence of the notion that the Current Budget should always be balanced while the Capital Budget should be financed by borrowing. If, in addition, the decision were made to account for purchases of tangible assets in the Capital Budget, there would be the further danger that the two-fold presentation might suggest to some that expenditures on tangible capital formation are in some sense more productive and worthwhile than expenditures for intangible items — for example, education and health. I appreciate the reality of the danger of such misinterpretations, but can only say that the proposed classification is not the first (or the last) sensible presentation of economic magnitudes that will be misused.

SHOULD WE HAVE A CAPITAL BUDGET?

R. A. Musgrave

EVERYONE is agreed that the economic effects of fiscal policy can be measured only by a *comprehensive* budget picture. This is not furnished by the Administrative Budget, but is provided by either the Cash or National Income Base Budget. As between these two, I find no clear preference, each being useful in its own way. A more potent issue is whether budget policy can be improved by the use of a Capital Budget. My comments will be limited to this aspect.

To begin with, one must distinguish between (a) proposals to separate current from capital items on the expenditure side of the budget, including expenditure budgeting for a longer period and appropriate accounting for capital items, but without assigning specific receipts to the current and capital parts, thus retaining the concept of a single, overall balance; and (b) proposals to assign specific types of receipts to specific types of expenditures, and to redefine the relevant concept of balance as that on current account.

The type of proposal involved under (a) is not controversial and deserves fullest support. There is an excellent case for budgeting capital expenditures over a longer than a one year basis and for improving allowance for capital costs (depreciation and interest) in evaluating the merit of particular programs. Also, it is relevant to know, from the point of view of fiscal prudence, whether budget policy has increased or reduced the public capital stock. Our concern here will not be with these suggestions, but with the more controversial proposals of the (b) type.

Redefinition of budgetary balance as balance between tax receipts and current expenditures is highly tempting politically, since it would result in a more "favorable" budget picture and, in a situation where fiscal policy is too tight, have a beneficial announcement effect. But would it make economic sense, and would it contribute to a more constructive budget discussion over the longer run?

Popular argument in favor of such proposals frequently draws a mistaken analogy between the corporation and government. As "every farmer in Maine" knows, no one can live on debt forever; but as "every businessman" knows, business finance justifies borrowing, provided such debt is backed by acquisition of assets. If so, why not apply the same principle to government and offset debt by assets acquired — thus defining deficit as an increase in debt in excess of increase in assets — or putting it another way, a reduction in the government's "net worth"? While possibly useful in making deficit finance politically palatable, this argument involves a complete misreading of the nature of fiscal economics. Government solvency is not a matter of assets held, but of taxable capacity; the reason for incurring debt is not to purchase assets, but to expand income relative to tax finance, and so on. While there is a case for separating out debt incurred in the finance of strictly self-liquidating public enterprises, that is, debt which does not require servicing from general tax receipts, this is where the analogy to business ends. Clearly, it cannot be extended to the larger problem of acquisition of non-fee yielding assets in general.

There is, however, a more sophisticated and valid view of the Capital Budget approach. This is based on the idea of temporal or inter-generation equity: if the government incurs outlays, the benefits from which are spread over a future period, it is unfair to ask the initial generation to sustain the whole cost. Rather, "prudence" requires that finance be based on a "pay-as-you-use" basis, each generation contributing a cost share commensurate with its own share in the benefit stream. The proposition, then, is that tax finance of such outlays is unfair because it places the entire burden on the initial generation, while debt finance (with retirement as the asset is used and the benefits are received) results in an inter-generation distribution of cost which is in line with the corresponding benefit distribution.[1]

This argument bears a superficial resemblance to the net-worth approach, but differs basically in that it deals with all outlays which provide for future benefits, and not only with those which involve acquisition of assets by government. Thus, teachers' salaries as well as school buildings are included, and the bias against investment in human resources and other forms of intangible capital formation is avoided.

We then come to the major question. Is it true that debt finance (with debt retirement synchronized with the benefit stream) actually serves to achieve the desired objective of pay-as-you-use? This question cannot be answered in general, but depends on the kind of economy in which the budget operates.

Case 1. Suppose first that we have a system in which planned investment equals planned saving and full employment is maintained auto-

[1] The requirement of "comprehensiveness" would hold for the combined dual budget system, but an excess of O.A.S.I. receipts over expenditures would not be recorded as a surplus and be treated as now done in the Administrative rather than the Cash Budget. Since an obligation for the future is incurred (the opposite of providing for future benefits), coverage through tax finance is required. In other words, if one *had* to defend a principle of balance in the present budget system, then the administrative balance is the more meaningful one.

matically. In this setting, no stabilization policy is needed. When a government purchase is made, the economy must at once release from private employment the required resources, and private outlays must be cut accordingly. This can be done interchangably by either tax or loan finance since, in such a system, $1 of borrowing from the public will reduce private spending by $1, just as does a dollar of tax receipt. But if the outlay is loan financed, the lenders are given a claim to being refunded later, when subsequent beneficiaries are taxed to retire the debt. In this fashion, the burden (in the sense of reduction in the private net worth of particular individuals) may be allocated properly over time for any one consumer, or between overlapping generations.

It may be noted also that substitution of loan for tax finance is likely to reduce private capital formation: depending on the elasticities involved, the increase in the demand for saving (due to increased public demand) under loan finance will drive up the rate of interest. This may raise the total supply of saving somewhat, but chances are that there will be a net increase in the rate of interest and reduction in the level of private investment. But though a reduction in private investment is likely to result, this is incidental to implementing the pay-as-you-use rule among overlapping generations, and not its essence. The mechanism of cost allocation among overlapping generations also works in an economy where there is no private net capital formation. Only if the benefits are shared by non-overlapping generations, does the effect on private capital formation become crucial. In this case, a burden transfer to future generations may result if loan finance retards capital formation, thus reducing the to-be-inherited capital stock.

