393

REVIEW OF REPORT OF THE PRESIDENT'S COMMISSION ON BUDGET CONCEPTS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON ECONOMY IN GOVERNMENT

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

NINETIETH CONGRESS

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CONTENTS

REPORT OF THE PRESIDENT'S COMMISSION ON BUDGET CONCEPTS

TUESDAY, OCTOBER 31, 1967

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMY IN GOVERNMENT
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room S-407, the Capitol, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senators Proxmire, Jordan, and Percy; and Representatives Rumsfeld, Curtis, and Griffiths.

Also present: John R. Stark, executive director, and Donald A. Webster, minority economist.

Chairman PROXMIRE. The subcommittee will come to order. The Joint Economic Committee has a long, deep interest in the Federal budget, not only its impact on the economy, but in the concept underlying it, its form and process. They are all interrelated and derived from our responsibilities under the Employment Act.

The public sector is extremely important from the point of view of the Employment Act, and the budget document must bear a major responsibility for providing its information and finances in the Federal sector.

In 1958 the Subcommittee on Fiscal Policy of the Joint Economic Committee, presented a number of findings and conclusions on the subject of Federal expenditure policies for economic growth and stability, including a number on budget concepts and budget form.[1]

In 1963, the Joint Economic Committee published a report on the Federal budget as an economic document.[2] Incidentally, that was the work of the Subcommittee on Economic Statistics of which I was honored to have been chairman.

This also set forth a number of precepts on the budget document. I intend to refer back to some of these recommendations a little later on after Mr. Kennedy has had a chance to make his opening statement.

In our annual report[3] filed on March 17 of this year we strongly endorsed the President's appointment of your Commission, pointing out that it should serve to bring the entire budget document much closer to the ideals spelled out by this committee and its subcommittee in earlier years. It might be added we have recently completed hearings

[1] "Federal Expenditure Policies for Economic Growth and Stability," report of the Subcommittee on Fiscal Policy of the Joint Economic Committee, Jan. 23, 1958.

[2] "The Federal Budget as an Economic Document," report of the Subcommittee on Economic Statistics, Aug. 14, 1963, published as S. Rept. 396.

[3] Joint Economic Report on the 1967 Economic Report of the President, Mar. 17, 1967, 90th Cong., first sess., U.S. Congress.

on the subject of programing, planning, budgeting,[4] which is, of course, related to the issue of budget concepts.

So in opening today's session, we resume longstanding activities. We are very happy and honored to have you gentlemen with us We want to thank you for your yeoman service, the great work you have done for the country, in working as hard as you have, and as widely and productively as you have to achieve an understandable, new, usable budget.

The announcement of these hearings and a schedule of the witnesses who will appear are included in the record at this point.

Hearings on Budget Commission Report

Senator William Proxmire (D-Wis.), Chairman of the Joint Economic Committee, announced Wednesday that the Subcommittee on Economy in Government will start hearings next week on the Report of the President's Commission on Budget Concepts.

The Report calls for far-reaching changes in the Federal budget to improve public understanding of the economic impact of Federal spending.

Senator Proxmire, who is also chairman of the Economy in Government Subcommittee, said in a statement prepared for delivery on the Senate floor:

"The Commission has made extensive proposals for revision of the present budget format. It has recommended that the coufusing three-budget system now used by the Federal government be replaced by a single comprehensive budget designed to give the public a better picture of the full range and effect of Federal financial activity and the Congress a better trip on these operations.

"This is a proposal of major significance to the economy. The Federal Budget, after all, is crucial in measuring the impact of Federal spending on the economy. If the Commission's proposals were adopted, the result would be a budget drastically different from the one to which we have become accustomed.

"Because of the overriding importance of the Commission's Report, the Subcommittee on Economy in Government intends to explore the Commission proposals in great detail.

"The Joint Economic Committee has a deep and long-standing interest in improving the Budget document as one element in a program to improve the whole process of formulating Federal fiscal pclicy and thereby promoting more effectiveness and better economy in government."

Witnesses Scheduled

The schedule of hearings is as follows:

Tuesday, October 31, 1967, 10:00 a.m., Room S-407, The Capitol

David M. Kennedy, Chairman of the Board, Continental Illinois National Bank and Trust Company of Chicago, and Chairman of the President's Commission on Budget Concepts.

Robert P. Mayo, Staff Director, President's Commission on Budget Concepts.

Wilfred Lewis, Jr., Research Director, President's Commission on Budget Concepts.

Thursday, November 2, 1967, 10:00 a.m., Room S-407, The Capitol

Maurice H. Stans, former Director of the Bureau of the Budget.

William M. Capron, former Assistant Director of the Bureau of the Budget.

Herbert Stein, Fiscal Economist, The Brookings Institution.

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[4] "The Planning-Programing-Budgeting System: Progress and Potentials," hearings before the Subcommittee on Economy in Government of the Joint Economic Committee, U.S. Congress, Sept. 14, 19, 20, and 21, 1967.

STATEMENT OF DAVID M. KENNEDY, CHAIRMAN OF THE BOARD, CONTINENTAL ILLINOIS NATIONAL BANK & TRUST CO. OF CHICAGO, AND CHAIRMAN OF THE PRESIDENT'S COMMISSION ON BUDGET CONCEPTS; ACCOMPANIED BY ROBERT P. MAYO, STAFF DIRECTOR, PRESIDENT'S COMMISSION ON BUDGET CONCEPTS, AND WILFRED LEWIS, JR., RESEARCH DIRECTOR, PRESIDENT'S COMMISSION ON BUDGET CONCEPTS

Mr. KENNEDY. Mr. Chairman, I am delighted to be here today and have this opportunity to discuss with you the matters of the Commission. We feel it will be helpful in bringing about a better understanding of the budget, and we need, of course, to have the interest and the cooperation of the Congress in undertaking some of the programs that are proposed in our report.

I would like now to present a prepared statement.

It is a pleasure to appear before you today to discuss the report of the President's Commission on Budget Concepts,[5] which became public on October 18, 1967. Your committee is to be complimented for the interest in our report which has led to the present hearings. In our own discussions we were quite aware of your continuing interest in the importance of the budget in our national affairs—particularly in the expression of that interest in your study of the budget as an economic document 4 years ago.

On March 3, 1967, President Johnson established this Commission. He asked us to conduct a thorough and objective review of the way in which the budget of the U.S. Government is presented. The Commission's 16 members included nationally known leaders in the field of accounting, corporate finance, investment banking, journalism, and the academic fraternity, as well as the Secretary of the Treasury, the Budget Director, the Comptroller General, and the chairmen and ranking minority members of the Committees on Appropriations of both the House of Representatives and the Senate.

Our staff director was Mr. Robert P. Mayo, who served for many years in the Office of the Secretary of the Treasury before coming to work at the Continental Bank. Our research director was Mr. Wilfred Lewis, Jr., of the Brookings Institution, who has served in both the Bureau of the Budget and the President's Council of Economic Advisers. A large amount of additional staff work was generously provided by Government agencies having particular competence in our fields of inquiry.

The cooperation we received from the committees of the Congress and the various Government agencies and their staffs was outstanding. The Commission itself had five 2-day meetings during the May–September period. This was a "working Commission" and attendance by its members was excellent. As a result, we were able to produce what we believe to be a full and complete report before the end of September, as requested by the President, although the final printed copies were not actually completed and made available to the public until mid-October. Staff papers and other materials reviewed by the Commission—including papers and proceedings of a conference on budget concepts for economic analysis conducted jointly by the Com-

[5] See appendix.

mission and the Brookings Institution on July 31 and August 1, 1967—should be published before the end of the year.

There have been many changes over the years in the manner of presentation of the President's budget to the Congress and to the American people. Most of these changes have helped to make the budget of the U.S. Government the best in the world in terms of clarity of presentation, but many of them have been confusing and misleading.

The President's budget serves many purposes:

It sets forth the President's requests to Congress for new programs, appropriation of funds, and changes in revenue legislation;

It proposes an allocation of resources to serve national objectives, between the private and the public sectors, and within the public sector; and

It embodies the fiscal policy of the Government for promoting high employment, price stability, healthy, growth of the national economy, and equilibrium in the Nation's balance of payments.

The budget is also used to measure the size of Government in the national economy, to assist the Treasury in the management of its cash balances and the public debt, to help economists in the analysis of national income in our social accounting system, to measure the impact of Federal activity on financial and credit markets, and to provide data for a great many other purposes.

Continuing shifts in emphasis from one purpose to another have resulted in at least a partial transition in recent years from the traditionally accepted administrative budget to the more comprehensive consolidated cash budget and, more recently—as the influence of economists in national affairs has risen—to the national income accounts budget.

Having the budget presented in several different ways has made it more difficult to understand and more susceptible to charges of "gimmickry." Differences in the treatment of many individual items in the budget—such as the deduction of participation certificate sales from expenditures rather than showing them as a means of financing like Treasury bond sales—have also been questioned on one ground or another.

The President's Commission on Budget Concepts was created solely for the purpose of recommending steps which would make the President's budget presentation more orderly and consistent. The Commission was not asked to review *substantively* any tax or expenditure or financing program but rather to set up consistent *rules* to be followed over time in the presentation of those programs.

The Commission's report was released to the public on October 18. We believe its major contribution is the recommendation of a *unified* budget system, drawing into that unified concept the best characteristics of each of the currently used budget concepts—plus some improvements which go beyond any of the present forms of presentation. Although the figures relating to each of the three present budget concepts would still be available as statistical tabulations, the Commission recommends strongly that the terms "administrative *budget*," "cash *budget*," and "national income accounts *budget*" disappear and that only the new concept be called "the budget." The new budget would also present a closer tie between congressional appropriations and projected expenditures. The recommended form for the budget summary table begins with figures on appropriations.

Like the present consolidated cash budget, the new concept is comprehensive. It includes the activities of the trust accounts (which are left out of the administrative budget) as well as Federal credit programs (which are left out of the national income accounts budget). The Commission recommends, however, giving great prominence within the new budget concept to figures on Federal credit programs that show a breakdown into those parts that are actually loans versus those which represent Government subsidy—and are, therefore, no different from other Government payments into the income stream. Interest subsidies would be explicitly recognized and an allowance would be made for losses.

The excess of expenditures excluding loans over receipts would be referred to as the expenditure account deficit. This deficit would be particularly useful for analysis of the economic impact of the budget. The expenditure account deficit, plus net lending, equals the budget deficit. The Commission feels strongly that this is the only sense in which the full term "budget deficit or surplus" should be used. "The budget" should reflect net lending as well as other expenditures.

The Commission also recommends that budget accounting be placed as completely as possible on an accrual rather than a cash basis. In that way, Government accounting will tie in much more directly with business accounting and will reflect more accurately the timing and the economic effects of Federal programs—both on the tax and the expenditure sides. This will take a while to put into effect, since Defense Department accounting is still not on an accrual basis. Reporting receipts on an accrual basis also poses some thorny estimating problems but the Commission believes that by the January 1970 budget presentation this transition can be completed.

The Commission also asks that much more prominence be given in the President's budget message to the means of financing the budget deficit—whether through borrowing (and what kind of borrowing), changes in cash balances, accounts receivable, accounts payable, et cetera.

Full adoption of the unified budget system which the Commission is unanimously recommending would represent a milestone in eliminating present *competing* versions of the budget and substituting for them an integrated *complementary* system. This includes reporting by the Congress on appropriations actions consistent with the President's budget figures. It also involves the development of more readily understood concepts of Federal borrowing from the public which would be consistent with the recommended concept of the budget deficit or surplus. It would therefore include Federal agency security issues as well as the public debt itself.

Sales of participation certificates in pools of loans would be considered a means of financing—like Treasury bonds—rather than being an effect to expenditures (and a reduction of the deficit) as is done under present practice.

The Commission's recommendations in the public debt area obviously have implications for the Congress in its definition of the public debt limit, but any changes of that sort would be undertaken, of course, only at the initiative of the House Ways and Means and Senate Finance Committees.

The Commission felt that the large and growing Federal insured and guaranteed loan programs should continue to be reflected outside of the budget totals. They initially represent private credit extension and are properly reflected in neither Federal expenditures nor Federal borrowing. These programs would be shown, however, in terms of total amounts outstanding, along with direct loan programs, in the initial budget summary table.

An important point made in the Commission's report was the emphasis placed on improved communication of budget information to the Congress and to the public. It was suggested that there should be more frequent within-year revisions of the January budget estimates, more detailed breakdown of aggregate budget figures into quarterly or semiannual units, and more comprehensive estimates which extend further into the future. The Commission was quite aware of your committee's parallel interest in this regard.

It is not yet known of course, how fully the report recommendations will be accepted by the President, either as a matter of general principle or, more specifically, in terms of the budget presentation in January 1968. In its letter transmitting the report to the President, the Commission noted the broad authority granted to the President to determine the precise form in which to present the budget to the Congress.

It also urged that work begin immediately to provide the necessary information and data so that those recommendations which meet with Presidential approval can be introduced as soon as possible. The Commission expressed the hope that many of these changes could be made in the 1969 budget document. The Commission realizes, however, that the fundamental nature of some of its recommendations and the work required to carry them out may preclude their adoption in a document that is already well along the way.

Active participation in the Commission's activities by the Budget Director and the Secretary of the Treasury should smooth the path toward adoption of the Commission's recommendations within the administration. Similarly, Commission representation on the congressional side should also help acceptance of those recommendations which directly involve the Congress in its consideration of the budget.

Chairman PROXMIRE. Thank you very much, Mr. Kennedy, for an excellent, helpful, and concise statement. You have certainly summed up your recommendations on the most complicated document known to man, in my view, very briefly and clearly.

We have had some experience with this kind of a Commission before. Yours has, of course, a great prestige. But I am thinking in terms of the experience we had with Professor Bernstein and his Commission, which was appointed by the Bureau of the Budget to make a study of the statistical reporting on the balance of payments.

They made a recommendation that we should rely on official transactions instead of liquidity basis. It is a technical complicated point that is not relevant here. Except that in that case, the administration seemed all for the Bernstein recommendations, and then when it developed that the Bernstein recommended statistical measurement did not indicate as much of an improvement in the balance of payments as the old method did, they went back to the old method.

The Secretary of the Treasury, since Bernstein made his report, has rarely referred to it—once in a while when we needle him, he will include that, too. But he likes to call the old method the overall basis. And it is understandable. I think the Secretary of the Treasury is a wonderful and very able man. He, of course, is doing the best job he can. But there is a perfectly human tendency for the administration, any administration, Democrat or Republican, to try to put themselves in the best light.

You have specified that you do not know how far the administration can go or is likely to go in accepting your recommendations, either as a matter of general principle, or in terms of the budget presentation in January of 1968.

But I would like to know, for our benefit, how unequivocal is your recommendation that the administration shift from the present budgetary practice to the single budget concept.

Do you feel and did your group feel unanimously this was a desirable and necessary thing if we are going to get the greatest amount of public and congressional understanding?

Mr. KENNEDY. Yes, Mr. Chairman, we did. We were unanimous in that view, and that was supported by the Secretary of the Treasury, the Director of the Budget, and the congressional members of the Commission.

I think each felt that it would be important to have a budget that could have general acceptance, if that could be possible, and to the extent the President can, and the time permits, we are hopeful that it would be included in the forhtcoming budget. He is under a time limit, of course.

Chairman PROXMIRE. I realize, and know it is difficult. But after all, if we can perform the many feats we perform technologically in space and elsewhere, it seems to me we could move on something like this that is so important to all of us.

What technical reasons are there that would prevent the administration from acting promptly?

Mr. KENNEDY. Well——

Chairman PROXMIRE. Acting to use your recommendations by, say, January of next year.

Mr. KENNEDY. Well, I think that they could use the format, and they could accept many individual items. Some require further works like the accrual accounting recommendation—and that would take time.

It would appear to me to be advisable to make the shift in two steps rather than little by little over the period to 1970.

Chairman PROXMIRE. The first step that could come in 1968, January of 1968, could give us the budget you have recommended with the deficit or surplus—deficit——

Mr. KENNEDY. Deficit.

Chairman PROXMIRE (continuing). That would develop on the basis of your recommended concepts.

Mr. KENNEDY. That is right.

Chairman PROXMIRE. And there would be more or less a detailed reconciliation that would have to come in a later year.

Mr. KENNEDY. That is right.

Chairman PROXMIRE. Just how will this new budget serve the Congress in giving us a clearer picture of the administrative operations on a program basis? What I am thinking of is the very constructive job the Defense Department has done in putting their operations on a program basis for five basic areas. It has made the defense budget, which is by far the biggest, much more understandable, and I think it has greatly increased efficiency in the Defense Department.

Will your budget be helpful in achieving this, either within the administration or enabling Congress to assess the progress that is being made on a program basis?

Mr. KENNEDY. We feel that it would, but mostly in an overall sense. We are recommending that the programs that are submitted to the Congress be pencilled out on that program basis, so that you can see the effect of it as clearly as possible. And we also are recommending that in the loan programs and those areas where they are using the credit of the United States, that the subsidy element be pulled out, and that those subsidies, whether it is through the interest rate or other ways, be shown as a direct expenditure of the Government, rather than part of the loan program.

So we feel it would.