Case 2. Consider now a quite different system, where the supply of saving has no effect on the level of investment, be it because the rate of interest is stuck in the liquidity trap, because investment is wholly inelastic, or for a number of other reasons. Here fiscal policy has the function of providing for a full-employment level of demand. A tax dollar now reduces private spending, but a borrowing dollar does not. The level of deficit, required for any given level of public purchases (it being a matter of indifference in this connection whether they are for capital or current uses) is fixed by considerations of full employment policy. The same instrument (size of deficit), therefore, cannot be used for a second purpose, that is, the accommodation of inter-generation equity. If the latter is given priority, the level of employment (or price level stability) becomes a function of public capital outlays. Unemployment or inflation are likely to result, and neither the objective of stability nor of inter-generation equity is met.

It might be argued that the basic trouble (only one instrument for two objectives) may be met by introducing another instrument, for example, change in the level or composition of public expenditures, or greater reliance on monetary policy. Adjustment in expenditure policy (overall level as well as division between capital and current outlays) offers no solution since efficiency in expenditure planning would be sacrificed in the process. With regard to monetary policy, the basic question is how well the instrument works. In a system where monetary policy is always effective in securing a full employment level of demand, we have essentially our first case. The deficit may be set on inter-generation equity grounds, and the residual stabilization task be met by monetary policy. But in a system where monetary policy is not all powerful, this solution is not available.

The case thus turns on the question of whether the burden for full employment policy can be left with monetary policy, or whether fiscal policy is needed as well. The answer, to my mind, is clearly that fiscal policy is needed. Hence, I conclude that the dual budget is justified and desirable on the state and local level, where there is no responsibility for stabilization policy and debt finance frequently involves capital import; but that it is undesirable at the Federal level, where the use of fiscal policy for stabilization is of crucial importance.[3] Given the popular folk-lore on what constitutes sound finance, it could be, of course, that a strategy

[3] Reference is to a Capital Budget system where capital expenditures are excluded in striking the balance in the current budget. There is no objection, of course, to supplementing a single budget, including all expenditures and receipts by a financial statement showing uses and sources of funds in debt transactions.

of counter confusion by appeal to the business analogy could improve the actual performance of fiscal policy (permit a larger deficit when needed) if a Capital Budget were used, but I would rather not bet on such an approach to public policy.

Notwithstanding these conclusions, the rate of public capital formation remains relevant for judging fiscal performance. If the concept of "fiscal prudence" is reinterpreted from "pay-as-you-use" to "providing a net benefit to future generations", then such prudence is measured by the excess of public capital formation over capital use. As before, public capital formation must be interpreted to include investment in human resources as well as acquisition of assets. The budgetary net contribution to capital stock, thus defined, should be assigned a significant place in the budget picture, but the nature of our economy is not such that it should be linked to the question of tax versus loan finance.

BUDGETARY ACCOUNTING FOR FISCAL POLICY

Carl S. Shoup

SELECTION of items for a fiscal-policy budget involves two questions: what transactions shall be included, and what dates shall be attached to them? Shall trust-fund transactions, business-type transactions, liquidity-altering transactions be part of the budget? Shall the year of inclusion be that of announcement of policy, enactment of legislation, accrual of liability, or payment?

What to Include

On the first question, a rule that merits consideration is: do not include the item if nothing can be done about it for fiscal policy. Consider, for example, a nationalized steel industry run by a board appointed for a long term who have no intention of raising or lowering prices for counter-cycle purposes, or scheduling capital projects by the level of unemployment. A recession is at hand; the nationalized industry is estimated, for the coming year, to show a certain surplus or deficit. Will it be helpful to include that surplus or deficit in the fiscal-policy budget? If it is included, it might best be put in a special category, to indicate that it is a figure that the government of the day cannot affect. It is background information, on a par with estimates of the amount by which exports will exceed imports, or of the expected difference between gross retained business earnings and gross private domestic investment. There is, to be sure, this distinction: the nationalized industry's deficit or surplus has implications for the government's debt or cash balance, if the industry finances itself partly through the Treasury. But even this element of change in government debt or cash balance is itself a background figure, to be taken as given.

Moving closer to the center of government, let us consider the post office. The government's hands are not legally tied; yet we must assume that the public would not tolerate frequent changes in postal rates for counter-cycle purposes, or delay and inconvenience from timing and locating new post office buildings to accord with unemployment. Again, the expected postal deficit or surplus could be included in the fiscal-policy budget, but only as background information.

Consider next the trust-fund transactions. They are excluded from the Administrative Budget. In fact, Congress cannot "administer" them; Congress has tied its own hands (loosely, to be sure), has renounced (for the time being) a power to alter the flows of funds. It can of course alter them, by new legislation, but the implication of the trust fund is that here is a settled policy of segregating certain receipts and certain expenditures, at specified levels, and linking them in some way, to reach a designated goal over a period of years. A temporary increase of the payroll taxes for OASI, unaccompanied by any change in prospective benefits, and enacted solely for fiscal policy purposes, would run counter to the philosophy of the trust fund. Similarly, a decrease of highway trust fund excises and a speed-up of that part of the Federal highway program that is linked with them, if done solely for fiscal policy purposes, would contradict the trust-fund philosophy. One may well oppose application of the trust-fund principle to highway finance, but that is not the point at issue here.

If the trust fund is itself a counter-cycle instrument, for example the unemployment compensation trust fund, it may be included in the fiscal-policy budget if it is thought of as subject to change for fiscal-policy purposes.

These considerations lead to contemplation of an "active" or "efficacious" fiscal-policy budget that would resemble the Administrative Budget of the United States, although it would presumably exclude business-type deficits or surpluses, like those of the post-office, and dividends and interest from government-sponsored enterprises.[1] Moreover, loans by government and repayments to government raise another question, that of alterations in liquidity rather than income, to be considered below.

In general, then, a fiscal-policy budget might appear in two parts: first, a completely comprehensive budget, embracing even the prospective surplus or deficit of a nationalized industry, that is, including everything that has direct implications for the government's debt or cash position, but doing so as a matter of background information; second, a section of this budget, this section being the "active", or "efficacious" fiscal-policy budget, which excludes those items that are not available for counter-cycle operation for reasons legal (the nationalized industry of the kind assumed above), practical (post office) or philosophical (trust fund flows).

At a somewhat more sophisticated level of presentation, the efficacious fiscal-policy budget might even exclude certain taxes and expenditures that were deemed clearly unsuitable for counter-cycle action, even though legal, practicable, and acceptable in principle. Thus, excises and general sales taxes might be excluded on the grounds that the public's anticipation of rate changes would intensify the cycle. The corporation income tax might be excluded because changes in it would have little immediate effect on either consumer or business spending. It would not be surprising if, on the revenue side, a fiscal-policy budget came eventually to include only the personal income tax. On the expenditures side the fiscal-policy budget would include, similarly, only those kinds of government expenditure that were susceptible of counter-cycle change; thus, for example, it would not include long-term debt service.

Fiscal policy formulators must be concerned with the size of those items that can be changed for fiscal policy purposes. From this point of view, the total prospective government deficit or surplus is only an information item, like an estimate of an export surplus.

Much of what is said above may seem to run contrary to a generally acknowledged preference for the Cash Budget over the Administrative Budget, for formulating fiscal policy. The need for a Cash Budget statement is genuine, but it expresses a background-information need, much the same need as that for information on prospective income and outgo in the private sector. In other words, I question whether we have distinguished sufficiently our need for background information from our need for data concerning those items on which fiscal policy can in practice operate.

Another aspect of the problem of what to include refers to liquidity changes in the economy, including government purchase and sale of indebtedness and of existing tangible assets such as land and buildings. The present Administrative and Cash Budgets exhibit some asymmetry in this regard, with respect to debt instruments. To some extent, loans from government to the private sector and repayments from the private sector to government are taken into account in arriving at the deficit or surplus of these budgets, but, in general, loans from the private sector to government and repayments by government to the private sector are excluded. If the fiscal-policy budget is to be designed to include liquidity information, it should be reasonably inclusive in this respect. Perhaps the most helpful device would be a presentation of liquidity changes in an annex to the fiscal policy budget, or, alternatively, formulation of a fiscal policy "statement" that would have its "income account," the budget,

[1] See Joint Economic Committee, *The Federal Budget as an Economic Document* (written by Dr. Roy E. Moor), 1962, 111.

without loan or repayment items, and its "liquidity account," showing issuance of debt by and to government and repayment of debt by and to government.

Insofar as loans by government are not entirely genuine loans—for instance, non-recourse loans made under the farm program—they might be listed in a separate schedule, an attempt being made to estimate that proportion of such transactions that constitutes genuine loans.

Incidentally, in public presentation of the data on government debt, the distinction between that part of the debt held by the federal government itself (or its agencies) and the remainder of the debt should be emphasized.

Timing

The question of timing can be answered, public relations aside, by estimating the reaction date of the private sector for each type of fiscal-policy measure. The fiscal-policy budget, as a technical tool to help the executive and Congress act effectively, need not be committed a priori to just one timing basis for all items, whether cash basis, accrual, or whatever. For example, let us suppose that the changes in spending and saving touched off by changes in the personal income tax take effect close to the date of tax payment, even when there is a considerable lag between accrual and payment, as with farm income. Suppose, further, that changes in corporate spending date closer to the accrual of taxes. The fiscal-policy budget, as a technical tool for policy formulation, should then include the one tax on a cash basis, the other on accrual. If it does not do so, an adjustment will have to be made somewhere along the line, in computations of dated effects of a combined change in personal and corporate income tax rates. The national-income budget may prove fortuitously to contain the optimum mix of cash and accrual bases, but if it does not, we should not hesitate to design a special mix for a fiscal-policy budget. These remarks apply both to the revenue side of the budget and the expenditures side.

There remains the question of the effect of one or the other types of timing on Congressional and public understanding of the fiscal policy problem. I should prefer to concentrate on educating Congress and the public to a true understanding of the fiscal policy budget as the technicians decide to formulate it for their own uses.

Capital Budgets

Capital Budgets can be drawn up as supplementary statements, for long-range development planning, for improving national income data on capital formation, and, combined with depreciation accounting and imputed interest cost, for computing total annual costs of various government activities. But Capital Budgets have no direct role to play in short-term fiscal policy planning. An increase of government expenditures in a recession need not, of course, be limited to public works. And, in a boom period, the government may need tax revenue exceeding the total of all expenditures, for stabilization; what should the public infer, then, from an "above-the-line, below-the-line" type of distinction? [2]

Do considerations of equity among successive users, or successive generations, call for a Capital Budget financed by borrowing? At the federal level, especially where the volume of public works is fairly regular,[3] the answer is in the negative. To be sure, financing by borrowing is likely to result in the present generation's passing on to future generations a somewhat smaller amount of capital equipment, and in that sense passing on part of the burden to the later users of a long-lived asset, but the degree to which this occurs is so uncertain as not to warrant much reliance on the argument for equity purposes.