Chairman PROXMIRE. What I am getting at is—to be specific—we had hearings in 1963 in which we had a number of very fine witnesses appear, and a general complaint by the business economists who appeared, and the academic people, was that it is very difficult for anybody to assess the efficiency, or for that matter the quantity of governmental operations—how many dollars we put into education, for example. It was pointed out there were literally scores of education programs scattered throughout the Government, and we recommended at that time that we try to have some kind of an index system or some kind of a classification system that would bring these things together, so we would have some basis, No. 1, for comparison within the Department—HEW, for instance. What education programs does HEW have? Which are the most productive? What educational programs does the Labor Department have? The Department of Agriculture. And then some basis for determining which programs are operating most efficiently, and which are not.

Now is there anything in your budget that would help us along this line?

Mr. KENNEDY. We talk in this report about a functional breakdown, and in that it seems to me that they should take related activities from the various departments, in education, or whatever the program area would be, and classify them by function.

In the report, we support the functional breakdown.

Chairman PROXMIRE. Yes. What I am getting at is something perhaps that is too novel to expect to be done on a comprehensive basis, but I think it would be most helpful to us.

In our program-planning-budgeting hearings we had a lot of emphasis from the witnesses on cost-benefit study. And they showed you could apply these in many areas to determine whether your return is the best. As the chairman of the board of the Continental Illinois Bank, a marvellously successful business institution, you undoubtedly know the productivity, the cost, and benefit results in each of your departments.

In government we do not seem to know this. It seems to me there is no reason we should not know it. We would be in a much better position to assess productivity, and on that basis to make our own decisions on expenditure—whether or not a certain educational program is paying off or not. If it has a low return, we could cut it out. If it has a high return, maybe we could make a better investment in it.

Can you give us any examples of how your budget recommendations, might help us along this line?

Mr. KENNEDY. Well, we didn't go into the specifics of individual departments and what they should do. But on the top of page 18 we say:

The Commission endorses the growing use in recent years of the important Planning-Programming-Budgeting Systems (PPBS) approach to budget preparation and review, which is specifically designed to improve the mechanics of choice among alternative programs and approaches to meeting public needs and purposes. On the other hand, PPBS concerns itself with total costs and benefits to the entire Nation, not merely the revenues and expenditures of the U.S. Treasury. Since the incidence of many social costs and benefits is on the private sector, rather than the Treasury, such costs are not candidates for inclusion in the overall budget totals. Thus, while PPBS analyses should be used to aid in the allocative process, the budget necessarily represents a financial plan for the Government, and the budget totals can hardly reflect total social costs and benefits.

We were looking at the total budget.

Chairman PROXMIRE. I am thinking in terms now, of course, of the simplest document in its bare bones. I am thinking in terms of the greater detail that would inform Congress as to how we can make our expenditure decision more wisely. And this, of course, will require documentation behind your bare bones budget.

If you are familiar with the recommendations that we made in 1963, that we follow on to some extent the present system of the budget in brief, and then gradually elaborate it—but try and do a much better job than we do at the present time of tying the whole thing in. So you can take the budget in brief, and if you want to follow a single specific area through, you can go through to the various more elaborate justifications.

Mr. KENNEDY. We agree with that in principle—that is important. We have even suggested that the Bureau of the Budget go through the tables, and some of them they could eliminate, and some of them they can change and add to, and make them consistent with the concepts that we have recommended in this report.

CHAIRMAN PROXMIRE. In recent days, Mr. Kennedy, the Appropriations Committee has been confronted—both in the House and Senate—with an entirely new problem. The economic situation requires reduction in the present fiscal year of expenditures. Not necessarily appropriations—except as appropriations affect expenditures—but, of course, this varies. President Johnson told me that if we eliminate the foreign aid program entirely, it would only cut expenditures by $600 or $700 million. Other programs with less leadtime, if you cut appropriations, you would cut expenditures more completely.

But for this reason, I wondered if this budget would give us a more helpful insight on the timing and effect of appropriation increases or decreases on expenditures.

In your statement this morning, you come down hard for an expenditure account surplus. I am wondering if you not only would give us this account, but give us this account in terms of a specific and definite period of time. We are interested in a policy that would enable us to reduce expenditures between now and June 30, 1968, for example.

Mr. KENNEDY. We start out, of course, in our proposed summary with appropriations, and we have those appropriations proposed for action by the Congress in the year in which the budget comes out. And then there are the appropriations that require no further action by the Congress.

So you have the basis there for the appropriations side of the budget program.

In the case of the budget expenditures and receipts and not lending, there you would merely have the detail of the various programs that would be expected in the budget for that particular year.

Mr. Lewis has been writing me a note, so he may have a thought on that.

Mr. LEWIS. I would like to refer you to table 6–A, in the report, that reconciles in a fair amount of detail congressional actions on appropriations and resulting expenditures. I think this kind of bridge between the two, which is really an expansion of the first section of the summary table on the preceding page—expansion of it in great detail. I think this would help a great deal in seeing the relationship between appropriations and expenditures, how congressional action relates, not merely to appropriations, but to expenditures. And we also made some recommendations that congressional scorekeeping, that is, reports from the Appropriations Committees on what they had done affecting the budget, that they give—first of all that they use the same concepts as the President's January budget, and, second, give some attention to expenditure as well as appropriation consequences of their actions.

Chairman PROXMIRE. This is very helpful. My time is up; but I will be coming back.

Congressman Curtis?

Representative CURTIS. I would like to first join with the chairman in both complimenting and thanking this Commission for the work they have done here. This is extremely helpful. If I seem to be critical, it is only because I think this is our function here, to examine those areas which are not quite so clear. The overall work here is a tremendous plus.

I have two of the recommendations that you make that I want to examine in some detail, although my time probably will not enable me to finish. And then I have two other specific details that relate.

Recommendation 3 on page 7 of the report:

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

And then the first paragraph under that:

> The relationship between appropriation and expenditures should be spelled out very clearly in the Budget Message.

And then the Commission also recommends redefining the term "appropriation" to cover all forms of congressional action which grant authority to obligate the Government to make expenditures.

I think this recommendation is so essential, and it is particularly so at this time with the debate or disagreement that seems to exist between the Executive and the Congress in regard to expenditure levels.

The key budget information, as far as the Ways and Means Committee, on which I serve, is concerned, relates to what we would often refer to as the problems involved in debt management.

We need to know what the cast flow actually is each year, how much we can anticipate coming in, in taxes, and other revenue, such as sale of capital assets, and also what the actual expenditure by the executive department is going to be in order to determine what we have to finance, if it is a deficit, and usually has been—what we have to finance in the way of sale of additional bonds.

Now your recommendation for accrual accounting, which I agree won't help us in this particular problem—the problem of the Ways and Means Committee. In fact, I worry that the overall thrust of this does not help the Ways and Means Committee or the Congress in meeting this problem of debt management.

Am I in error in thinking that some of these recommendations you make would help us to distinguish cash flow from actual expenditures, where we have to put the money out?

Mr. KENNEDY. Mr. Curtis, I think the accrual accounting will help. It is not a cash flow statement. But the Treasury will still have to have records on a cash basis, because they have to meet the obligations with the money in the bank. But this will give the figures for the year of a budget deficit that has to be financed, and it will carry through as a means of financing on table I, right at the first part of the budget.

Representative CURTIS. Let me interrupt. You see, here is the problem.

The expenditure level is almost completely within the discretion of the Executive once Congress has given the Executive the power to spend. I think the key table is in the budget message of the President, 1968,[6] on page 49, which shows new authority recommended to Congress—that is the $144 billion of new power to spend—but that must be coupled with the unspent authorization enacted in prior years, $125.6 billion, which would give the President power to spend a total of $269.6 billion.

In this message, which was given to us in January, he says out of this $269.6 billion power to spend, I will only use $135 billion in this fiscal year. This is the figure the Ways and Means Committee has to know about, as well as what we can anticipate in revenues.

We now find in September, or rather in October, that the President is actually spending at a level of $146.8 billion. I am reading from page 35 of the October economic indicators, under "Federal Financing," cumulative totals for the first 3 months of fiscal year 1968, $36.7 billion, multiply by 4 to get the annual figure, and it is $146.8 billion.

Now the Executive has reduced that level without any reference to the Congress. And this is not said critically, because I think every Executive needs flexibility. Actually, as I have said, I think the Executive is probably disobeying the law, because we have had continuing resolutions passed on appropriations since July 1, 1967, the beginning of this fiscal year, which required that those agencies which had not got their share of this new $144 billion spending authority spend at the level of the previous fiscal year.

Well, that level was $125.7 billion—not $146.8 billion. Now, again, getting back to the key question, it is important that the relationship between appropriations and expenditures should be spelled out very clearly in the budget message. But I would add, if the Executive wants to change the figure that it gave the Congress as its level of expenditures for that fiscal year, that they should say so, and explain why. Otherwise we on the Ways and Means Committee are caught up in this problem of how much debt are we going to have to issue to pay our bills in that fiscal year.

Does anyone want to comment on this problem? Because the budget message is supposed to be helpful to solve immediate problems

[6] "The Budget of the U.S. Government—1968," Superintendent of Documents, U.S. Government Printing Office, Washington, D.C.

that face the Congress, or face the Nation. And I know of no problem that is more immediate or critical than this question of how much of our expenditures are we going to finance through additional debt.

Mr. KENNEDY. The budget as we recommended, Mr. Curtis, would still give the President's initial forecast 18 months ahead of time of what the level of expenditures would be. But conditions and programs change in the interim. And we realize that and recommend publicizing interim changes and reports——

Representative CURTIS. On the item we are talking about—expenditures.

Mr. KENNEDY. On expenditures—so you would have a review of the budget. And we did not go into the detail of how often that would be made. But there is a scorekeeping problem that the public has and the Congress has with the executive branch. And for that reason, we should think that the interim reports and reconciliation would be important.

Representative CURTIS. I would hope above all that the Congress, collectively, as well as the general public, including the editors of the New York Times, would become more familiar with the relationship and the difference between appropriation and expenditures, particularly with the level of expenditures.

The Executive has control over that. The Congress only indirectly. And the immediate problem, right now, on cutting back expenditures is in the power of the Executive.

Now, one collateral point on this.

The unspent authorization enacted in prior years of $125.6 billion—they anticipate in this message $39.3 billion of that to be used in 1988. But then when we look to see when the balance of that—let's see—roughly $89 billion, about $90 billion is to be spend, in which fiscal year, and how it is programed, there is no data in the budget at all. There is no data in the budget in respect to the remainder of the $144 billion of new authority expenditures in future years of $48.3 billion—that is, when it is programed for expenditures. We do not have that data.

I have been asking the Director of the Budget for this kind of information. Because you see, the President will have—again referring to this chart—at the end of fiscal 1968, unspent authorizations for expenditures in future years of—adding the $39.3 billion to the $48.3 billion—$132.8 billion power to spend. But we do not have it programed by fiscal year as to when those expenditures are.

Mr. KENNEDY. We considered very carefully these forward projections. You come up against some real problems of trying to forecast. We come out with a recommendation that efforts be made to forecast ahead, and suggested a private or outside Commission—The Brookings Institution or somebody else—take a look at these. Or the staff of the Bureau of the Budget can prepare some longer term projections, which we feel, as you do, are desirable.

You come up against a problem of asking the Executive to forecast a budget 5 years in advance, or some period in advance, and you build in inflexibility and problems of commitment to a program that might later be changed advantageously, and it makes a difficult decision for the President to accept such a concept.

Representative CURTIS. I see my time has expired. I will come back to that. I will only make this observation. If these programs are properly programed, they of course have estimates of what they are going to spend, and that is all we are asking.

We recognize that these things are subject to change. But we can at least deal with what the present plans are, so if the plans are changed—and they need changing, because of course some programs probably are not desirable any longer, and, need to be phased out, others probably need acceleration—we can examine why.

Chairman PROXMIRE. Mrs. Griffiths?

Representative GRIFFITHS. What I would like the budget to do is to show under names exactly how much money goes to a certain program.

For instance, I understand how we say foreign aid amounts to maybe $3 billion a year—the real truth is it is about $11 billion.

Did you give any consideration to this? Did you give any consideration to the idea that the President should point out specifically the amount of money that is going into a State, if not into a congressional district, on various programs, and what the effect and what the return on this expenditure is?

Mr. KENNEDY. We did not go into the specifics of any programs. We did feel that there should be a functional breakdown—so that would include picking up from the various departments like amounts in the aid or other programs, so that you have the total.

Now, to some extent that is done in the budget now. But that is a problem that needs careful consideration.

Representative GRIFFITHS. For instance, one of the reasons probably that foreign aid is not actually listed as foreign aid, and the exact amount shown, is that it would become increasingly difficult to get that amount through. You could watch in the House this year while NATO—some of the things for NATO was taken over by the Defense Department that has not heretofore been. Now, the Defense Department can get anything through—which is really very unfortunate. We even call the Education Act the National Defense Education Act. You had to name it that to pass the bill.

So that it would be really a great help—and while it might come as a surprise to the general public and even the Congress exactly where this money is going—it seems to me this is the only fair way to do it.

Mr. KENNEDY. Well, you come across, of course, very difficult definitions of what is defense or what is aid or other matters. You have food for peace—is that foreign aid or is that something else? And the only thing that we did in this was recognize your problem, and suggest that there should be a functional breakdown.

Now, when you get into the question of definitions, that is a never-never land, as you know. And that is really for the Congress, in working with the executive branch of the Government, to come out with some helpful definitions and realistic appraisal of legislation in this matter.

Representative GRIFFITHS. Now——

Mr. KENNEDY. I do not think you can do it by a simple definition of the concepts.

Representative GRIFFITHS. Don't you think it would be quite helpful if you could show how much of this money goes into one state, under any program? We cannot find that out ourselves. We have great difficulty.

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Mr. KENNEDY. Well, it is pretty hard to tell. State lines are not very logical in some ways for analytical purposes. It is pretty hard to do. But we recognize your problem. But it is not an easy one to handle.

Representative GRIFFITHS. But it would not be difficult——

Mr. KENNEDY. I think that is your problem, really.

Representative GRIFFITHS. It would not be too difficult for those who are expending the money to tell you how much money goes into a State under any one program. They just do not list it.

What about the idea that the Federal Government should state their objective in a program, and then tell us to what extent they have met that objective, with this expenditure of money?

Mr. KENNEDY. In any program requiring legislation, I should think the committees of Congress would require the agencies to state their objective, in looking at their annual reports and analysis of the activities of the department—it seems to me that is where the control would be. I am sure that in proposing a program to the Congress, the President has to spell it out in such a way that he can get congressional support for it. And after the program is on the books, it becomes a problem for executive department administration, and I guess that is where it gets lost, if it does, in the maze.

But the review of these comes up in the Appropriations Committees each year, and there are hearings held on every department. It looks like that is where you would unravel the activity.

Representative GRIFFITHS. My favorite example in the whole history of Congress is a young Republican came here one time from the west coast, and a meeting was held in which the senior members of the Republican Party offered to give him whatever assistance he chose. And he said, "I have only one inquiry I would like to make." And he named some Federal wood-producing company.

He asked, "What is that company?"

Well, apparently no one knew.

They said, "Why do you ask this question?"

And in reply he explained that the company or agency had an office on the floor on which his campaign office was located, and he had found that this office was never open for business, but that 1 day a month two elderly people came down, arriving in a chauffeured car, picked up the mail, and then departed. On proper inquiry, it was discovered that this was a company that had been set up during World War I to buy wood for airplanes—those two-wing airplanes—and that it had continued for some 30 years. These were just two nice old people who ran it, and every year they were asked what they thought their budget should be, and they would respond.

So it would appear that Congress really is not prepared to investigate all these programs.

I think it would be great if the President had to name the programs and tell you what the money is spent for, and what we are getting for it, and if it is really a worthwhile expenditure.

Now this suggestion was made by the Subcommittee on Fiscal Policy of the Joint Economic Committee in 1958 which was chaired by Representative Wilbur Mills. Mr. Curtis was on that subcommittee. I do not think we are any farther along today than we were then.

I thought maybe you folks would come in and support us.

Mr. KENNEDY. I can see your problem and I think it is easier to start a program than it is to control it. Even in our bank we have this problem because programs tend to continue and they tend to justify budgets and so on.

That again is an administrative matter. In your surveys of the executive branch it seems to me that is where that should be considered.

In our activities we were looking at the proper reporting of items what should be included the definitions of them and the right type of reporting so that when we talk about items in the budget all of us would be using the same terms. But as to whether a program was effective or ineffective whether it is useful or now has outlived its usefulness we did not go into the substantive matters.

Representative GRIFFITHS. Now for instance I think also it would be very helpful if you showed in the budget where the taxes were coming from and where the money is going and for what purposes. And I think if you did this at the present time you would discover that cities are getting a very bad deal indeed. The amount of money that is being spent in cities does not even come close to the amount of money that is being spent in other areas. And yet the taxes are coming from those eroding tax bases in the cities.

Mr. KENNEDY. I am sure the breakdown of the figures should show substantively the areas where the money is being spent.

Now, we did not go into the question of cities or States as to trying to outline a definition of what you would include in that or not include.

About the only thing we did in that connection was to recommend that there be functional breakdowns, and sufficient statistics to give an overall view of these matters.

Representative GRIFFITHS. But if you could do it by cities and States, you could really show the need—the need for the program, and whether or not the program is going in the right direction.

Mr. LEWIS. Mrs. Griffiths, this is beyond the scope of what we did in our Commission. But there is a "Special Analyses"[7] in the budget document now on Federal aid to State and local governments which in recent years has given increasing attention to the problem of measuring how much of Federal expenditures and Federal aid is going into cities.

If I recall correctly, the figures that I saw recently in that "Special Analyses" indicate that the proportion of Federal aid going to metropolitan areas is roughly the same as the proportion of the total population that lives in metropolitan areas.

Representative GRIFFITHS. Of course, a metropolitan area is not really fair. That is not a fair statement. Because that is sending it out in Bloomfield Hills in place of Detroit.

Thank you, Mr. Chairman. My time is up.

Mr. KENNEDY. I would like to make this comment.

When you get to the question of some of the detail, you have real problems. Take revenue, doing it State by State or city by city. How would you record General Motors' tax return?

Representative GRIFFITHS. Right out of Detroit; and I would like to take this opportunity to thank the rest of you for contributing.

Mr. KENNEDY. I am not so sure but what a lot of that should go to Chicago.

Chairman PROXMIRE. Senator Jordan?

[7] "Special Analyses, Budget of the United States, 1968." Available from Superintendent of Documents, U.S. Government Printing Office, Washington, D.C.

Senator JORDAN. Mr. Kennedy, I appreciate your appearance here with your colleagues to deal with a very important matter that has confronted us for a long time.

I would ask you first, would it be necessary to pass any kind of legislation to implement the main body of your recommendations, or can it be done by administrative procedure?

Mr. KENNEDY. I should say nearly all of it can be done by administrative procedure. The powers are already there. The President has broad power in this field. There may be a few areas where it would require legislation.

Senator JORDAN. Do you know offhand any part of it that would require legislation to implement?

Mr. MAYO. Well, I would say this, Senator Jordan. We have made some recommendations, for example, that the Executive may wish to ask the Congress to review the public debt limit. In that connection, the Executive may wish, through Mr. Mills' committee and through the Senate Finance Committee, to suggest use of the concepts that we have recommended here, including concepts of the public debt which are implicit in our concepts of the budget deficit and surplus, and review the concept of the public debt limit accordingly. This is a recommendation with a legislative implication.

Senator JORDAN. Yes, I see that it is.

You mentioned several things that I think are very commendable. You have suggested participation certificates be treated as loans and not as offsets to expenditures, and certainly this—whether it requires legislation or not—certainly should be done. We are getting a very distorted view of the total picture when the offset to expenditures device is used.

Mr. KENNEDY. That definitely is our recommendation—to treat it as a means of financing, just as any other financing measure.

Senator JORDAN. Participation certificates should be included as a part of the public debt.

Mr. KENNEDY. That is right.

Senator JORDAN. In your opinion, would it require legislation to implement this?

Mr. KENNEDY. I think the amount is authorized, but I do not think this change in presentation would require legislation. A change in the amounts authorized does.

Representative CURTIS. I think to actually call a participation certificate a part of what we presently say is a Federal debt—it is a definition. The way we in Ways and Means define "public debt" does not cover this kind of certificate.

Mr. KENNEDY. That is right. It is not considered a guaranteed obligation, although it is. You get into that very fine line; yes, sir.

Senator JORDAN. I think this committee would agree with you most heartily on the need for more frequent reporting, more frequent perusal of the budget income and outgo.

At the beginning of a legislative year, we hear calculations of $8 billion deficits, and before the end of the year that has been ballooned to $29 billion or $30 billion, with no special steps to prepare us for such a terrific bulge.

So I commend you for this.

We are working very diligently to try and get more frequent reporting, and I think that is a very essential point in your report here.

Now, you recommended that a budget and financial plan should include a section on the means of financing based on budget deficit or surplus.

Did the Commission give any consideration at all to including in that section the amount of Treasury financing of the existing debt—not only that that might accrue in the annual deficit or surplus of an operating budget for the year?

Mr. KENNEDY. We did not go into the question of debt management; how the financing should take place.

What we felt was that the budget document and the consideration of it, from an economic impact, and from a financing impact evaluation, should show a means of financing section, because you come up to a budget deficit, and in some cases the entire deficit, as we have had in history past, has been financed out of a cash balance that has been built up earlier. That has a different kind of economic impact. And when they have to go into the market and borrow, we felt that this means of financing section should show a breakdown of the figures, for periods past not only as between the borrowing by the public, but from what classes of borrowers, such as how much has been financed through cental bank activity, how much through the banking system.

In other words, a breakdown of the figures into categories of ownership.

Senator JORDAN. Existing debt is getting shorter in maturity, maturity dates, rather than extended out over a long period of time, so we are constantly having to refinance on an emergency basis. Did your Commission go into any aspects of that problem?

Mr. KENNEDY. No, sir; we did not. We did not consider the substantive questions of debt management, either as to the classes of securities or the extension or lack of extension of the debt. We felt that that was not a matter within the terms of reference of this Commission.

Senator JORDAN. I want to talk again about what the Commission did in its consideration of capital budgets for the Federal Government. Let us devote a little time and attention to that.

Isn't it true that a capital budget would be an important aid in evaluating expenditure policy to determine the extent to which Federal expenditures are created?

In other words, businesses do it, and do it—they cannot run a business without operating on that basis. And yet there seems to be an abhorrence, by all people who discuss or study public financing, an inclination to stay completely away from it. You have taken the same course.

Mr. KENNEDY. We have taken a position, Senator, strongly against a capital budget as a planning process for the President in setting forth his program for the year. We do, however, recognize there should be in the special analysis section of the budget some figures on the capital investment of the Government. This is covered in some detail beginning on page 33 of the report for your information.

I will not read it all. But I would like to just read part of it. This is in regard to the question of allocation of resources if we turn to the capital budget system. And I must say it is in use in some countries where they have a current account and a capital budget.

In some cases it is being questioned and being changed. But in our country, we have not in the past used this, and it could have some adverse effect on the allocation of our resources. [Reading:]

The Commission believes that a further very persuasive argument against a capital budget is that it is likely to distort decisions about the allocation of resources. It would tend to promote the priority of expenditure for "brick and mortar" projects relative to other Federal programs for which future benefits could not be capitalized—including health, education, manpower training, and other investments in human resources—even when there is no clear evidence that such a shift in relative priorities would in fact be appropriate.

Senator JORDAN. But you would recommend for reporting purposes an analysis of capital investments of the Federal Government, so that benefit and cost ratios can be more accurate?

Mr. KENNEDY. Yes. There is now in Special Analysis D such a report, and we would continue in general that kind of special analysis.

You get in very difficult problems when you move to a capital budget. What is a capital item as far as Government is concerned, and how do you figure depreciation, and various other matters? Take the Defense Department—is that capital outlay, or is it not the kind of capital that is productive? The post office buildings could be capitalized—and then you would have to depreciate them, so when they need a bigger post office a little later, we could build it.

So we came to the conclusion that it would be better to show capital investment in a special analyses, in the back part of the budget.

Senator JORDAN. Thank you, sir. My time is up.

Chairman PROXMIRE. Congressman Rumsfeld?

Representative RUMSFELD. Thank you, Mr. Chairman.

Mr. Kennedy, I certainly share the enthusiasm of the other members of the committee for the work that you and your associates on the Commission have done. It is also a pleasure to have a resident of the 13th Congressional District of Illinois here before the Joint Economic Committee.

I think the fact that your report does not deal in detail with such problems as debt management, congressional procedures, or cost benefits of specific programs, certainly does not detract at all from the report. You have taken a very important portion of the problem and I think dealt with it in a very commendable way—particularly the concept of the unified budget, the effort to better understand the economic impact of the budget and give greater attention to the means of financing budget deficits, and certainly the suggestion for more frequent within year reviews and adjustments as to the original budget proposals.

I would guess that one of the reasons for the success of your Commission has been the unique ground rules you set down for your Commission work. I would think some congressional committees could benefit from the procedures you established, so they could do their work in a reasonable period of time, in as effective and efficient a way as possible.

I was also interested and pleased that there were congressional members on the Commission. Too often there are presidential commissions created without participation of congressional representatives. I think their input is exceedingly important, and your report indicates that the Commission had the benefit of input from the legislative branch.

The section that particularly interested me was chapter 8, Public Information About the Budget.

I feel strongly that we have a very serious communications problem. These are important matters, they are complicated, and every effort must be made to do what you have attempted to do here, to understand the public information aspects of it. Your report is premised on the principle that this is not simply the Government's business—it is the people's business—and that there must be a broader understanding of it all.

Specifically, I would like to discuss the fact that the Commission did not review present institutional arrangements for agency budget preparation, or of the appropriations process in Congress.

Do your investigations suggest that these might be fruitful areas for study by this Commission or some other Commission?

Mr. KENNEDY. Not by this Commission. The Commission is ended as of today. But I am sure that it is a matter requiring continuing study on the part of the Bureau of the Budget and the executive branch of the Government.

Representative RUMSFELD. That is not good enough.

Mr. KENNEDY. It should be from the standpoint of the legislative matters that come up, the Appropriations Committee should have the benefit of their projections in looking at the appropriations and from a standpoint of new legislation coming before you for the creation of such a project. It seems to me that that would be where you would take a look.

Representative RUMSFELD. Was there consideration by the Commission of the possibility of moving off a fiscal year basis and using a calendar year?

Mr. KENNEDY. No. That was not a matter on the agenda for the Commission. Some of us discussed this and thought about it, but it was not a matter that the Commission considered. Actually an annual basis you have to have, and whether it ends in December or June would be a matter which would fit in with the convenience of the Congress and the administration. We did not go into it.

Representative RUMSFELD. You indicate that the Commission feels that when the President requests an authorization for a new program, he should at the same time offer an estimate of the costs.

You discussed this with Congressman Curtis.

Is it the view of the Commission that when these estimates are made, they should be made on a yearly basis to the extent that the forecasting is possible, with the amount of money to be spent in each future year so indicated?

Mr. KENNEDY. I would say that that would be our view. They have to come up for an annual review, an annual appropriation—it should be considered then.

Representative RUMSFELD. The Commission report suggests that the appropriations process is a major point of decision in allocating resources among Government programs. I do not know if you are speaking ideally as to what you would hope it would be. It seems to me that Congress really never examines the budget as a whole. How can the Congress make any intelligent allocation among programs as long as it simply deals with an authorization bill here, an appropriations bill there, and then at the end of the year throws up its hand and says, "Surprise, here is what it all came out to." And this in effect is what we are doing.

Mr. KENNEDY. Well, the Congress has the President's budget when it is submitted. That is an overall plan and it is submitted to the Congress. So they have a chance—and we did not go into the way the Congress runs its business. I think we would have had a real problem if we had done that.

But we felt that by presenting a budget which would have definitions and material included that would be consistent, and would be measured in a manner that would be consistent—so that you would be able to appreciate or understand whether an item is included or not included—that the Congress could then take a look at it from the standpoint of timing and the allocation of resources, and consider the matter as a whole.

Now surely in the way you have divided your work, you have the receipts on the one side in one committee, and you have the appropriations on another side in another committee. You don't go into a complete review. There is no committee, as far as I know, that takes the President's budget and does what you are talking about as fully as it might.

Getting back to your earlier point, Mr. Rumsfeld, on page 7 of the report, near the bottom, on the question of internal, long-range projections:

> At present, Federal agencies are required to prepare and submit to the Bureau of the Budget multi-year program and financial plans as part of their regular annual budget submissions. These plans cover at least four years beyond the budget year. They can obviously be of substantial value to agency officials, both in considering their long-run objectives, and in their current program management. Similarly, consideration of such plans by the President and his Executive Office staff improves the decision-making process and should be encouraged. This is true not only for new programs under consideration, but applies as well to programs established years ago which must be regularly reevaluated in terms of current conditions and the future outlook.

Now that is the ordinary procedure at the present time. Where it is not done, that is another matter.

Representative RUMSFELD. The Bureau of the Budget is not the Congress.

Mr. KENNEDY. That is right.

Representative RUMSFELD. I cannot speak for the Appropriations Committee, but I do know something about the Science and Astronautics Committee. I can say the projections we have had have had to be extracted with pliers and crowbars. And they have not been worth the effort once it was over.

I agree very much with what Mrs. Griffiths said concerning congressional procedures, and also the question of what the executive branch gives the Congress.

I understand this was not a subject of your Commission. I do think it should be stated that the power to change congressional procedures, whether it is with respect to debt or revenue or appropriations procedures—certainly the power to change what is required of the executive branch, whether it is better forecasts or cost benefit ratios—is with the Congress, and we have not done it; but we have the power to do it. The blame clearly must rest with the Congress for the shortcomings in this area.

Chairman PROXMIRE. Senator Percy?

Senator PERCY. Mr. Chairman, I would like to add a personal note to Congressman Rumsfeld's welcome to David Kennedy, a dear friend of mine, and I think certainly one of the most respected men that has ever been in the banking field, and a man who has contributed more than any man in the history of Chicago to our cultural and economic development.

Tom Watson said years ago none of us is enthusiastic about anything until we understand it.

There has never been a subject more confusing than the Federal budget, and about which there has been more consternation and unhappiness, certainly in the Congress and in the country, because people simply have not been able to understand it. And I think the contribution that you have made in trying to give us an intelligible budget that the average human being, such as a Senator or Congressman, can really understand, is going to make a major contribution.

I for one would like to pledge everything I can through the years to implement your recommendations.

This is your last day of the Commission. Even though some of these things might not have fallen in your province, you and your able staff members have accrued a body of knowledge on the budget that is very valuable to us.

We are undergoing now the temporal process, which is a process I guess that happens every year, of trying to figure out how to raise revenue and reduce expenses. And I am surprised at the lack of knowledge as to how is the best way to go about this.

Did you gain any insight, Mr. Kennedy, in the merits of various proposals that are made to allow the President greater flexibility, to cut back certain funds? For instance, we proposed 2 percent authority be given to him to move funds from one program to another, from all nondefense items into other programs of great need.

Now there seems to be a rigidity and inflexibility here—the fear of the Congress to give the President item veto, for instance, or to do anything that might give him that power.

Is there an inflexible policy by Congress that really hampers the proper implementation of a budget, and prevents sufficiently rapid adjustment of our outgo to our income on occasions such as we are now experiencing? Is there a flexibility that should be given to the executive branch of the Government to have standby authority, for instance, to raise taxes when economic indicators require it with the amount of those tax increases to be put in, say, by Congress at the last moment when the increase could be finally authorized?

Mr. Kennedy. From the standpoint, Senator, of the Commission, we made no study of this substantive matter. It is a problem, and it is one that is confronting you right now, of course.

You have the problem of appropriations which we did go into. We recommend showing the amount of appropriations the President is requesting for a given year, and the amount which would be available to the executive branch from previously approved appropriations for expenditure. But we did not go beyond that.

Now on the question of funds that the Congress has the power to appropriate, they undoubtedly have the power to disappropriate if funds have not been used, I suspect.

The broader questions of financial control as between the legislative and executive branches were not under our terms of reference.

Senator Percy. I wonder if you had come across the problem that I became aware of while in Washington 23 years ago, in the Navy.

We had a chart on our wall that showed the funds available to us that ran out June 30. We all received letters of commendation for having spent all of that money, so that none of it was "wasted," which is to say, not used.

Is there the same incentive system in the executive branch of the Government—the compulsion to spend every penny?

I notice there are two things involved here. You have huge unspent appropriations of $125 billion, so there must be continuing authority. But did you run into the same problem I ran into 23 years ago, of this huge expenditure occurring at the end of the fiscal year?

Mr. KENNEDY. I suspect, Senator, human nature has not changed in that period of years.

Senator PERCY. The minority staff has asked a question on the capital budget. You do not favor the development of a capital budget for the Federal Government. Isn't it true that a capital budget would be an important aid in evaluating expenditure policy to determine the extent to which Federal expenditures are wealth creating?

Mr. KENNEDY. There is no question but what there should be some figures on Federal capital investment from the standpoint of what the Government owns in the way of resources, and so on. But from the standpoint of the budget itself, for the annual use by the Congress, we felt the overriding matter of distortion of resource allocation—whether to go into physical or human investment—is controlling; and that while the other problems are very great, that it is better to take that as a study from time to time. That is one area where you might have a report from time to time and take a careful look at what has happened with our resources, item by item, State by State, area by area.

Senator PERCY. The last question, Mr. Kennedy. Your Commission work is now over. I respect the fact that it is desirable once in a while to really terminate work on schedule and go out of business, rather than staying in business permanently. But I sometimes wonder whether an idea that has been studied thoroughly and researched, and and a report made, ever is implemented, other than through the enthusiasm of those who have really created the product.

What do you regard as the motive force that will carry forward this work so that it is not lost? The administration could change in 1968. In fact, I know some people who are working very hard to bring that about. There is an element of pride of authorship always—we did not invent it, therefore we are not as enthusiastic about it.

What could you recommend to us to see that your work will not be lost and that some force will press forward now to try and implement it so that your objectives and goals are kept in view?

Mr. KENNEDY. About the only thing I can say on that, Senator, is that there were 16 members of this Commission, and we were all involved in it. Each one had a hand in it and actually made a contribution to our net result. I do not think you ever get out of some previous assignment from the standpoint of your personal interest. As a matter of fact, it is hard to quit a job—I have found out. But this one we are.