At the state and local level, however, equity among successive groups of users may require borrowing for long-lived projects. Immigration into and emigration from the government jurisdiction is so marked that pay-as-you-go financing is likely to distribute the burden among successive groups of users capriciously.

[2] The British budget does not draw this line strictly between current and capital outlays. See "'Below the line' in Britain's Budgets," *Midland Bank Review* (August 1959).

[3] Should the space program be considered a gigantic public works project imposing an irregularity on the usual public works program, and thereby justifying finance to some degree by borrowing? I doubt it, but the analogy to conventional public works deserves consideration.

Thus, there is a stronger argument for capital budgeting, linked with borrowing, at the state and especially the local level, than at the federal.

A SYNTHESIS OF FEDERAL ACCOUNTS *

S. Taylor, H. Wendel and D. Brill

CURRENT controversy among economists on systems for recording and classifying Government transactions has focused largely on the choice between the Cash Budget on the one hand and the income and product account on the other; the Administrative Budget seems to have few friends in the profession.

A good part of the controversy over budget concepts appears to exist mainly because the major types of Federal economic influence are not being distinguished sharply enough in discussion of the currently available measures of Government activities. In particular, GNP-deficit advocates look for the income and spending effects of Federal transactions, while the Cash Budget defenders seem to be looking principally for liquidity and financial market effects. Lending effects, meanwhile, have been largely left out of the discussion; they are usually mentioned only as an intrusive element of the cash deficit relative to income and spending effects. When lending is recognized as a separate and, at times, sizable force in the economy, and when the spending *vs.* liquidity distinction is kept in mind, we begin to have a basis for deciding which of the Federal budget figures to use in any particular discussion.

What is proposed here is a framework within which each of the budget concepts can be integrated but still distinguished, permitting whatever focus of discussion is desired without foreclosing on the benefits of alternative perspectives. The framework is an adaptation of the account for the Federal Government sector in the Flow of Funds national accounting system developed at the Federal Reserve, and now available on a quarterly, seasonally adjusted basis.

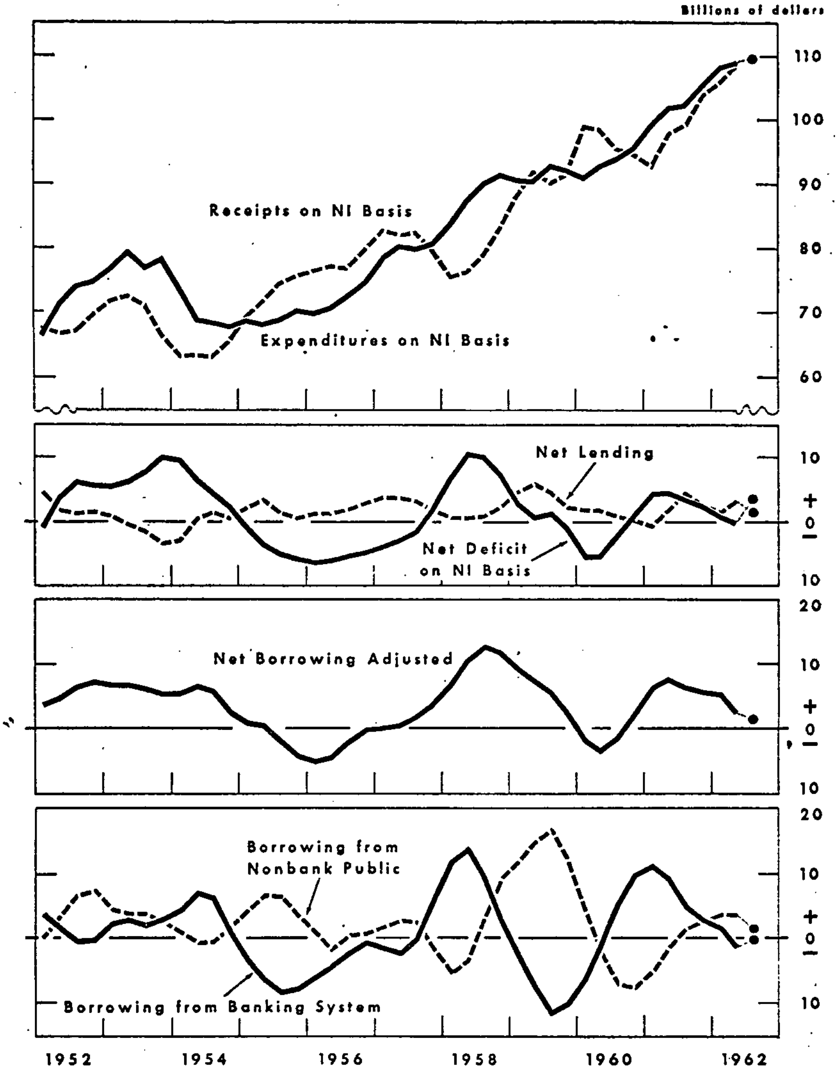
This adaptation is based on the following premises: first, no single number can possibly tell all or even very much about Federal economic influences, and we need a set of several figures even to begin to see a picture. Second, the accrual version of Federal transactions in income and product accounts tells more of non-financial influences than the cash version. Third, Federal financial transactions — both lending and borrowing — are important channels through which the Government can and does influence economic developments and should be included explicitly in any accounting of Government activities. Fourth, lending is different from both borrowing and spending in influence and cannot reasonably be combined with either. Fifth, however, simplicity of presentation is essential if any new version of Government accounting is to achieve fairly widespread use.