Now, we do have the report. We do have in writing, the supporting papers that will be forthcoming, which will be there to use as a guide and to appriase current developments with the recommendations.

Also, the congressional Members have a continuing responsibility. It would be there that I would be in hopes of continuous help. And I personally have had a great interest in this field for many many years. These two distinguished men beside me here have also.

So I think that while officially our Commission is ended, there are a number of discussions, seminars, groups at the universities where we will be called upon. I believe that this will be very helpful in at least one area, and that is in proper communicating, as Mr. Rumsfeld was talking about, of the budget and its problems and concepts.

We have found our interviews with the press very helpful. We had several discussions with them. Also the Brookings Institution seminar, with the economists and students of the field, was stimulating. We found there is a tremendous interest in this, because day by day they are trying to appraise what the Government is doing in analyzing the programs and the allocation of resources.

So, we will continue, I think, to try to implement it.

Representative RUMSFELD. If you will yield—I can assure you that Mr. Kennedy is enthusiastic. I ran into him at a football game, and he gave me a most enthusiastic briefing right there, on the report of the Commission.

Chairman PROXMIRE. Sounds like a pretty dull football game.

Senator PERCY. Has the Bureau of the Budget or the Director of the Budget officially commented on this, as to his acceptance of your Commission's report?

Mr. KENNEDY. He has not commented that I know of since its release to the public. But he participated in it, and has gone along with the report. So, in a sense, it is his report as well as the report of the other members of the Commission.

Senator PERCY. Has the President officially made any comment on it?

Mr. KENNEDY. No, he has not made a comment on it that I know of. He has received the report and I am not sure how much time he has given to the study of it at this point.

Senator PERCY. Mr. Chairman, I would like to recommend that this subcommittee appropriately assume a degree of responsibility for getting the views of as many of the members of the administration as possible on the record on this budget and on this report, and that we ask them periodically to report on the implementation of it and the progress being made.

Chairman PROXMIRE. Yes, indeed. I think that is a very good idea. We do intend to have administration witnesses before us at a little later time.

Mr. Kennedy was very guarded and careful in what he said about that. He is not speaking for the administration. He does not know whether the administration will accept it in principle, let alone, in timing. But I assume, in view of what we have heard so far, and the fact the administration is so well represented on this Commission—it is a unanimous report—between the Treasury Secretary, and the Budget Director, and so forth.

Mr. KENNEDY. I want to help you as much as I can. I am sold on this. I think it is good. I think you have all done a great job. We all know how these committees work. You as chairman I am sure have done a lot of work, but, I am sure your fine staff members have done a whale of a lot. And this is a tough, hard, long job. So we are very grateful.

Now, I would like to point out, however, some difficulties that I anticipate, that you undoubtedly have anticipated. But I would like to have your help in knowing what we can do to help with Congress, because I anticipate there is going to be some objection to this in Congress.

No. 1, it seems to me there is likely to be objection on the grounds that you ask for the administrative budget to disappear. And to the best of my knowledge in the past what happens is you usually come in with a new proposal or concept, and let it live side by side with the old one and hope by emphasis that time will erode away the old, and the merits of the new will let it prevail.

I am delighted to see you are not going by that uncertain route, because on the basis of all my experience what would happen is that the old one would only disappear if it were to the political convenience of the Congress and the President to make it disappear, not on the basis of what the merits are.

But the difficulty—and I say this as a member of the Appropriations Committee—is that there is a reason for the administrative budget. The administrative budget best represents what the impact of appropriation is and, of course, of revenues, on the surplus or deficit, and ultimately on the national debt.

The trust accounts are left aside, I presume, if for no other reason, in part because we do not have the same degree or kind of control over the highway fund and the social security fund and so forth—they are considered as fairly—they balance themselves. They sometimes are in deficit and sometimes in surplus.

So it is going to be hard to persuade the members of the Appropriations Committee to go along with this. And what brings this to mind especially is in looking at—comparing the three present major budget concepts with yours, in terms of the deficit—now, in 1966 I notice that the administrative budget was in deficit by $2.3 billion—this is on page 83 of your report—the cash budget was $3.3 billion in deficit, the NIA budget was $.3 billion in surplus. And your proposed budget was $8.4 billion in deficit.

This is quite a stark and sharp contrast, especially on the NIA budget, but all the way through.

In other words, the President at that time could say that our budget was pretty close to balance. But the budget you have would indicate a deficit that would concern many Members of the Congress and the public.

In 1967 you have roughly the same kind of thing, although the administrative budget that year was almost $10 billion in deficit. The cash budget and the NIA budget were both much smaller than that. Your budget was larger, almost $13 billion in deficit.

In 1968 you have another situation in which the administrative budget is $8.1 billion in deficit—this I presume was before the latest nightmares we have had about what happened in Vietnam, various things that have increased our spending—and cash budget, $4.3 billion, the NIA budget only $2.1 billion, and your budget is $10.3 billion in deficit.

Now, looking at all of these, putting all these things together, it would seem that the Members of the Congress are going to take a look at these figures, and especially those of us who are on the Democrat side, and have to bear the political brunt of criticism for deficit financing are going to be concerned that here is a budget that consistently shows a substantially bigger deficit than the others do.

Before I ask you to comment, I would like to make one more point in this long comment of mine, and that is—can you give us any ball park figure on what kind of a deficit you would show on the basis of the latest estimates by the President? He estimates about $29 billion deficit on the administrative budget. Would yours, on the basis of our past experience—would your guess be that it would be larger than that, maybe $35 billion deficit? Would it be smaller? Would it be about the same?

Mr. KENNEDY. Senator, these points that you have made with respect to the administrative budget, that has a history and it is important, of course, from the standpoint of the Appropriations Committees. But when you are speaking of the Federal budget, if we could persuade the Congress and others to use the unified concept as we have it, it would avoid confusion in the public mind. And I think that that can be done.

The members of the Commission from the Appropriations Committee went along enthusiastically with that report. We are putting emphasis on appropriations, right in the first part of the budget, starting out with appropriations, and providing for reconciliation between those figures on a continuous basis.

Chairman PROXMIRE. You are just kidding yourself if you think the press and the public and Congress won't fix on that one figure. We can try to educate ourselves so we recognize the full implications of it. But it is the figure that after all is going to be very crucial, and the basis of a lot of debate and discussion—are we in deficit? If so, how much? The President is going to use it. Every President is likely to use it. This President is using it to get a tax increase.

Mr. KENNEDY. There is no question but what the figure will be used, but we can still shift away from the administration budget. One point that we emphasize and reemphasize in the document is that the single deficit or surplus figure is not the whole story. In a budget as comprehensive and as complex as the Federal budget, in the measurement of economic impact, you have to look at the detail. You just cannot take one figure. For instance, the budget deficit might be financed out of cash balance as we indicated, which would not require any movement in the capital markets for that particular year. So it could be misleading.

We felt that the budget should be as complete and as comprehensive as possible, and that is why the trust funds we felt should be——

Chairman PROXMIRE. I think you are absolutely right. I am asking what you think we can do to best sell this. You feel in working with the members of the Appropriations Committee from the House and Senate who were with you on the committee, that this comprehensiveness was something that they thought was worth enough so that they would include the whole picture.

Mr. KENNEDY. Precisely. And then whatever detail in statistics or background information you need for an analysis of the budget areas or totals, that you could get those figures. But that would not be the budget. When you speak of the budget, let us think in terms of this main table, which would show the whole picture, including means of financing and some figures on the debt.

Now, the question of whether a budget surplus or deficit is larger—you will see the variations in here. There has been a temptation, I presume, on the part of an administration, to either pick the administrative budget total or the cash, or——

Chairman PROXMIRE. They do it. The beginning of this year the President's emphasis was on the cash budget. That was the budget he emphasized again and again. Since we have had this terrific drive in the administration to get a tax increase, they have forgotten about the cash budget—NIA budget—all the emphasis is on the administrative budget. That is another reason I think your contribution is so helpful. You do not shift back and forth.

Mr. KENNEDY. We would like to bury these others completely. For the students who want a national income accounts picture, the budget we recommend would have a receipt-expenditure account total which would exclude the lending program for economic analysis purposes.

But that would not be the budget surplus or deficit. We have covered that quite clearly in a footnote—that whenever you speak of the Federal budget surplus or deficit, it is the total, including the lending programs, the trust funds, and the entire government.

Chairman PROXMIRE. Let me just say, in talking with members of the staff or committee, it is their view that this budget will do a better job than even the NIA budget in reflecting the effect of Government spending and taxing on the economy. This is very significant it seems to me. And I trust their judgment. I have not had a chance to study it as thoroughly as they have. But I think this is most important to this committee.

Mr. KENNEDY. We agree with that conclusion. And I think that the university economists will accept it.

Chairman PROXMIRE. I see you have Professor McCracken who is a fine economist. Were there other economists who discussed this?

Mr. KENNEDY. Yes. There was Paul McCracken, and Bob Turner, of Indiana, who formerly was at the Bureau of the Budget and I believe on the Council of Economic Advisers. And we had Carl Shoup, of Columbia University, and two or three others with economic background.

Chairman PROXMIRE. There was no difference on this opinion—that this would do a better job than NIA?

Mr. KENNEDY. No; it was unanimous. And I believe it was unanimous in the seminar in Brookings.

Could you comment on that, Mr. Lewis?

Mr. LEWIS. We did not put it to them in exactly those terms. But I think all the economists that I have spoken to and explained what we were doing, do agree. This has to do with the accrued expenditure recommendations. It is an improvement over deliveries and a basis for measuring economic impact.

Chairman PROXMIRE. As compared with the cash budget.

Mr. LEWIS. As compared to deliveries, which is the NIA basis. On the defense side, it means a prompter reflection of defense impact when the level of defense program is changing rapidly as it has been in the last couple of years. We would catch it much more quickly.

This budget would have shown in fiscal 1966, for example—from mid-1965 to mid-1966, which was a period of very rapid buildup in defense—it would have shown just on defense alone about $2 billion higher a figure than the cash budget, whereas the NIA was below the cash budget.

Chairman PROXMIRE. My time is up. I am going to yield. I do want to point out, however, these figures I have reminded me right away that since the 1966 budget was in deficit $8.4 billion according to your figures, it would have been an early warning for cutting spending or increasing taxes then; 1967 would have been another reinforcing warning.

Mr. LEWIS. Could I make one more observation. It is a personal view that I would not want to be attributed to the Commission in any respect.

You asked how you might help in understanding. I think one thing that could be done is to emphasize not levels of surplus or deficit, but changes, and perhaps even better changes in the full employment version of the surplus of deficit as a far better indication of what the budget is doing to the economy. I think actually if one does that for the present fiscal year, fiscal 1968, on a quarterly basis, and particularly if you make some adjustment for this accrual business on defense, you come up with a somewhat different picture of what the budget is doing to the economy during this fiscal year.

As I see it, the budget deficit reached a peak in the second quarter of calendar 1967, and—without a tax increase—is exerting a steadily more restraining influence. Whether it is enough or not, I would want to——

CHAIRMAN PROXMIRE. Very interesting. Confirms my dogmatic prejudice.

Mr. LEWIS. Whether that is enough I am going to beg off answering. But that is the direction of the effect of the budget right now.

Chairman PROXMIRE. Congressman Curtis?

Representative CURTIS. The second recommendation that I wanted to discuss a bit I am happy to say has been discussed by my colleagues—namely, No. 13, "The Commission strongly recommends against a capital budget," et cetera.

I am very disappointed in that recommendation, I might say—to show my prejudices right off. But I am curious to know whether there were any other arguments advanced against a capital budget other than the ones that you gave, namely, that it would be misused to encourage investments as against current purchases of goods and services—expenditures for bricks and mortar, instead of education. If that is the reason, that is a political reason. That is not an economic or an accounting reason. It may be a legitimate political reason, but it reminds me somewhat of the argument used by the AFL–CIO against having jobs-available statistics. They said people would misinterpret them. I would hate to think that this Commission was not recommending a capital budget because they felt that Congress or whoever in the society would misinterpret in the sense that they would not understand that investment in education, and training, is indeed a capital investment, too. But were there any other reasons advanced?

Mr. KENNEDY. We gave very careful consideration to this matter. Will there be a staff paper in this later publication?

Mr. MAYO. There isn't a great deal further that will be forthcoming on this particular angle of it. I might mention, however, that on page 34 of the Commission's report it is noted "* * * that a number of foreign countries which previously used capital budgets have abandoned the practice, and that in other countries, where the semblance of a capital budget is maintained, the division of transactions between those which go 'above the line' in the regular budget and those which go 'below the line' in the capital budget has become so arbitrary as to make the result virtually meaningless."

Mr. KENNEDY. We did have considerable time devoted to this question. We found little or no support among the Commission people for a capital budget for the reasons stated in the report. Also, from an individual personal opinion, I see problems on the practicalities of trying to work out the detail of what is a capital investment, the detail of trying to amortize and the schedules that you might have, the loss problem involved, and the fact that this is not the same as a business that is producing something.

Representative CURTIS. Why isn't it?

Mr. KENNEDY. Well, take the Government buildings here. They are wonderful to look at. They are useful. They are needed. You have to have buildings in which to staff your people. But it is an expense. And they are not going to be sold. They are going to be expanded.

Representative CURTIS. I think good cost accounting is the very reason. How you can have cost accounting without that? In fact I have a bill in to have the Federal Government pay in lieu of local taxes for the real estate and the improvements that they have on them for good cost-accounting reasons. I think it would be extremely helpful. And that does not mean there cannot be esthetic values in them too. Business certainly doesn't just put up their office buildings with a disregard for good architecture and innovation. In fact I think some of the great architecture is performed in the private sector. I would put the private sector up against the public sector in the field of architecture any day of the week.

But let's get back to economics.

Business of course could not operate without a balance sheet. I do not think they can. And the Federal Government in effect has no balance sheet. And yet—I brought with me work that one of our committees has been doing over a period of years. This is their latest I think.

"Federal real and personal property inventory report as of June 30 1966," which does exactly this. It needs improvement of course. But they give our total inventory values on real estate 1966—it is a total of $347 billion—and a breakdown of what it is; an attempt to give the market value in real estate and so on.

Now, so much of our budget, even the administrative budget, is lost because we do not have this kind of thing. Let me illustrate: From "the Budget of the United States Government—1968" in table 13 "Sources of Receipts," on page 65, under "Miscellaneous Receipts," we have $519 million in 1968. The year before, $1,073 million, the year before $650 million—it is called "Seigniorage and bullion charges." What it is is the disposal of capital assets of the United States; namely, silver. Now, this is a capital asset that we have sold. And yet it shows up here only in that fashion. It does not show what our net position is. And this is true of our total inventory.

To give a plus item, though, that is often forgotten, in this table, on page 66, one of the biggest items in the "Miscellaneous" is $2,175 billion for 1968—it was $1,850 million in 1967—deposits of earnings of the Federal Reserve System.

In answer, by the way, to Mr. Patman's argument about why don't we just abolish the bonds—in going over to the President's 1967 economic Report,[8] on table B–57, to show the amount of public debt held by the Federal Reserve banks, which is owned by the United States and is an asset, $44.3 billion. But if we had a capital account and included this in it as we should, we would also have been noticing that from 1950 to 1960 the amount of Federal Reserve holdings was only—the increase was $7.5 billion, but from 1960 to 1966 the increase was $13.7 billion.

There is just all sorts of important information that can only be obtained through developing capital budgets.

Now, there is one other area I had noted. Yes; a very important area.

On page 67, a total of $1.28 billion from sale of Government property—sale of real property, $71 million, sale of equipment and other personal property, $912 million.

Except through cross reference to these statistics, we have no way of knowing this.

But the PC's, interestingly enough, are hidden in all of this, because they are listed as reduction in expenditures. And I was pleased to see your recommendation on that, because these, too, are assets.

Now, in the Ways and Means Committee, over a period of years, I have been having the Treasury give us a list of assets that might be salable, and they tend to be of this nature.

But we have mineral stockpiles which we have deleted and sold off, and yet the public has no way of following this.

This administration, I might add, has been using up capital assets to the tune of about $6 or $7 billion a year, and it does not show up in any way that we can point out that this has been a decrease of our wealth.

I am giving you argument now—but trying to advance some reasons why I feel so strongly that we need to have a Federal balance sheet. There are these difficulties that you describe, but they are no more difficult than I would suggest exists in a corporate cost accounting.

Mr. KENNEDY. I agree with you in principle, Mr. Curtis. I think that we do recommend that you continue to have in "Special Analysis D" what amounts to those parts of a balance sheet that answer many of the points you raise.

The question of the receipts and expenditures for a given year, it seems to me, would be shown about the same way we have them. It is just a question of whether you have it below the line or above the line.

Representative CURTIS. But what we need to know is what resources do we have, for example, that are capable of being sold. I think I remember the figure we developed in Ways and Means—around $40 billion of assets that might be sold. If you deleted those needing legislation to be sold from a practical standpoint, you got down to probably around $20 billion. But by constantly referring to that as a benchmark, when the Executive did sell, we had some idea of whether we were filling up this capital reservoir or decreasing it.

I think to make these sales meaningful we almost have to have some sort of a balance sheet of assets.

I do not know whether you call it a capital budget or what.

[8] "Economic Report of the President," January 1967; U.S. Government Printing Office, Washington, D.C.

Mr. KENNEDY. I would look at that as a project-by-project analysis, information on which the executive branch should furnish to the legislative branch, either upon request or on a continuing basis.

In a corporation, when we make our forecasts of our budget for the year or a period ahead, we do not make what we call a capital budget and a cash budget, or accrual budget. We show what the receipts will be in our estimate, what the expenditures will be in our estimates. And that is precisely what we are coming out with here.

Now, if you start to break it down and say these are capital items, so we are going to capitalize them, the result is, I think, to create pressures to capitalize items that perhaps should not be capitalized, and get away from the control over your receipts and expenditures that you have at the present time, because where you have it above and below the line, there is a tendency to put as much as you can below the line. Let me refer you to pages 33 and 34 of the report:

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

Representative CURTIS. Sure.

Mr. KENNEDY. And we wanted to have accountability.

Representative CURTIS. In your corporate budget you have a balance sheet to refer to, which gives you some understanding of this. And in the Federal budget we do not have this kind of balance sheet. And this is what I am arguing that we need to do—to have a real understanding. I would say this. Far from disturbing expenditure policy, this would vastly improve it.

I wish we did go through the exercise of arguing whether a thing should be capitalized or not. I think it is a good discipline. And maybe we would end up, as you say, trying to do this. And this is understandable. But in the process of developing the dialog, we would understand, for example, that military expenditures, in my judgment, would have to be current, that they really are not capital. But this is an argument. Some other people would argue one way or another. But in the process, we would have a better understanding of expenditure policy, which I am seeking.

Thank you, Mr. Chairman.

Chairman PROXMIRE. Congressman Rumsfeld?

Representative RUMSFELD. I have nothing else, Mr. Chairman.

Chairman PROXMIRE. Senator Percy?

Senator PERCY. Nothing else except again to thank David Kennedy for his contribution in the work to the Nation and to this subcommittee here today.

Chairman PROXMIRE. I just have a couple of brief questions. I realize the hour is late. But there is one area where I am somewhat disappointed in the report. I know that you cannot cover anything and cover it comprehensively in a concise report.

We have been concerned about the timing of the budget, and No. 1, about the failure of the budget in the past to project expenditures over a sufficient period of time. This can be so useful, not only in terms of whether or not we want to go ahead with the program in a big way when we know it is going to involve a lot of spending in future years and escalating spending but also in terms of evaluating the use of the program. You cannot apply cost-benefit analysis very well if you only have 1 or 2 years of expenditure projected.

So why isn't the committee more emphatic in recommending a longer projection, say 5-year projections? You have mentioned it, it seems to me, but you have kind of let it go.

Mr. KENNEDY. Well, I think, Senator, we are emphatic in recommending that you take a longer look. Now, when you get——

Chairman PROXMIRE. You do not specify the period, which is what we need.

Mr. KENNEDY. We mention the 5-year period. But we do not specify the timing of this as to when it would be done.

It seems to me that it is needed. And we get back to the question of what we would accomplish if the President is directed to project expenditures over into future administrations and that type of thing. And the inflexibility that is put on him if he has a program he is committed to, and then it changes, and he has to change back.

But from the standpoint of the individual programs there is no question but what they should be looked at carefully for long periods of time.

Chairman PROXMIRE. These projections it seems to me would not freeze the President at all. He would be perfectly free, have complete flexibility to move back and forth.

It would be somewhat helpful to know what is implicit in so many of these programs. For instance, we did not realize in terms of numbers a few years ago we were building toward an area of $140 billion of expenditure within a very few years—if we had, we would have had perhaps a different view of spending and perhaps of taxing.

Mr. KENNEDY. I think there should be a committee to take a look at the projections—program by program—and see what it all adds up to over a period of time. And then the Budget Bureau staff, as we recommended in the report, should make forward analysis of the programs.

Chairman PROXMIRE. Looking at it the other way, did you have any strong objections within your committee to quarterly reports? The Joint Economic Committee has recommended quarterly reports. The Budget Bureau came up and said they would give us three reports a year. This is not very satisfactory, because they gave us one in January, the next one was in August, they will give us another one after we go home. We would like to have regular quarterly revisions of the kind you suggest, but without specifying the period.

After all, business makes quarterly revisions very often. What is wrong with having the Federal Government do it?

Mr. KENNEDY. From my personal standpoint, I think there ought to be frequent reviews. You run into the practical difficulties of the the timing of the work of the Budget Bureau, and the work of the Appropriation Committees with their delays. But what we wanted was quarterly figures in the January budget—and semiannual figures, too—so we could take a look at them in reviewing the budget to see how the Congress is changing the program of the administration.

Now——

Chairman PROXMIRE. You say you wanted a breakdown by calendar years?

Mr. KENNEDY. We would like quarterly figures in the budget itself.

Chairman PROXMIRE. You specify that in your report?

Mr. KENNEDY. Yes.

Chairman PROXMIRE. But you do not call for revisions each quarter. You simply call for revisions frequently—without specifying what you mean by "frequently." Does this seem like a fair interpretation of "quarterly?"

Mr. KENNEDY. I would hope they could do a quarterly review. They have some reservations in the Bureau of the Budget I am sure on this matter, because of the practicality of what it would mean with the action or inaction of the Congress on their budget.

But I would like to see along the lines you are suggesting a quarterly or systematic review—whether it is quarterly or three times a year I am not too concerned.

Chairman PROXMIRE. One of the most dramatic consequences of your recommendation, as I understand it, regards the public debt concept. It is my understanding that it would reduce the public debt from an estimate of $326 billion roughly down to $266 billion. Now, this it seems to me is the kind of thing that a lot of people in Congress perhaps and certainly in the public would say, "Well, here is another example of the Federal Government just fooling around with the figures and coming up with a way of underplaying the consequences of fiscal folly, and not having the consistency or the honesty to specify what effect excessive spending has on our obligations. How do we meet that kind of argument?

Mr. KENNEDY. Well, we would have a breakdown in the figures so that you could see the figures reconciled to their present total. Our recommendations show the gross figures as well as the net. The difference is largely the trust accounts, which is proper, since this is a consolidated statement—just as a business statement where you have subsidiaries, and you consolidate your total. And this is a consolidated total budget. It would take out of the debt the Federal securities held by the trust accounts, but they would still be shown in the individual trust funds, just as they are now, and they would be shown as a total in the tables.

Chairman PROXMIRE. Was there a feeling on the part of the committee that the public debt notion has been exaggerated, and perhaps that it is all right to let it go this way? After all, you can show on this basis that the public debt is about a third of the GNP for 1 year—4 months of GNP. This is another way, of course, of playing it down. And there is a tendency on the part of apologists for the public debt size to frequently refer to the GNP and to point out in relationship to GNP it is smaller. This would diminish it even more—pretty sharply. It is a cut of about $60 billion.

Mr. KENNEDY. We add to it a little by the agency accounts. But we take away in the trust funds' holdings. And that is the largest change.

Chairman PROXMIRE. Congressman Curtis?

Representative CURTIS. Just two details.

One—did you get into the Bureau of the Budget regulation called "A–76"? That is their effort to set up guidelines to determine when

Government should do an in-house operation or when it is more feasible to contract it to the private sector.

Mr. KENNEDY. We did not get into that. We did not get into the administration of the Budget Bureau.

Representative CURTIS. We have another subcommittee of this committee which is looking into this. And to me it is a very critical and important thing, because it does get into this cost accounting aspect, and covers substantial billions of dollars of expenditure every year.

The other detail, again, is something that this other subcommittee is looking into—namely, the various revolving funds which we have - I think there are over 200 of them, and they total probably over $12 billion a year.

Of course, those are budgeting devices in themselves, the revolving funds.

Did you get into that kind of fund in depth at all?

Mr. KENNEDY. Not as to whether a revolving fund should be set up, or whether it should be done in another way. That is a substantive matter. But we did go into how they should be reported in the budget from the receipt or expenditure standpoint.

Representative CURTIS. It was a net figure, wasn't it, that you recommended?

Mr. KENNEDY. That is right.

Representative CURTIS. This, again, of course, would be a capital asset.

Mr. KENNEDY. Yes, sir.

Chairman PROXMIRE. Any further questions?

I want to thank you gentlemen very, very much for an excellent job, and for a most helpful day.

On Thursday our witnesses will be Maurice Stans, former Director of the Bureau of the Budget, William Capron, former Assistant Director of the Bureau of the Budget, and Herbert Stein, fiscal economist, The Brookings Institution. Once again, thank you very much.

(Whereupon, at 12:05 p.m., the committee was recessed, to reconvene at 10 a.m., Thursday, November 2, 1967.)

REPORT OF THE PRESIDENT'S COMMISSION ON BUDGET CONCEPTS

THURSDAY, NOVEMBER 2, 1967

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMY IN GOVERNMENT
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room S-407, the Capitol, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senators Proxmire and Percy; and Representatives Rumsfeld and Griffiths.

Also present: John R. Stark, executive director; James W. Knowles, director of research; and Donald A. Webster, minority economist.

Chairman PROXMIRE. Today the subcommittee resumes its hearings on the report of the President's Commission on Budget Concepts. On Tuesday, the day before yesterday, the subcommittee heard a highly competent analysis of the Commission's recommendations from Mr. David Kennedy, Chairman of the President's Commission, and his able assistants, Robert Mayo and Wilfred Lewis, Jr. I think my associates on the subcommittee who took part in the hearing will agree that it was a most enlightening day.

Today we are privileged to have two distinguished witnesses. Unfortunately, one, Mr. Stans, is kept away because of weather. We will, of course, make Mr. Stans' statement a part of the record of today's proceedings.

Today's witnesses are eminently qualified to advise us on the budget. The papers of both are very competent and stimulating. They are Mr. William M. Capron, former Assistant Director of the Bureau of the Budget under President Johnson, and Mr. Herbert Stein, an outstanding economist who has always impressed the Joint Economic Committee, not only with the range of his knowledge of economics, but with his wisdom and judgment as well.

I am going to ask Mr. Capron to lead off, and then Mr. Stein.

STATEMENT OF WILLIAM M. CAPRON, STAFF MEMBER, THE BROOKINGS INSTITUTION, AND FORMER ASSISTANT DIRECTOR OF THE BUREAU OF THE BUDGET

Mr. CAPRON. Thank you very much, Mr. Chairman.

I should emphasize the disclaimer in my written remarks that I am speaking only for myself. This refers not only to the fact that I am not speaking for the Brookings Institution—which, incidentally, should be clear to anyone who listens to me and then listens to Mr.

Stein, since we do not agree on all points—but also that I am not speaking for the present leadership of the Bureau of the Budget.

It is a distinct pleasure and honor to appear before this Subcommittee on Economy in Government of the Joint Economic Committee to discuss the report of the President's Commission on Budget Concepts. I am confident that this report will take its place as one of the landmark events in the development and improvement in the use of budgeting as a key device in the formulation and management of Federal Government programs.

In the remarks that follow I will raise some questions with regard to certain features of the Commission report, and therefore wish at the outset to record my admiration for the job done by this Commission and my fundamental endorsement of almost all of their key recommendations. I hope this committee will keep in mind my basic agreement with the Commission in the remarks which follow.

I have heard no dissent from the view that congressional and public understanding would be greatly facilitated if only we could find a single set of accounts—and totals—which we can all agree to call the budget. The Commission has responded to this desire by proposing a single "unified budget" and urged that henceforth we all reserve the term "the budget" to refer only to the set of summary accounts recommended by the Commission. Unfortunately, however, as the Commission quite properly recognized, "the budget" serves several significant but distinct purposes and these diverse purposes cannot be served by a single accounting total. For example, as an economist I am most interested in the analysis of the economic impact of the Federal Government's program. I and others with this interest will focus our primary attention, though not, I must emphasize, our sole attention, on one of the "budgets" included in the "unified budget" proposed by the Commission: the "Receipt-expenditure account (excluding net lending)." I suspect that if an economist was told that he would be given only *one* number indicating the President's proposed program, he would choose the "expenditure account surplus or deficit"—as defined by the Commission—since no other single number is more relevant to assessing the fiscal impact of Federal activity. It is not surprising that this is so, since the "subbudget" from which the number is derived is conceptually very close to the NIA budget—the national income accounts budget—which economists in and out of Government have in recent years relied on heavily in fiscal policy analysis. It should be pointed out that serious analysis of Federal activity vis-a-vis the economy requires one to consider in addition Federal lending programs, Federal financial operations, and the sectoral impact of all programs. From this point of view, "the budget" is not a very useful tool. Rather, one must analyze in depth many numbers in and out of the budget having to do with Federal activities.

The basic conceptual similarity between the Commission's "expenditure receipts" subbudget and the NIA budget rests on two key points: the Commission "spending budget," like the NIA budget, *includes* trust fund activities and *excludes* Government lending activity. From the standpoint of assessing the overall economic impact of Federal activity, this inclusion and exclusion makes sense. With regard to trust fund outlays and receipts, they are indistinguishable from important activities which operate through the regular appropriation-general revenue route. The special legal status of trust fund activities is irrelevant from the standpoint of economic impact.

Moreover, I might add that I feel too much is often made of the separate and distinct nature of Federal programs operated through the trust fund device, such as social security. Certainly there is little to the argument that social security benefits are somehow better protected and more sacrosanct than comparable programs which do not operate through a trust fund. For example, I can no more imagine a failure to meet veterans' benefits or military and civilian Federal employee retirement benefits than I can a failure to pay social security benefits. We have in practice long since abandoned a true insurance approach to social security—and very wisely so. And both the rates of payroll and other specially assessed and earmarked taxes which go into trust funds and the benefits and other expenditure rates from trust funds are modified by the Congress at least as frequently as are general revenue tax rates and expenditures on comparable programs financed from the general fund. I would have welcomed some discussion of this point in the Commission's report. We will get more sensible consideration of Federal programs when it is recognized that changes in trust fund activities represent tradeoffs with activities funded by regular appropriations. Certainly in assessing the impact of Federal activity the trust fund accounts must be included.

The report of the Budget Concepts Commission indicates very clearly the reasons for excluding Federal lending programs when one is concerned with economic impact, and I need not repeat this argument here.

The Commission's total unified budget—and particularly "the budget deficit (surplus)" as they would use the term—is what I would call a financier's budget. This deficit/surplus is relevant primarily to Federal debt analysis and other aspects of financial management. This is a second important and legitimate viewpoint which needs to be reflected in the budget, and certainly lending activity is properly included when one is concerned with these financial aspects.

I might add also, of course, in considering the impact of Federal programs one is interested in proposed changes in the lending activities of the Government.

The third major purpose served by the preparation and transmittal to Congress of the President's budget is the detailed substantive content of the Federal program. I commend the Commission for emphasizing the congressional decision aspect of the President's recommendations. Thus, the budget as proposed would first focus on the authorization and appropriation actions which the President is requesting of the Congress. These would be put in an economic context by the following summary section on expenditures and revenues.

The particular concepts and ground rules used to construct the budget should, insofar as possible, be consistent with an accurate statement of the individual elements making up the total program of Federal activities. However, where choices must be made, as they inevitably must, the Commission has been right, I think, in choosing those rules which are most consistent with the development of totals, and resulting deficit/surplus calculation, which are meaningful, given the primary uses to be made of aggregate budget data.

To cite one example illustrating this point: From the standpoint of executive and congressional consideration of a given activity, gross expenditure and revenue information directly related to that activity is pertinent. I agree with the Commission, however, that business-type activities of Government, where charges are made to specific users of the service—in a manner such that the charge is directly related to a specific use by a specific user, for example, Post Office activities—should be netted in aggregating expenditure and receipt data into budget totals. The reason for this view is directly analogous to the rules used by the Office of Business Economics in the Department of Commerce in estimating national income and product: we would get a meaningless total if OBE simply added up total sales of all firms. Since total Federal spending is estimated primarily to permit us to assess economic impact and the total "size" of Government relative to the national economy, we should eliminate "double counting" here just as we do in measuring the impact of private activity. The reason for showing Post Office activity on a net basis is analogous to the reason for netting out intragovernmental transactions. Certainly in making decisions about individual programs we do need full gross spending and receipts information. But such information belongs in detailed appropriation requests, not in summary estimates.

It is sometimes argued that we understate the size of Federal Government activity by netting certain receipts against particular expenditures. It is certainly true that we would get a somewhat bigger total for expenditures—and for receipts—if we simply added up all outlays, on the one hand, and all revenues, on the other. But such a number cannot be meaningfully compared to any other number such as GNP, which is a measure of the "size" of total economic activity. In other words, the rules for "netting" Federal expenditure/receipt accounts should reflect insofar as possible the "netting" rules observed in estimating measures of total national economic activity such as GNP.

The Kennedy commission deserves special commendation for its recommended treatment of direct Federal lending, and especially for their proposal that the subsidy element in Federal loans be estimated explicitly and included as an expenditure item, while the purely financial intermediary role of the Government be identified separately as a lending activity. From a program decision standpoint it is worth noting that both the executive branch and the Congress need to consider Federal guarantees and insurance of loans when considering direct loan programs, since, in some instances, at least, the Government has a choice among the techniques best designed to accomplish a specific purpose. The report might have emphasized that individual choices among techniques to accomplish a given specific purpose—be it resource allocation or income redistribution—should be made on the merits so as to accomplish the purpose most efficiently and efficicaciously; such decisions should not be influenced by the particular treatment accorded different devices in the budget. In any case, I completely agree with the commission that loan guarantees should not be included in the tables summarizing the President's budget, since they do not directly affect the President's proposed financial plan.