The form shown in the attached chart tries to meet the preferences and objectives stated above. It delineates in a minimum number of lines the major types of Governmental activities as they affect distinctively different types of economic activity: payments for goods and services and for transfers, receipts from tax revenues, Government lending, Government borrowing from the banking system, and borrowing from the public.

A. The upper panel of the chart shows the Government's direct contribution to the spending stream and the amount it taps from this stream through taxes. Changes in the *gross* size and composition of both spending and revenues are at least as important for economic analysis as a *net* deficit or surplus on any accounting basis and deserve separate reporting. The figures plotted are those in the national income account, that is, they are the accrual version of Government spending and receipts. It would be definitely desirable, if space permitted, to distinguish spending for goods and services from transfer payments and to distinguish personal from business taxes, but as a

* Views expressed here are those of the authors, and do not necessarily reflect the views of the Board of Governors of the Federal Reserve System.

CHART 1.—FEDERAL TRANSACTIONS SUMMARY, 1952–62



Federal Expenditures, Receipts and Deficit on Income and Product Account come directly from the National Income Accounts. Of particular relevance here, it should be noted that loan operations are not included in spending but that increases in CCC-guaranteed bank loans to farmers are included, since the National Income accounts record a Federal Government expenditure when crops are placed under loan rather than when the Government actually acquires the crop. Corporate tax revenues are included on an accrual basis, i.e., when the liability for the tax payment arises rather than when the actual payment to the Treasury is made.

Federal Lending covers all financial uses of funds by the Federal Government other than cash, which is netted against borrowing. In particular, this series includes net lending(lending minus repayments) on all major programs such as FNMA, Home Loan Bank, Small Business Administration, the various farm credit agencies, foreign loans, and subscriptions to IBRD, IMF, etc. The series is also net of funds raised by the Government other than through the borrowing series in the following panel, notably CCC-guaranteed bank loans (see preceding paragraph) and IMF notes.

Net Borrowing, Adjusted is net cash borrowing plus net interest accruals less changes in Federal cash balances and changes in corporate income tax liabilities.

Borrowing from Nonbank Public represents cash borrowing outside the banking system *minus* increases in corporate income tax liabilities.

Borrowing from the Banking System represents net changes in the holdings of Government securities by commercial banks and the Federal Reserve minus changes in Federal cash balances. Cash balances are deducted in order to net Federal lending to the banking system via increases in cash balance against Federal borrowing from the banking system.

All series are shown at seasonally adjusted annual rates. All except receipts and expenditures are centered 2-quarter moving averages of the data.

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gesture to simplicity only single spending and revenue lines are plotted.

B. The second panel shows the net of the two lines in the top panel — Federal deficit on GNP basis — and as a second line the Government's indirect contribution to spending through lending operations (net of loan repayments). Lending operations are a less sure device of adding to or subtracting from the income and spending stream than are direct Federal outlays or taxes, since at the first stage they affect mainly private credit markets rather than incomes. These lending operations can have major cyclical consequences in specific markets, however, and cannot be ignored.

C. Spending on goods, services, and transfers less tax revenues plus net lending are balanced by borrowing and changes in Federal cash balance. The third panel in the chart shows a version of Government borrowing net of increases in Federal cash that fits such an equation. This line is conceptually the net of the two in the preceding panel and represents a definition of net borrowing that reconciles cash and GNP versions of Government accounts. It differs from such a net only because inescapable discrepancies still exist statistically between GNP and Cash Budget.

The main conceptual problem to be resolved here is corporate profits taxes, which GNP accounts show on an accrual basis but which affect borrowing and cash balances on a payments basis. The difference between tax accruals and payments could be resolved in several ways. The one used here is to deduct them from borrowing. The justification is that *most* of the movement in tax liabilities is paralleled by changes in corporate holdings of Governments; corporate liquidity management is such, that is, that corporate working capital movements show large but usually uninteresting contra entries for Governments and tax liabilities, and these mirror corresponding contra entries in Government accounts for borrowing and tax receivables.

D. A fourth panel distinguishes borrowing from the banking system (including the Federal Reserve) and borrowing from other sources. The line for banks is net of changes in Federal cash balances, since Federal cash is a contra item for banks analogous in relevant ways to tax liabilities as a source of corporate funds for buying Governments. For many occasions this over-simplifies, however, since effects of borrowing and concomitant increases in cash are often worth separate analysis. The line for non-bank investors is net of the tax liability changes.

If we define the four types of flow in the chart in mutually consistent fashion, they can be forced to encompass *all* Federal transactions. The chart is a complete account in this sense, and the four series constitute a short, balanced account for the Government. There is no compelling analytic reason, to be sure, for covering every transaction, since some may have only the remotest connection with the domestic economy — capital transactions with the IMF and IBRD may be examples — but doing so avoids the kind of question as to why Federal borrowing may differ from the current-account deficit.

The discrepancies that do exist in the chart arise from a few types of marginal inconsistencies among the series that prevent complete statistical fitting and that are occasionally of large dollar amount. The most important of these originate in the timing of the GNP Federal Government account, which is such that a host of accrual entries would be necessary in the financial accounts in order to reconcile exactly to Federal borrowing and changes in cash balances. The series on Federal lending shown here does not include movements in the clearing account and in certain deposit fund transactions which are left out of the GNP deficit and thus treated as financial transactions in terms of the GNP accounts. Timing differences with the GNP accounts also arise in regard to foreign transactions, transactions of Government corporations, and tax receipts from others than corporations.

COMMENTARY

Alvin H. Hansen

The topic that interests me the most relates to the Capital Budget. Should we introduce a separate Capital Budget now? The consensus in these essays is against it, and under present circumstances I fully agree. The Capital Budget, in the prevailing climate of opinion, would be regarded as a subterfuge. And moreover, as expounded by some of its most ardent supporters, it could spark a new rigid fiscal dogma which might become just as troublesome as our current balanced budget dogma. Still the *economics* of the Capital Budget should not be neglected. A full exploration of this matter would require another symposium. Perhaps in the not too distant future we may become sufficiently enlightened to adopt the Capital Budget without undue fear of abuse.

I particularly like Gehard Colm's suggestion that it would be highly useful to develop a complete classification of expenditures for economic growth and development, including both outlays on physical assets and human capital (education, health, etc.). While an integral part of the over-all unified budget, such an "Economic Growth Budget" could have enormous educational value. One feels almost instinctively that just to classify investment and development outlays in a separate category have an impact on collective decision making both with respect to social priorities and method of financing.

We are all agreed that the over-riding consideration for fiscal policy, as far as the federal government is concerned, is to achieve a balance between aggregate demand and aggregate potential supply, account being taken of social priorities. American post-war experience, however, seems to indicate that more often than not under-employment appears to be the rule. Loan financing of capital improvements, including investment in research and in human resources, makes, it is generally believed, a stronger political appeal and meets less resistance than debt financing of current outlays even though such financing is fully justified by the over-all economic situation. To treat all our governmental expenditures alike by putting everything into the same basket as we do in our unified budget, is not only bad accounting practice but it ignores deep instincts in human nature which in this case happen to be basically right. A wide application of Capital Budget accounting could help tip the scales in the right direction. Capital Budgeting could, of course, be dangerously abused if loan financing of capital projects were to become the controlling factor in over-all fiscal policy. Every institution, no matter how useful, is subject to abuse. The Capital Budget device can, however, stand up quite well on its own merits in terms of accounting efficiency. Indeed, the essential reason why it may well be wise not to press for the Capital Budget at this time is that the climate of opinion is not yet ripe for an objective consideration of its own inherent intrinsic merits.

In addition to setting out conspicously the capital and development expenditure items in the unified budget, we could perhaps make a useful beginning by introducing, as Colm suggests, the Capital Budget for the government enterprises. These agencies are essentially self-sustaining, and their operations are already accounted for in large part outside of the Administrative Budget which encompasses only their *net* receipts and deficits. Capital accounting can promote management efficiency and improved resource allocation. Debt financing by these agencies when deemed appropriate, need, however, in no sense control the overall fiscal operations of the federal government.

The public's tendency to give wider support to loan financing of capital improvement projects deserves, I believe, enlightened support. And there is no good reason why the "pay-as-you-use" principle should not be employed by the federal government as well as by State and local governments, though it is true as Richard Musgrave points out in his decisive essay, that the "inter-generation equity" argument does not apply in the case of the federal government. Still "pay-as-you-use" is good accounting procedure.

Unfortunately, any tying of capital projects to loan financing superficially appears to support the view that "net worth" somehow guarantees the soundness of debt. I question that this, in any meaningful sense, is even true with respect to private business. With respect to all sectors of the economy — business, consumers, local governments and the federal government — the all important consideration, as far as solvency is concerned, is the relation of debt charges to net earnings, and for government it is the relation of debt charges to taxable capacity. For the federal government this is best expressed in terms of the ratio of debt to GNP.

High rank should be given to Colm's Program Budget. Here we are, as a nation, demanding Development Plans as a condition for foreign aid to underdeveloped countries. Yet we deny ourselves a Development and Growth Plan. It is perhaps doubtful that we shall reach a satisfactory full-employment growth rate until we do develop a Program Budget. Consider what a well worked out ten-year program for Urban Renewal and Development could do for private investment outlets. Long-range private investment plans need something solid upon which to base decisions. It is in this sense that the much over-worked term "confidence" begins to have real meaning. In the modern world the government inevitably plays a large role in the economy. But if this role is erratic and uncharted, resting on political quick-sands with no foundation in long-range Congressional sanctions, private long-range investment plans may well continue to languish.

The arguments favoring the Cash Budget over the National Income Accounts Budget seem to me wholly convincing. On only one count do our authors give the verdict to the National Accounts Budget, namely the accrual method of calculating tax receipts, and even here I believe the Cash Budget scores better (as I shall explain below) than our authors are prepared to concede. And in so far as the time lag does give the Cash Budget a black mark, this could be cured rather rapidly, as pointed out by Richard Goode, by speeding up the transition to the current payments basis for the corporate income tax.

Our authors are clearly right with respect to the impact of timing in the early up-swing phase. Here the lagged deficit in the Cash Budget may induce irrational restraint as, in fact, occurred in 1959–1960. But in the case of the down swing the matter is quite different. Here the accrual method discloses a large deficit very early in the down swing. A large deficit at that phase of the cycle may tend to make Congress believe that a strong expansionist movement is already afloat and that therefore nothing needs to be done by way of deliberate policy. Yet we know from past experience that deliberate action is necessary, that our built-in stabilizers are not adequate for effective stabilization and, worse yet, they accomplish nothing toward recovery. In the early down swing then, the Cash Budget, with its delayed deficit, is more likely to give the correct lead. So, as I see it, we have to split the honors. The Cash Budget is best in the down swing; the Accrued Budget in the up swing. No single budget will give us the best of two worlds. However, if on general grounds we plump for the Cash Budget, we could offset the unfavorable impact on decision making in the recovery phase by appending to any current data on the Cash Budget an estimate of accrual receipts.