I am in agreement in principle with the Kennedy Commission's recommendations regarding the exclusion of such financial activities as the Home Loan Bank Board. Their criterion for inclusion or exclusion rests on ownership and they suggest that where there is any

Federal ownership the activity should be included. This rule commends itself as clear cut and unambiguous. I would, however, suggest that careful thought be given to a more meaningful rule which would reflect the degree of de facto executive branch control and management. Farm credit activities, in addition to the land banks, which the Commission does recommend be excluded or treated as a memorandum item, the FDIC, and FNMA in its secondary mortgage market activity, all operate with considerable independence and perform a role closer to that of the Fed than to direct lending programs. Perhaps a more sensible criterion would be to exclude all such credit activities, where the institution in question is typically dealing with other financial intermediaries and not with ultimate "clients," where the Federal ownership is below 50 percent. But this is a subject that does require more study, and I do not feel knowledgeable enough to make a specific firm recommendation.

Now that I am no longer in the Bureau of the Budget, I can be much more dispassionate and objective in considering the Commission's recommendations calling for more frequent reports to the Congress and the public on the status of the budget. I, too, want as much information in as timely a fashion as possible. And I do not think the Commission's specific recommendations suggest the imposition of a backbreaking burden on the Budget Bureau, the Treasury, and other parts of the executive. However, I would enter two caveats on this score: First, all budget estimates projecting future Federal expenditure and other financial activity are inherently subject to judgment and error. This suggests that frequent revisions of budgetary forecasts don't really give the receipient very firm additional information, especially when one is asking for quarterly projections which can reflect "blips" due to accidents of timing of particular actions but which have no real significance. Second, it seems to me unrealistic and naive to expect any President to publicly revise his budget estimates until Congress has completed appropriation action unless such revision reflects a modification in his own recommendations to the Congress. In other words, the Budget Bureau cannot really be expected to say, for example, in July or August of any year, "We are revising our January estimates of expenditures for the current fiscal year, since even though the President has recommended x billion dollars in appropriations, we don't really think the Congress will give him more than y billion dollars." With regard to the so-called midyear review, it is questionable what purpose is served by such a report in those years when Congress doesn't end its session until November or December, since the effects of congressional action will in any case be fully reflected in the January budget message.

Turning to the Kennedy Commission suggestions for the timetable for implementing their recommendations, I have only one suggestion of my own: the administration should introduce the major substantive changes at one time, which means, I expect, waiting at least 2 or perhaps 3 years. There is no problem I can foresee with adopting the major features of the Commission's suggested format; that is, their basic format. But, as the Commission itself recognizes, the full development of the basic accounts on an accrual basis, plus the task of estimating the subsidy element in Government loan programs, will require considerable effort and time. My hope would be that these and other more detailed conceptual changes would not be introduced piecemeal but would be "saved up" until complete implementation could be carried out at one time. I hold this view because of the fear that confusion and misunderstanding (comparable perhaps to that we have all suffered in recent years because of the three competing budget concepts in use) will be produced if budget concepts are modified year after year for several years. This consideration suggests a two-stage implementation of the sort of changes suggested by the Commission: early adoption of the basic format; one-shot revision some time later to reflect basic conceptual revisions.

Before I close, let me briefly indicate some of the chief virtues—in addition to those that I have already mentioned—that I find in the Kennedy Commission report and recommendations:

First, and perhaps more important, I applaud the suggested burial of the administrative budget. As the report says so well, this particular aggregate has no real meaning today—if it ever did. The exclusion of the trust funds, on the one hand, and the undifferentiated inclusion of direct lending programs (treating them just like any expenditure program), on the other, renders meaningless administrative budget totals (and the deficit or surplus produced by comparing the expenditure and receipt totals so calculated). The administrative budget doesn't satisfy the needs of those concerned with the financial aspects of Federal activity; it is not useful to those concerned with the substantive content of specific programs and with the decisions the Congress is called upon to make since it leaves out of account important areas of Federal activity requiring congressional review and action; finally, it is useless to those concerned with the overall impact of Federal activity on the economy.

Second, I am in agreement with the recommendation that expenditures and revenues be estimated on an accrual basis since this will better reflect the timing of the impact of Federal spending and taxing actions.

Third, I admire the skillful compromise wrought by the Commission among the various legitimate interests in different "budget" aggregates and concepts. While one can perhaps carp at the Commission's claim to have come up with a single "unified budget"—since the "unity" has two separate deficit/surplus estimates, plus four distinct parts—their recommended approach would present a set of data meeting a number of requirements in a systematic form, with the interrelations among the parts of "the budget" intelligible to almost anyone.

Fourth, I commend the Commission for calling attention to the very limited significance policymakers at either end of Pennsylvania Avenue should properly attach to any single budgetary number, be it one or another estimate of a deficit, some expenditure or spending total, or even the absolute value of the public debt. Headline writers—and perhaps those who seek headlines—are naturally entranced with single numbers to which they can attach drama and cosmic significance. But those seriously concerned with making and evaluating policy must be more subtle and look beyond single "magic" measures. The effects of Federal activity on the overall level and direction of economic activity, on specific directions of resource allocation, on income distribution, and on financial markets, are complex with many significant interactions and feedbacks. Such a complicated set of relationships, not surprisingly, requires a richer kind of analysis than can possibly be captured by a single number or even by a single set of a few numbers. The Commission's plea for a simple, "unified budget," is properly tempered by its awareness that no single set of accounts can tell the whole story nor serve all purposes of policymakers and analysts.

Fifth, the report's suggested treatment of the public debt seems to me a more sensible and meaningful approach than that presently followed. It is probably too much to hope that the Congress will recognize that setting a debt ceiling is a very imperfect and inherently ineffective device for exercising congressional control over the level of Federal activity. The Commission's suggested budget format has the virtue of highlighting the appropriation decisions requested of the Congress and it is here in particular that congressional control and direction should manifest itself. The annual debt ceiling debate seems to this observer at least a diversion of scarce executive and legislative time and talent. And it never really accomplishes the purpose of exerting the fiscal discipline which Members of both Houses are properly seeking. I would have welcomed an even braver stand from the Commission on the issue of the debt ceiling, since I am convinced that the whole notion of a legislative limit on borrowing makes little sense and could best be done away with.

There are many other good things in the Commission report, both in terms of specific recommendations as well as in the discussion of the reasons which lead the Commission to its conclusions. The report takes on added significance when one considers the distinguished and broadly representative character of its membership. And I would like to add particularly to the significance of the fact that senior Members of the Congress were members of the Commission.

Finally, I must add a word of admiration and gratitude for the lucid and straightforward presentation of the Commission's report. Those responsible for drafting this document, which deals with a subject full of technicalities and jargon, have set a standard which we can all hope will be met by comparable reports in the future.

Thank you very much.

Chairman PROXMIRE. Well, thank you very much, Mr. Capron, for a most impressive and helpful analysis.

Our other witness is Mr. Stein.

Mr. Stein, go right ahead.

STATEMENT OF HERBERT STEIN, FISCAL ECONOMIST, THE BROOKINGS INSTITUTION

Mr. STEIN. Thank you.

The President's Commission on Budget Concepts had produced an exceptionally logical and clear report on a complex subject. Its recommendations, if followed, would constitute an improvement over present practice. By and large I agree with those recommendations.

The Commission has set forth in its published report the reasons for its recommendations. Moreover, this subcommittee has just heard from representatives of the Commission who explained and defended their conclusions. I don't suppose we were invited here this morning to pin medals on the Commission, however much we may admire its work, but rather to suggest to the Congress some of the questions which it should have in mind in coming to its own conclusions about the recommendations of the Commission. Therefore, I shall proceed to these questions and possible uncertainties.

The Commission's first, and as it says, most important recommendation is that there should be a unified budget. I shall consider later the reasons for such a recommendation.

The only reason for the recommendation of a unified budget that is visible in the report is the desire to avoid confusion on the part of the public. And I am a little mystified about why we find it, or have found it, so confusing to have three numbers about the Federal budget.

As I pointed out to a friend the other day, nobody finds it confusing to have three numbers for the size of Miss America, to which my friend replied, "There is a difference in that the budget is not beautiful." And perhaps one number conveys even more than we want to know about the Federal budget.

However, I would like to point out that the Commission s recommendations either do not produce a unified budget or produce a different unified budget than the one they think they are recommending.

What the Commission seems to mean in recommending that there should be a unified budget is that there should be one total of receipts, expenditures, and deficit or surplus that we should always mean when we talk about the budget and that we should use for all the purposes for which the budget figures are relevant. But the Commission's recommendations would give us two sets of figures to start with—one being the receipts, expenditures, and surplus on expenditure account, and the other being receipts, expenditures plus net lending, and total budget surplus. The report warns us sternly that we are to apply the term "budget" only to the second of these sets of figures. But they don't explain very convincingly why the expenditure account is to be so prominently displayed if it is to be so subordinated in our thinking. As I read this part of the report, I felt like a small boy whose mother warns him to keep his eyes straight ahead as he passes the poolroom; there must be something fascinating going on in the expenditure accounts if we have to be warned so often not to consider them as the budget. In fact, on the Commission's own analysis, the most interesting questions are to be answered in terms of the expenditure accounts, not in terms of the total budget. It is the expenditure accounts, according to the report, that give the best indication of the economic impact of Federal finance, and it is the expenditure accounts that we should be looking at when we think of the need to to raise or lower taxes, that is, according to the Commission. I do not find any functions of greater importance assigned to what the Commission calls the "budget."

My expectation is that if the accounts are set up as the Commission recommends we either will have two sets of numbers in roughly equal competing use or will focus attention after a little while on the expenditure accounts as the budget we are interested in, and what the Commission calls the budget well could be a vestigial appendix. Neither of these may be a terribly bad outcome, but neither is the outcome the Commission says it wants.

I think we have to recognize that a decision about budget concepts is not a neutral scientific decision about the clearest and most accurate way to present certain "facts." The choice of a budget concept is a policy choice; it reflects policy decisions and in turn influences policy decisions. The definition of the budget will have certain consequences for fiscal policy, and the choice of a definition should be made in a way that leads to the fiscal policy we want. The Commission report is not very explicit about the policy judgments involved in its recommendations, and I would like to suggest what I think they are.

The search for and the insistence upon a "unified" budget, with one set of totals for receipts, expenditures, and surplus, imply a belief that fiscal decisions will be or should be significantly and specially influenced by this set of numbers. Now, one can certainly conceive of a fiscal policy which does not work that way at all. Fiscal decisions, such as a decision to raise taxes, would be made in terms of an appraisal of all the factors that effect the behavior of the economy. The list of factors would include, with varying .weights, a number of kinds of Federal financial transactions and also a number of kinds of private transactions. The projected expenditures of the Department of Defense would be no more important, for the fiscal decision, per dollar, than the projected expenditures of A.T. & T. In such a list of relevant factors something called the total budget deficit probably would not appear at all, and if it did appear would not have a greater weight than many other factors. If this is the kind of fiscal policy we are going to pursue, there is no need to insist upon a unified budget, with a single number to be called budget deficit, although there may be need for more and better information of many kinds about Federal transactions, as well as about private transactions.

I take it that the Commission rejects this approach to fiscal policy. That is, it assumes that fiscal policy either will be or should be especially influenced by the numbers that turn up as the total of what is defined as the budget. I agree with this judgment.

Having decided that fiscal policy will be influenced by the way we define the budget, we can ask just what difference the definition will make and how we would like the results to come out. Here we are concerned with two kinds of effect of the definition. One is the effect on the shortrun stability of the economy. The other is the effect on the longrun growth and level of taxes, expenditures, and Federal lending.

To define the budget in such a way that the changes in its surplus or deficit were a good indication of the shortrun change in the economic effect of Federal finance would be very useful. Keeping such a budget balanced, or keeping its deficit or surplus constant, would keep the economic impact of Federal finance constant, and this would be a contribution to economic stability. If we wanted to go beyond this and vary the budget position in order to offset economic fluctuations arising in the private sector, the desired policy could be described by variations in the deficit or surplus in this budget. The Commission seems to give a good deal of weight to this quality of the budget, and to conclude that from this standpoint the expenditure accounts would be the best measure. However, it does not follow through with this argument to the point of selecting the expenditure accounts as the budget.

In my opinion, the superiority of the expenditure accounts over other possible definitions of the budget as an indicator of shortrun economic impact is not demonstrated. The Commission offers no evidence for it except the consensus of economists, which is not very impressive evidence. This is a subject which deserves more study. However, for the present I would say that we cannot be very sure which of several budgets gives the best single measure of shortrun economic effects, and particularly how much difference there is among them from that standpoint. Therefore, I would not make shortrun stabilization the dominant criterion of the selection.

In terms of longrun effects on the levels of taxes, expenditures, and Federal lending at least the direction of influence seems clearer. What the Commission calls the total budget will ordinarily have a larger deficit, or smaller surplus, than the expenditure accounts. This total budget also had a larger deficit, at least over the past 12 years, than the administrative budget, the cash-consolidated budget, or the national income accounts budget. Therefore, balancing the Commission's total budget would require higher taxes or lower expenditures and loans than balancing the expenditure accounts or balancing some of these other budgets. If there is, as I believe, a desire in the country to balance whatever is defined as the budget—not an irresistible desire, obviously, but a desire with some influence—this is an important consideration. It means, I think, that if the Commission's total budget is chosen as the budget the effect will be higher taxes and lower expenditures than if the expenditure accounts or some other possibility is chosen. Particularly, Federal lending will be lower than if a definition is adopted which excludes loan transactions, as the Commission's expenditure accounts do.

Where this leads you depends on what you think about the Federal budget problem. If you think, as many people do, that there is excessive pressure to hold Federal spending down, which deprives us of many useful public services, you should presumably choose a budget definition which shows as small a deficit or as large a surplus as possible. On the other hand, if you think the problem is a tendency for expenditures to rise too rapidly, then you should choose a budget definition which shows large deficits. The differences among the chief alternatives in their possible effects on Federal spending and lending are not large, but still they are probably the chief consequences of choosing one definition rather than another and should be a major standard of the choice.

Many of the decisions that must be made in defining the budget are necessarily arbitrary and many of them are not of great intrinsic importance. However, I want to emphasize even more than the Commission does one matter of definition which I consider of great importance. I think it is highly important that the administration should regularly present a statement of the budget, however its coverage may be determined, as it would be at high employment. Variations in the budget position that result from variations in the level of economic activity are of little significance as guides to policy or as measures of either the shortrun or longrun consequences of policy. If we look at the history of postwar fiscal policy to ask how the record might have been improved by some change in the definition or presentation of the budget, I think that only one major case stands out. In the 3 or 4 years beginning in 1958 we would, I think, have made better fiscal decisions if there had been more general recognition of the size of the surplus that we would have been running, on any definition, if the economy had been operating at high employment. We would have felt freer to reduce taxes earlier than we did if we had appreciated that fact better. While the Commission urges that the high-employment concept be kept before the Congress and the public, it does not specifically recommend that the high-employment calculation be a part of the regular budget presentation, and I think that is an unfortunate omission.

While I am on this subject, I would like to correct one historical lapse in the Commission's report. The report says that "the high employment budget surplus concept was developed a few years ago." Of course, the Committee for Economic Development explained this concept 20 years ago and has used it continuously since. Beardsley Ruml wrote about the idea even earlier and some antecedents can be found in the 1930's.

Defining what should be included in the budget is essentially a matter of giving yes or no answers to questions which can at best be answered only more or less. Such decisions are always open to disagreements which cannot be resolved. But someone must make the decisions if there is to be a budget, and I am not dissatisfied with the decisions the Commission has made, Fortunately from my standpoint, a great many of these decisions are not very important. Some of them only affect the distribution of transactions among time intervals too short for fiscal policy to distinguish. Others seem to be concerned with meaningless questions, like how big is the Federal Government.

The point with which I would like to close is one I have made earlier. The important questions about the definition of the budget cannot be answered without some prior decisions about the nature and goals of budget policy. Here as elsewhere the medium is the message. The budget document is not just an instrument to assist us in carrying out whatever budget policy we decide to carry out. The budget document influences what the budget policy will be—it predisposes policy in one direction or another. The major changes of budget concept in the past 35 years were not initiated by statisticians or accountants who discovered a way to present the facts more clearly and accurately. They were initiated by people who wanted to support particular budget policies. To give a current example, the President's rediscovery of the administrative budget this summer is surely related to the desire for a tax increase. So what we must ask about a proposed definition of the budget is not "Is it true?" but "What will it do?"

Chairman PROXMIRE. Thank you, gentlemen, both of you, for very stimulating papers.

I take it, in the first place, that both of you gentlemen do support this proposal. And although each of you have serious reservations, especially Mr. Stein, you feel that it would be in the interest of the public and the Congress if we adopt it.

Mr. CAPRON. Yes, sir.

Mr. STEIN. Yes, I agree.