If now the Cash Budget is to be preferred, what about the Administrative Budget? If I read the majority essays correctly they appear to favor the adoption of one single comprehensive budget, the Cash Budget. The emphasis is strongly on comprehensiveness. This could, however, be overdone. The concept of comprehensiveness can have many meanings, and for some purposes a more restricted budget, from which certain items are deliberately excluded, may be a good thing.

There are many degrees of comprehensiveness. The federal sector of the GNP national budget includes only purchases of goods and services. The Administrative Budget is more comprehensive since it includes various transfer payments such as interest on the debt, veterans benefits, grants-in-aid to state and local governments, etc. The Cash Budget is still more comprehensive including, as it does, the Trust Funds. But comprehensiveness can be stretched still farther. Some business economists, wishing to impress the point that the government has grown quite out of bounds until there is little room left for private enterprise, have carried the concept of comprehensiveness far beyond the Cash Budget concept to include the aggregate payments (aggregate dollar transactions) and receipts of all government enterprises such as the Post Office, Commodity Credit Corporation, Export-Import Bank, FNMA, and Tenn. Valley.

Using aggregate dollar transactions (not *net* surpluses or deficits as now in the Administrative Budget) one gets a figure for Federal cash expenditures for calendar 1960 of $130 billion compared with the $95 billion actually in the Cash Budget. There is almost no end to the concept of comprehensiveness. One could, at least in theory, imagine the emergence of government enterprises, for example, that produced final products which were made from raw materials purchased from private enterprises, which raw materials cost, say, 90 per cent of the retail value of the product. A number of such enterprises, while contributing very little *net* to the nation's GNP nevertheless might make vast aggregate money payments to the public. Eventually we could reach a point where government expenditures, so defined, exceeded the GNP, even though both in terms of *origin* of product and in terms of *use* of resources, the government role was but little larger than now.

These comments indicate that the concept of comprehensiveness can easily be carried to the point of *reductio ad absurdum.* There could be advantages in moving in the opposite direction. Even the Administrative Budget might usefully be restricted somewhat by introducing Capital Budgets for government enterprises.

Definite advantages can be gained by setting up a restricted budget (like the Administrative Budget), which excludes the Trust Funds. Professor Shoup makes a good point here, though perhaps he limits himself too narrowly to short-run cyclical fiscal policy. His good point is that it is useful to have a budget which excludes governmental spheres of action which run pretty much on their own, once Congress has supplied them, so to speak, with a "constitution" under which to operate. This is true of the Trust Funds. Their role is broadly fixed in the "constitutional set-up." The Social Security Trust Funds could, at least theoretically, have developed completely on private lines — taking in money from members, paying out benefits, and building up reserves exactly as is done by the governmental Trust Funds. If this had happened nobody would include such private funds in the government budget. There is merit in a budget, such as the Administrative Budget, which in effect looks upon the Trust Funds as though they were private — operating outside of the government.

COMMENTS

Paul W. McCracken

How can the fiscal facts of the budget contribute most effectively to good budget policy? This question, it is clear from these papers, cannot be fully answered by any one budget concept.

The reason is, of course, simple. We want the fiscal operations of the Federal government to do many different things for us. And this multiplicity of objectives and goals requires a diversity of budget facts to measure and guide our fiscal operations, something emphasized particularly by Colm and Wagner. While the Cash Budget and the Budget on a National Income and Product basis come off better in most discussions than the Administrative Budget, none of them as they now stand provide all of the needed factual underpinning for budget policy.

There are some extensions that suggest themselves to me as deserving serious consideration. First, budgetary information needs to reflect more adequately the time dimension of the budgetary process. At present each Budget Message, in addition to the historical record, gives us a snapshot picture of prospects for a fiscal year half of which is already history, and a projected snapshot for a year beginning six months hence. Yet the budget makers as they put together each "next year's" budget find themselves to be already severely circumscribed by history. Decisions about expenditures "next year" (by the time of the Budget Message) have already been made for programs accounting for a surprisingly large proportion of total outlays. Thus the Administration often finds itself the target of barbs about fiscal profligacy for a budget that, given built-in increases from the past, is a stern one. More to the point, the financial plan we call the budget gives us surprisingly little information about where we are going beyond the next few months even though this plan covers transactions of a magnitude equal to about one-quarter of the national income. Longer-range planning in the private sector could be done a good deal more effectively if the Federal government could give some idea about where its own fiscal operations are going beyond these few months immediately ahead, and longer-range planning for the Federal government might also thereby be improved.

How might the budgetary horizon be extended a bit? One limited step would be for the budget to include a projection of annual expenditures for each year of the life of projects that obligate the government for more than one year. This would give us some indication each January of outlay increases that are already inevitable down the road, and around which the rest of the budget would have to be built to arrive at any given target for total expenditures. Indeed, it would not be amiss for the Budget Message to include an explicit discussion of trends for total expenditures during a period of, say, five years ahead. This would make an excellent addition to the already highly useful "Special Analyses" in the Budget Message.

A little more of the time dimension would also be injected into the budget ritual if the annual messages (the Budget Message and the Economic Report) were to contain a national economic budget projection, as outlined by Bator. The decision on this is a close one. The projections do become clubs that can and will be used against an Administration when the figures do not work out (for example, the 1962 GNP projection of $570 billion). This whole exercise could easily degenerate into a numbers game in which the substance of the problems is beclouded rather than clarified.