Chairman PROXMIRE. Mr. Capron, discussing the economic impact of the budget, you raised some questions, it seemed to me, as to whether or not—at least raised it in my mind—as to whether or not this budget provides a better framework in any of its parts for an analysis of the impact of Government fiscal policy on the economy than the NIA budget.

I take it that you did not conclude in your paper, you did not opt clearly and specifically for the new budget proposal.

How do you feel about that?

Mr. CAPRON. I think in one particular the proposed budget, the expenditure or spending budget as I call it as a shorthand identification, is better than the NIA budget, and that is the strong recommendation of the Commission that the Government move to an accrual basis, because I think that this does represent a distinct improvement over the NIA budget—since in overall impact analysis we are particularly interested in the timing when things are going to affect the economy.

Chairman PROXMIRE. Is not the NIA budget on an accrual basis?

Mr. CAPRON. No, sir; it is not.

Chairman PROXMIRE. The cash budget is not an accrual budget, but to the extent possible, the NIA budget is.

Mr. CAPRON. The cash budget is not. The NIA budget has some accrual features in it, but many important expenditure activities are not on an accrual basis, since as of now we just do not have the data to permit anyone to put the budget on an accrual basis.

Chairman PROXMIRE. Can you help us by giving us an example of how this would give us a better economic analysis understanding?

Mr. CAPRON. Yes. Defense spending is the clearest case in which you have relatively long leadtime items. There are several steps in which we record or can record a decision to procure a given number of aircraft, for example.

The contract is let; funds are obligated. Then progress payments are typically made to the contractor. And finally the equipment is delivered to the Government.

Now, if my understanding is correct, under the NIA budget, the transaction is essentially recorded as a Federal expenditure at the time that delivery is accepted by the Government of the item. This is typically long after the impact of that decision on the economy.

Chairman PROXMIRE. And with the cash budget it would be reflected at the time the payments are made—checks are written.

Mr. CAPRON. Yes. Essentially the cash budget is on a checks-written basis.

Chairman PROXMIRE. Under the proposed budget, it would be on the basis of when the obligation was incurred.

Mr. CAPRON. No. It would be as the work is done for the Government's account. It would be comparable to accounting which is typical in private industry now which will——

Chairman PROXMIRE. How do you measure when the work is done? How do you determine the date when the work is accomplished?

Mr. CAPRON. Well, it is—the attempt is made, and fairly successfully in modern accounting——

Chairman PROXMIRE. Can you give an example?

Mr. CAPRON (continuing). As various man-hours and various raw materials are put together in fabricating, say, the airplane or the tank, the accounts of the firm will reflect when that work is done, and they will begin to create an inventory account of work in process. And as that inventory builds up, this is transferred in the firm's books to a Government account. Under the accrued expenditure estimates recommended by the Budget Concepts Commission, that would be reflected as the plane began to take shape as a Government expenditure

Chairman PROXMIRE. Month by month there is a certain amount of the material, labor, and so forth, that goes into the plane.

Mr. CAPRON. That is right. And this would then be taken as an accrued expenditure by the Federal Government. This would be quite separate from when progress payments happen to be made, and you wou d certainly not wait to record this as a Government activity until the time that the plane was actually completed and delivered to the Government. And this is particularly significant in the case of defense procurement and construction activity.

Chairman PROXMIRE. This, then, would put the Government accounts pretty much on a 1-for-1 basis——

Mr. CAPRON. Yes, sir.

Chairman PROXMIRE (continuing). With private accounting.

Mr. CAPRON. Yes, sir.

Chairman PROXMIRE. Do you agree with that, Mr. Stein?

Mr. STEIN. Yes, sir.

Chairman PROXMIRE. Do you agree with this analysis that this is a better method, therefore, than the NIA offers of estimating the impact on the economy of the Federal fiscal policy?

Mr. STEIN. Yes; I think it is better. There is a question as to whether it is worth all the trouble involved to do it. I think that probably there are only relatively few occasions when this becomes of great significance. It probably was of some significance in the second half of 1965. It becomes of great significance when the program is changing in size rapidly. And it would be possible, I think, satistically to make some estimate of this impact. In fact, efforts have been made to do this without tracking down every particular item.

Chairman PROXMIRE. Mr. Lewis told us the day before yesterday, that he anticipates that the budget is going to have a more restraining influence—fiscal policy is going to have a more restraining influence than it had several months ago.

Now, this is not reflected—he said that this is much better reflected in the proposed budget than it is in the administrative budget, for example, or even the NIA or cash budget.

You gentlemen perhaps have not had a chance to analyze or put the consequences of all the actions that have gone on in recent months giving us an added administrative deficit of $29 billion possibly minus a tax increase into, grind it into the proposed budget concepts. But if this is true, and if the description you have given us is correct, this would mean we would be in a much better position to assess the wisdom of increasing taxes or decreasing spending at the present time with the proposed budget, if we have the proposed budget as a tool and if we were to rely, as most of us are now doing, on the administrative budget.

Mr. STEIN. Well. I think we are certainly agreed that the administrative budget is not very useful for your purposes——

Chairman PROXMIRE. This is what the President keeps using all the time, the Secretary of the Treasury and the Council of Economic Advisers. They keep pointing at $29 billion. They have forgotten about the NIA budget and the cash budget. They have said nothing about it since January.

Mr. STEIN. That, of course, illustrates my basic point that people use the definition of the budget which is convenient for them. And I do not think we will ever get away from that. We just have to decide what is convenient——

Chairman PROXMIRE. We can get away from it if these concepts disappear as Mr. Kennedy recommends, and his Commission includes the Secretary of the Treasury and the Budget Director.

Mr. STEIN. Oh, well, I do not think that this Commission, however authoritative it is, will establish permanent censorship on what people call the budget from now on.

Chairman PROXMIRE. But the President would be in a much weaker position if he should shift to the proposed budget not only because he thinks it is a better reflection, but like every other President thought it coincides with a more advantageous reporting of his position And then several years from now if he or some other President will want to shift back, they just will not be able to do it. You get trapped under those circumstances, it would seem to me, into having to abandon the old administrative budget concept. The President could not do what he did this year, having raised the cash budget as the big thing and put a lot of emphasis on it in January. He has come back to the administrative budget, and he has done it gracefully, and there has not been much criticism of it. But if we shift to the proposed budget and accept it and work on it for several years, then the President—and I think properly—is tied in with this particular concept, and he is unable to shift back for convenience purposes.

Mr. STEIN. Yes, I think there is an advantage to having had a fairly formal review of this and a decision which carries a good deal of weight. And I think, as you say, it will inhibit the President, or anybody else, in making a choice among definitions for reasons of convenience for some time.

Chairman PROXMIRE. Mr. Capron, in your statement you talk about the debt situation, and like so many people, you feel the Congress has been wasting its time perhaps—and maybe you are right—in fooling around, to put it one way, with a debt ceiling. At the same time, I wonder if you can give us some confidence in the notion that this concept is right, that we should net out the debt in the way we do and, as I understand it, subtract part of the Federal debt that is held in trust accounts and come up with a net figure.

The Commission recommended that we, in effect, reduce the national debt from $326 billion to $265 billion. And I suspect that whereas there has not been a great deal of analysis really by the press, once they get their teeth into this idea there is likely to be a lot of criticism, and we ought to be in a position to defend it, and Members of Congress are going to wonder whether this is right. We take a new concept and wipe out $60 billion of national debt.

Mr. CAPRON. I think that there is inevitably a trauma connected with such a fundamental change as a redefinition, a fundamental redefinition of the public debt, as suggested here. It does seem to me, though, that the Commission's proposal makes eminently good sense. Harking back to some of the remarks that you and I were making about the move to accrual accounting, large corporations that have a number of subsidiaries would find it meaningless to show in their consolidated account as their total debt not only the borrowing that they had made from the public, but the intrafirm loans that are typically made. A.T. & T., for example, has very complicated financial transactions with the various operating Bell System companies, but the Bell System report to the public, to its stockholders, shows a net figure of its indebtedness, since to show the gross figure really would have no operational significance and could be really quite misleading. In the same way, when one part of the Federal Government is holding part of the Federal debt, there is no question, of course, that the trust funds—and that is the major item involved here—have full Federal credit standing behind them. Those are obligations that are as "frozen in concrete" as anyone can imagine. But to add the part of the debt that is held by the trust funds to the debt that is held by the public does seem to me actually to be misleading, and therefore

I do feel that the Commission's recommended treatment here just makes a great deal of sense.

Now, I fully agree that explaining a changed definition of the debt is going to be difficult, because it is a subject that has a great deal of mythology connected with it and I am sure that there will be some very vocal critics who will say that this is some more of the "finagling" that is taking place to make things look better than they really are. And I think that this can only be done—and in this case it does require, of course, congressional action—if the Congress decides it wants to do it and then makes a special effort to explain this to the public and to defend it.

Chairman PROXMIRE. All right. I want to come back to this. My time is up.

Congressman Rumsfeld?

Representative RUMSFELD. Mr. Stein, you favor the Commission's report but have some question as to whether it will really accomplish what they hope it will accomplish in terms of public understanding. But you feel it is a very close question. It is a net plus. Is that about right?

Mr. STEIN. Well, I think it is a net plus. I think that if their recommendations are followed we are still going to have two numbers floating around. and when the budget message comes out, we are going to say, well, the deficit is $5 billion, but it is really $7 billion, or it looks like seven but it is really five.

I think if they are concerned about confusion, that is going to persist. I think the essential implication of the deficit is what is it the President or the Congress will be talking about when they talk about balancing something. Or if the President comes in and says, we have to have a tax increase, because otherwise the deficit will be $$x$ billion, that is the one—whichever of these definitions he uses, that will be the significant deficit. And I think I would have preferred for them not to have shown these two parts, but to have shown what they call their total budget, to show a total of expenditures plus lending and a total of receipts and a total deficit—not to have made the distinction between expenditures and lending.

Representative RUMSFELD. The Commission, of course, did not cover all subjects relating to this. They fairly narrowly construed their mandate and did, I think, a reasonably good job in that area.

Your point, however, Mr. Stein, is, of course, important, that decisions in these areas reflect policy positions, or policy questions.

Take, for example, this problem of interim reporting or forecasts for the coming periods. The Commission report touches on it.

One of the problems that I feel is important is that the value of the budget is rather seriously reduced when estimates of expenditures and receipts prove as inaccurate as they have in recent years.

Now, while they have not addressed themselves to that directly, do you feel that this budget will have any effect on the forecasts of reporting question? Or do you have any suggestion as to how forecasting can be improved?

Mr. STEIN. I think the causes of error in forecasts are not dealt with in the subject of the definition of the budget. I do not think there are any obvious solutions. These forecasts are being made by people whom I regard as highly competent and experienced, and then are just things that are hard to forecast, including the Federal budget.

I would think that the accruals, although more significant than the expenditures, may be more difficult to forecast than the expenditure because the Government, after all, controls its expenditures and can have a plan and can, therefore, forecast when it is going to put the money out more accurately than it can forecast the progress of work being done by its contractors.

I am not very sympathetic with all the emphasis the report puts on short-term, on quarterly estimates of all these magnitudes and of frequent revisions of the estimates. I do not think that we really can or should make fiscal decisions on the basis of what is going to happen next quarter and on the basis of rather small variations in our estimates of what is going to happen next quarter. I think we should make them at most on an annual basis, and we would be well served if we had good annual estimates of the future.

Representative RUMSFELD. Then you agree with Mr. Capron's view as to projecting future Federal expenditures and other financial activity.

Mr. STEIN. Yes. Of course. Many of the errors in forecasting the budget arise from errors in forecasting the economy. And these should not apply at least to nearly the same extent to forecasts of the budget as it would be the high employment. I think that is one reason, one advantage of looking at the high employment budget. It is both more relevant and easier to forecast.

Representative RUMSFELD. I am surprised to hear you say that forecasts are really not very useful except on an annual basis. It seems to me, recognizing the fallibility of human beings and the changing situations, that all of us have to deal with the best information we have at any given time. And when I am talking about reporting, I am essentially talking about reporting to the Congress. The Congress is involved in these decisions. It seems to me that the Congress definitely should have the best information that is available to the executive branch at any given time, specifically on a quarterly basis.

Mr. STEIN. I do not think you are going to make any decisions on a quarterly basis. I do not think you are going to make a decision to raise taxes for the next quarter and reduce them for the following quarter. If you make a decision about taxes, you will make it at least for a year. And I do not know of any case where you have made it for as short a period as a year. Your decisions about expenditures as you control them through the appropriation process are decisions that at least have to do with the level of expenditures in the following year.

I do not think you can adjust budget policy for these short fluctuations.

Now, I think that it is important for people making economic policy to have a view of the economic prospect by quarters ahead of them. I think this kind of information would be very helpful to the Federal Reserve, for example.

I think it would have been helpful for the Federal Reserve in the summer of 1965 to have had a better view than they did of the speed with which the Vietnam escalation was going to proceed, and that they might have reacted to that more promptly than they did. It seems to me unlikely that Congress could have reacted to it. I think——

Congressman RUMSFELD. You talk of short fluctuations and minor variations. There have been some rather dramatic fluctuations and variations in executive forecasts to the extent of being 100 percent wrong—double the figure given to the Congress.

If the Congress has the job of attempting to establish priorities among the various competing pressures within our society for Federal tax dollars, its judgments would be affected in the establishment of priorities by additional information during a year. I understand your point that one would not necessarily react on a tax question within a 4-month period. But decisions are made continuously during a 12-month period.

I do not understand how you can say that current information would be valuable to the Federal Reserve and not valuable to the Congress. I know you know Congress, and I know you know, as I know, that things just do not happen in the legislative area immediately. There is some time involved. But during that decision time information must be made available. And absent that, the period of reaction is lengthened, rather than shortened.

Mr. STEIN. Well, Congress is a big computer into which you ought to put a lot of information, but you can overload this machine. And you want to be sure that you are getting the information that is most relevant to the decisions you can make. And if I ask myself what errors Congress has made, it is not because Congress has been one quarter or two quarters too late; they have been 5 years too late.

Congressman RUMSFELD. Then it would be 4 years and three quarters if the input were better.

Mr. STEIN. I would like higher quality information about a longer period rather than more information of a mediocre quality about a short period.

Mr. CAPRON. Mr. Rumsfeld, may I just make two comments on your question?

One, I think it is important to emphasize a point that Mr. Stein made briefly, that before the art, and it is an art, of economic forecasting—quite apart from what the Federal Government is doing in any given quarter—is improved, I think we all have to recognize, especially those who use forecasts, that they are judgmental; that they are uncertain; they are going to be wrong sometimes. And it is for this reason that I have the note in my prepared statement to the committee that I was not sure how really valuable, given the difficulties of economic forecasting, very frequent revisions are going to be to the Congress.

Representative RUMSFELD. Well, I got that point from your statement. I disagree with it completely.

Mr. CAPRON. Well, the other point I was going to make is, I think it is worth drawing a distinction which I think the Constitution draws, as I read it, between the responsibilities of the executive branch, on the one hand, and the Congress, on the other. I think that it is not feasible to expect essentially day-to-day administrative decisions to be made at this end of Pennsylvania Avenue. I think that the Congress has to set the broad framework in its appropriations actions, particularly on the expenditure side. But then if things are going to be done at all efficiently, the detailed timing decisions from month to month, as to when orders are placed, and so forth, have to be left with a good deal of discretion to the Executive.

Now, one of the most difficult episodes we have had recently, which Mr. Stein referred to, I think, is pertinent here, where you have different, quite different interests of very high national policy that come into some conflict. I am referring to the delay in making public decisions that were made with regard to defense procurement in 1965.

Speaking purely hypothetically and without direct reference to that incident, it seems to me that there might arise an occasion when national security considerations gave rise to a decision on the part of the President that he would not feel it wise to reveal and make known immediately the total defense outlays that were actually being built up by the day-to-day procurement decisions that were being taken. I do not know whether this consideration was operative last year. However, I think we must recognize that occasionally there may be national security situations where you have a real conflict here between the desirability of making information available promptly to the public, and national security.

The fact that the Fed, as Mr. Stein suggested, may not have had information for some period could have affected their action, and if so, this was unfortunate. Perhaps a case could be made that overriding national security interests which might have guided a decision to delay release of precise information on defense activity was correct, despite the difficulties that were created.

Representative RUMSFELD. My time is up. I hear you. I understand what you are saying. I am aware of the fact forecasting is an art and not a science. But in my opinion, you are skating on very thin ice when you suggest that the Constitution priovdes that the executive branch should treat the Congress like an idiot cousin——

Mr. CAPRON. I certainly did *not* mean to suggest that.

Representative RUMSFELD (continuing). And pat them on the head with just that much information that they should have and no more.

No one is arguing the day-to-day administrative decisions belong where they are. My point was beyond that, that the Congress plays a role under the Constitution, and that to play the role it must have access to the best information. The Congress is perfectly capable of understanding that forecasting is an art and not a science and taking the forecasts, understanding them, and dealing with them just as the executive branch does.

I am not talking day to day. I am talking about quarter to quarter.

Chairman PROXMIRE. Mrs. Griffiths?

Representative GRIFFITHS. Thank you, Mr. Chairman.