At the same time there is a discipline involved here that is good. The Administration is forced to quantify the economic program it puts forward and to compare this with the level of demand for output that would be consistent with comfortably full use of productive resources. This quantification can force a facing up to short-falls and excesses of economic policy that can otherwise be obscured by the phrases of state-craft that flow rather easily in Washington.

While a Member of the President's Council of Economic Advisers I was impressed with the pitfalls to quantification involved in a published national economic budget projection. From the vantage point of a professorship the net weight of the argument seems to me to shift closer to the affirmative. It is, in any case, safe to predict that we shall continue to move in this direction.

Second, even after three decades much academic discussion about fiscal policy as an instrument for influencing the level of economic activity still seems to me to have a surprising quality of unreality about it. Economists fret understandably about the always-balanced-budget view, though this year's tax-cut discussions suggest that progress has been made. Economists also, however, can afford a little self-evaluation. They particularly need to face up to some operational problems which too often have been ignored as they confidently prescribe doses of fiscal policy in a specific situation. One of the basic limitations to the active use of fiscal policy is the high degree of viscosity of the budget in the short run, and this will not disappear by assuming it out of our models. History is illuminating here. There is apparently some new natural law of the economic cosmos decreeing that a recedence in business activity must not become visible until just after the Congress has adjourned. This has been true of each post-war recession. As of about September or October or November, what in very concrete terms can the phrase "use fiscal policy vigorously" really mean? The fact is that little contra-cyclical deflection of spending trends can be effected. A few relatively minor things, of course, can be done. The 1961 list for Kennedy looked much like the 1958 Eisenhower lists for the simple reason that these were the things that could be done. The items in the "vigorous list" would require Congressional action, which would take time — in some cases a good deal of it. Shoup's suggestion of an "active" or "efficacious" fiscal policy budget is a good one. It might make for a more active contra-cyclical fiscal policy, and it would certainly contribute to more realism on the part of economists about what it is reasonable to expect in the relatively short run. My own view is that active fiscal policy (as opposed to the effect of built-in stabilizers) will not even begin to approach what much of the literature seems to expect from it until the President is given some limited authority to vary tax rates cyclically.

Third, expenditure policy must have a great deal more attention in budget policy discussions. What budgetary facts and procedures will best give expression to the public's preferences about the division between private and public goods and services? (Though the two sometimes get entangled, this is a quite different matter from the question: What does any specific economist personally think the allocation between private and public spending ought to be?) A good arraying of facts is basic. Vast detail about expenditures for travel, personnel and paper clips tells us very little about the wisdom of expenditures — though it may be essential for management control. The substantial information now available on expenditures by objectives and programs is a major step forward. The small table on page 62 of this year's Budget Message — showing total obligational availability of the Department of Defense distributed according to the different defense objectives to be achieved ("strategic retaliatory forces," "continental air and missile defense forces," etc.) — gives the thoughtful lay citizen a markedly better basis for evaluating how his tax dollars are spent than the longer table on page 61 which shows the distribution among such categories as military personnel, procurement, operations and maintenance, and military construction. We are here beginning to have the basis in the budget for profit-center type comparisons — matching costs against the things we are trying to get from our outlays — that large corporations have used for a long time to insure better use of company resources.

Procedures are involved here, however, as well as facts, and there is in principle one major gap in budgetary procedures. The Congress has yet to devise a workable procedure by which the whole budget would receive consideration. The Congress does do a thorough job of examining the merits of individual proposals. Anyone who has been before an Appropriations Subcommittee is not apt thereafter to make many speeches about the superficial way the Congress examines proposals to spend money. Most things that get by the Appropriations Committees are in and of themselves worthy projects, and elimination from the budget of waste and foolishness in the literal sense might bring the projected budget for FY 1964 down from $98.8 billion to $98.0 billion, but it would not lop off billions.

The essence of the discipline of economics, however, emerges from the central fact that the aggregate of individually worthy and meritorious claims on resources exceeds the resources available. Optimal allocation of resources between public and private claims cannot, therefore, be assured if our procedures are designed only to make certain that each project is "good." We cannot even be certain that the resulting bias is toward an excessively large budget. The standards of worthiness may be so high that our procedures inject a bias in the direction of a budget outlay total that is too small.

The Congress has gingerly dipped its toe in these waters and hastily retreated. Alternative suggestions have been made (for example, a single appropriations bill, or holding up individual appropriations bills until a total could be struck and an amendatory bill passed). Whatever the details of the solution may be, this absence of any explicit Congressional consideration of total expenditures remains in principle an important gap in budgetary procedures.

One last comment, on the Capital Budget idea. This clearly has had its attractions for economists as a way of circumventing excessive adherence to an always-balanced budget philosophy. We should, according to this line of analysis, remind businessmen that they consider a business to be in the black if receipts exceed current expenses, and borrowing to finance capital expenditures is a very prudent and proper thing to do. Why apply different standards to the Federal government?

This line of argument will produce only trouble for good budget policy. For one thing the gambit would not work. Those who want the budget balanced will not be tranquilized by a sub-total. Moreover, as Musgrave points out, having tried to explain that there are some important differences between the Federal budget and private budgets economists will not sound convincing if they suddenly double back on themselves and urge treating the Federal government "just like a business."

There is, however, a case for capital budgeting in the Federal government, and this presumably means some sort of Capital Budget (though not necessarily). The Federal government, no less than a business, should do as explicit and quantified a comparison as possible between the cost of each project and the returns. The presumption should be that the case for each project would include an explicit estimate of the project's rate of capital. The figures may have a considerable margin of error, but the discipline of producing the estimate will make for better planning of capital outlays.

Indeed, this point can be generalized to the whole budget. What happens as the figures are being put together is at least as important as the figures themselves.

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