I would like to compliment you both on the debt limit. A debt ceiling is the most difficult bill in this Congress to pass, and it has the most remarkable group of opposition. The biggest spenders and the most conservative people oppose it: the biggest spenders on the theory that this is their one economy vote, and the conservative—I asked one conservative one day on our side why he was not really willing to pay the bills, and he said, "Well, if they had just taken my votes and added them to the other, we would't have had this bill."

I would like to ask you, what do you think would happen if Congress failed to pass the increase in the debt limit?

Mr. CAPRON. Well, let me emphasize that I am an economist and not a constitutional lawyer. I confess that from time to time in the wee small hours when I was in the Budget Bureau, when this debate was going on up here about the debt limit, we used to speculate as to just what we would do if the ceiling were exceeded. There were jokes about, first of all, Douglas Dillon and then Henry Fowler, suggesting we would be visiting them in Fort Leavenworth.

I think, more seriously, that the difficulty I find with the attempt to use the debt limit as a real disciplinary measure is that the debt at any time is really a reflection of the decisions the Congress has made, sometimes long ago in the past, with regard to authorizing the obligation of the Federal Government's credit to private individuals and private firms. I suppose a crisis of some sort might be created, but I do not really know what would happen, if in a technical sense the debt limit was exceeded. I think this is something that a constitutional lawyer perhaps should be consulted on, but I am not so qualified.

Representative GRIFFITHS. Jesse Wolcott, former chairman of Banking and Currency, told me that nothing would happen; that the whole thing was a myth, and that the Government could proceed as it chose. I believe Mr. Dillon used to be afraid he would have to pay it himself. And Mr. Fowler—I have asked Fowler—said it was a moral obligation and, you know, he would have no objections. He wouldn't lose much anyhow if he had to pay.

I really think, though, that it has no disciplinary effect at all.

Mr. CAPRON. I don't either.

Representative GRIFFITHS. None whatsoever. If you begin each day with two electronic boards in the House and Senate, one of which showed you the cash balance, and one the debt, and then when the bill came before the House you had a lot of numbers going around and bells ringing and lights flashing on and showed you how much further that bill would put you in debt and how much or less further each amendment would go, I think you might have some disciplinary effect.

Mr. CAPRON. I am sure that IBM would be very glad to provide you with that machine.

Representative GRIFFITHS. Of course, you might alarm people so that they would not vote for anything.

Now, I would like to ask you, also, since we are now—we have now decided that the budget, expenditures, and taxes really do have some effect upon the economy—and, after all, this is quite a new idea, comparatively, and the truth is they did not have too much effect when they were not very large—it seems to me that what Congress needs more than one budget is a little explanation when the bills are asked or when the bills come before Congress of the effect of this bill upon the economy, or the estimated effect of this bill upon the economy.

For instance, the other day we passed a bill which combined human prejudice and greed to revoke the long staple cotton quota of the UAR and give it to some people out in Arizona and California, and so forth and so on.

Now, we are going to have to irrigate the fields and do a lot of other things. If they just had given us the total direct cost, I think it would have been quite surprising to some people, the cost of doing that, wouldn't you think? Wouldn't you think that this would help more than just having the budget in one item, if we had some idea of the effects of these bills?

Mr. STEIN. I think the whole implication of the new effort which is called PPBS is to provide for the administration and the Congress better, more comprehensive, and more systematic estimates of the consequences of fiscal actions. I do not know whether this long staple cotton thing would have fallen under the head of fiscal action, but still it is susceptible to the same kind of analysis. I think you are quite right in suggesting that the analysis that is needed for making the decisions that you are confronted with cannot be contained in the budget. What you need is not some financial record or financial forecast for a short period or even for a long period, but you need an appraisal of many kinds of effects, many of which cannot be summarized in any dollar numbers but which are very important to you and which, I think, you are not now getting from any source but which I hope the new PPBS system will begin to provide and which I hope the Congress would put itself in a position to provide, to evaluate the information that comes from the administration and to provide its own information.

But as you put it, this requires a very sophisticated level of analysis and a staff that can develop it.

Representative GRIFFITHS. Now, for instance, to a lot of people, knowledgeable people, the tax cut of 1964 did not do what was claimed at all.

Do you agree or do you not agree? Was it effective, as effective as all of us have proclaimed it to be, or did we just like the tax cut?

Mr. STEIN. Well, I think I am probably in the minority of economists in agreeing with you very heartily, that we know very much less about these things than we have claimed and pretended to know. We had a tax cut and we know that the economy which had been rising before the tax cut continued to rise after it. But what was the connection between the tax cut and the rise is very difficult to disentangle. And I think that economists would have to say that they certainly do not know with any precision—and there are some economists who have great claim to be listened to who would say that the effect was rather small. The economy is a complex thing, and a lot of other things are going on all the time, and notably in this case we had the coincidence of a tax cut and a fairly steady and substantial expansion of the money supply to which some people would attribute most of the rise we got. That is one of the reasons why I am skeptical about the very confident statements made in this report about what measures the fiscal impact, and what is important and what is not important. I think most economists' judgments about this are derived from a kind of textbook model into which numbers have not yet been put.

Representative GRIFFITHS. Don't you think that it could possibly be said quite confidently at this moment that if today we enacted a $7 billion tax increase, prices that have been rising will still continue to rise?

Mr. STEIN. You asked me whether you could say that confidently. My position is that we cannot say any of these things confidently. I do not know.

Representative GRIFFITHS. Well, I would assume that car prices are going to rise. I do not think—you don't even have to be a seer to figure that out.

I think that the price of hospital services is going to rise. I think schoolteachers' salaries are going to continue to rise. I think the cost of food is going to go up, because you have in some areas a scarcity. So that it is rather unrealistic to say today that a tax increase is going to lower prices or stop them from rising.

Mr. STEIN. But you might ask whether the tax increase will make a difference in how much the rise is in the next 2 years. It probably would make very little difference in the next 6 months, but if you lock 2 years ahead and ask will the cost of living be 6 percent higher than it is now, or 4 percent higher than it is now, maybe the tax increase would make that difference, and that would not be inconsistent with anything you have said.

Representative GRIFFITHS. But in making the decisions, the fiscal decisions within this Government, just the budget alone, even under this concept, is not going to furnish sufficient information to make the decisions, right?

Mr. CAPRON. I would certainly agree. I would just underline what I said in my statement, that a great deal more information than can ever be contained in a single table certainly is necessary if sensible decisions are to be made. I do want to record at least partial disagreement with what my Brookings colleague, Mr. Stein, said.

I think—although I agree with him that I cannot give you the exact number—that the level of economic activity was affected by the tax cut of 1964, and I also am confident—again without an ability or claim to any ability to give you a number—that the rate of inflation would be affected by the enactment of a tax increase.

I agree with him completely that precise point extimates are beyond our ability to make these days. I think that is true. But I think the direction of the effect is clear.

Representative GRIFFITHS. For instance, a tax increase might slow up interest rates, but it is not going to stop them from rising. We could not even get Mr. Martin to agree it would stop them from rising. Right?

Mr. CAPRON. I think that is right.

Representative GRIFFITHS. Thank you.

Chairman PROXMIRE. Senator Percy?

Senator PERCY. It seems in my own brief experience in the Congress that the executive branch of Government has better control over its budgetary process—receipts and expenditures and estimates and ability to adjust them up or down through the Bureau of the Budget—than the Congress does. The Congress deals with the budget in sort of piecemeal fashion within a multitude of committees, never looking at the thing as a whole, really.

Could you suggest any procedures by which the Congress could get a comparable degree of control of the budget that the executive branch potentially has available to it? Would you suggest the possibility of a Joint Committee of the Congress on the Budget that would allow oversight that would be improved over our present procedure, or any other procedure that would occur to you?

Mr. CAPRON. Senator Percy, this is a question that from time to time I have thought about, because it does seem to me that the present arrangements that the Congress has made for dealing with budgetary questions do leave—from the standpoint of the Congress and its legitimate interests—something to be desired. I know there have been a number of proposals to improve things. For example, a Joint Committee on the Budget has been suggested in various forms, given various powers.

I feel too inexperienced as to what really goes on and how policy is made in the Capitol to have any firm view. I think that one major step forward, at least in discussion and understanding, has been produced by the Joint Economic Committee which has focused each year on the President's budget and the Economic Report.

Until that development, there was no time when the Congress ever really looked at the total budget, at the budget document. When transmitted by the President it was immediately torn apart and parceled out to the Appropriations Committees and as far as tax measures, to the Ways and Means Committee.

As you are aware, the major action on appropriations now is not in the Appropriations Committee. The key actions are taken at the subcommittee level, each of which naturally takes a very "blinders-on" kind of look at each program area.

This is an essential element in the process at some point, but at no point is there any reflection on the total budget in the Congress in a formal sense. And I share with you a feeling of dissatisfaction from the point of view of the Congress and, therefore, the public with the way this area of congressional responsibility is handled now. But I do not see an obviously effective way to do very much about it, I am afraid.

Senator PERCY. Mr. Stein, would you care to comment on this?

Mr. STEIN. Well, I think the techniques by which something might be done, if there were a substantial determination to do something, are limited but known, and I think the point that Mr. Capron makes about increasing authority of the Appropriations Committee vis-a-vis its subcommittees would be an important aspect of that. We have tried some of these things, as you know. There was at one point a Joint Budget Committee under the Legislative Reorganization Act of 1946 which failed. Perhaps one hope now is that we seem to be in an even more extreme mess than we have been previously; there may be some more willingness to try seriously to bring the thing under control than there has been in the past, since the end of the war, or since the Reorganization Act of 1946. I think it would be at least technically feasible to try to hold the action of the whole Appropriations Committee back until most of the subcommittee work had been done. We might try to establish through the Appropriations Committee as a whole at the beginning of the session some guidelines with respect to the total budget in reflection of the President's recommendations, and to hold final action on the appropriations legislation back until the Appropriations Committee could look at the main submissions from its subcommittees all together and come to some recommendation which it would offer to the House, or, in the case of the Senate, to the Senate. I think two main things are necessary which do not come from any technical procedural reorganization. One is the existence of strong party leadership, and the other is a feeling that there is some kind of serious national emergency which requires this. And perhaps we have reached the second of these points.

Senator PERCY. Could I ask you a question on that for a judgment as to where we stand now, and then related to that, what we can do about it?

Do you feel we are almost in a crisis right now with a budget completely out of control? We have estimates started in January of a $8.5 billion deficit, subsequently raised to a potential of $28 billion. I have heard figures as high as $40 billion. The proposed tax increase would make only a small dent in a budget deficit of that size and consequence. What is your judgment as to the seriousness of our present situation, and what procedural recommendations could you make for reestablishing a set of priorities? When you have an emergency condition such as Vietnam, a war on poverty, programs for the cities, and so forth, what can you do to establish priorities among all programs and identify those that are not nearly as vital when related to these new needs that are urgent and must be met?

Mr. STEIN. Well, that is very hard. I do not think we are on the brink of any fiscal crisis. I think we are suffering, the Congress is suffering, the country is suffering from schizophrenia at one time recognizing new very important national needs which call for a readjustment of priorities and some new view of the size of the Federal Government relative to the economy we are willing to tolerate and, on the other hand, not quite having made up our minds to carry through with the implications of this and the cost that will be involved and dragging our heels and wanting to make the best of both worlds, as we always do. But I think the situation is more critical now because we have this combination of the Vietnam war and the sudden awareness of new national needs.

Probably as a realistic prediction this is something we are going to handle slowly, although I think that we will readjust our programs and our priorities gradually. And, of course, the end of the Vietnam war would be of great assistance.

I think you just have to try to elicit some more valid national discussion of this kind of thing than we have been having, to try to raise the level of the national discussion. Perhaps this committee could do something about it. I would hope that others can.

I do not see any parliamentary devices that are going to bring 19th century people into the 20th century.

Mr. CAPRON. Senator, I wonder if I could just add a comment referring back to the discussion you and I had a moment ago about the structure of the Congress.

At least based on the experience I had when I was part of the administration, I can say with a good deal of confidence that at least at the Presidential level there is a good deal of willingness to cut back or eliminate old programs which have served their purpose and no longer have the priority given the other newer and very urgent demands that we face. There is in the Congress, and partly because of the way Congress is structured—and I am saying this respectfully—the individual legislative substantive committee and the individual subcommittee on appropriations for any given program and these committees will view that program "internally," as it were, and they will be, I think, convinced honestly that many purposes look important to them, which, if they took a larger perspective would look as if they have a pretty small claim to a major place in Federal spending. I think if something could be done in the Congress to focus more attention on this question of really making the trade offs and the comparisons across programs that we might be able to meet at least a part of this dilemma, this problem that you and Mr. Stein were just discussing.

It is very frustrating, I know, sitting in the Bureau of the Budget, to recognize that some of the things that you would like to cut back or even cut out are just not in the cards at all, and that a President either wastes his political capital if he recommends them or gets himself in real political hot water if he does because powerful interests will be affected, and this is a real dilemma.

Senator PERCY. Mr. Chairman, I yield with an expression of appreciation to our two expert witnesses this morning who have given us some new insight into the remarkable report.

Chairman PROXMIRE. Thank you.

Well, now I want to get back, Mr. Capron, to the question I was asking about the debt.

It seems to me one of the interesting consequences of this is we not only reduce the debt by $60 billion, but we reduce service on the debt. Maybe not. But if you are going to net these things out and cut back the debt to $265 billion, obviously you might argue at the same time—I do not know; I have not had a chance to study this thoroughly enough. Maybe you gentlemen can enlighten me on this—that the $14 billion service charge could also be cut back by $2.5 to $3 billion since, after all, you should be reporting the interest paid on a debt that you consider outstanding, not the interest paid to yourself. Is this correct?

Mr. CAPRON. Yes, I think it is. The interest that is now credited to the trust fund accounts is purely a bookkeeping charge. It does not increase or decrease, or affect at all the obligation that the Federal Government has, for example, to pay social security benefits as they have been legislated by the Congress.

Chairman PROXMIRE. So here is another target——

Mr. CAPRON. They are going to be paid, and whether you fix the books by crediting some interest each year from the General Treasury to the trust fund account which has no meaning except as a bookkeeping entry—it does not mean that that trust fund is any sounder, it seems to me, one way or another. And I would agree with you that if you move in the direction suggested by the Budget Concepts Commission and report the debt held by the public as the debt, that a reexamination of this question of internal interest bookkeeping transactions would be very appropriate.

Chairman PROXMIRE. So that, No. 1, you cut the debt; No. 2, you reduce the deficit by a very substantial amount—as I say, somewhere between $2 and $3 billion.

Under the new concept, then, we could conceivably run a deficit in the sense that we were taking in less than we were payout out, but not increase the national debt because the trust funds are buying the deficit, could be buying the deficit depending on the status of the trust funds and their capacity to invest. If the social security fund and the highway fund can pick up the deficit, then even though we are running a deficit, it does not reflect itself in an increased national debt.

Mr. CAPRON. Well, of course, this will——

Mr. STEIN. Well, by the same definition, if you show a smaller debt, you will also be showing a smaller deficit.

Chairman PROXMIRE. Because you are including the trust funds.

Mr. STEIN. That is right. So that you——

Chairman PROXMIRE. There is no element, no free money that is not invested in Federal obligations in trust funds.

Mr. STEIN. I think that is true. Maybe there is a little.

Mr. CAPRON. Only some relatively small cash balances, I believe.

Chairman PROXMIRE. Not enough to make any difference. OK.

Mr. STEIN. Of course, the characteristic you have pointed to has been true of both the cash consolidated budget and the national income accounts, also. I think it would be better to avoid saying we are reducing the debt by this redefinition. The debt will be what it has been.

Chairman PROXMIRE. Of course.

Mr. STEIN. You just say what we are looking at, what we consider important and relevant, is this part of the debt.

Chairman PROXMIRE. Yes. That is right, And there is no question about it. But what you are actually doing in terms of public relations—after all, there are a lot of people concerned about the national debt and have been talking about it for years, and a lot of Members of Congress are concerned about it. And if you have this increasing gross national product and all of a sudden you are able to reduce the national debt, you put this in juxtaposition, you can alleviate some of the apprehensions perhaps, but you are going to get a lot of complaints in the process of alleviation.

Mr. STEIN. Well, I think this is not as radical a transformation as it sounds. I think anybody in the financial community, for example, who is interested in the size of the Federal debt has for a long time known that what you should be interested in is the size of the debt held outside of the Government and has used these numbers.

Chairman PROXMIRE. Very good.

Now I would like to get into another area that Congressman Rumsfeld got into, but I feel very strongly about it.

We felt in 1966 that we had been had. As a matter of fact, as you recall, Ed Dale, in writing the financial summary of the year for the New York Times, said the big economic goof of the decade had occurred in 1966 because the administration did not disclose to us the enormous increase in the cost of the Vietnam war. And, Mr. Capron, you are the first witness I have heard anywhere—and we have challenged the Secretary of the Treasury and every other responsible Federal official—you are the first one who said they didn't do it for national security reasons. And they have been challenged on this by the Armed Services Committee, too—why didn't they give us the facts? And I think it is very hard to justify not correcting data. Quarterly reports are one thing I think we ought to get, because this is one way of getting corrections. If there is no change, there is no change. But if there is a change involving billions of dollars, we ought to know it. And it seems to me if Congress had been told we were going to spend $12 billion, or $14 billion, or $18 billion or closer to $20 billion, we would have been in a much better position to have taken steps—maybe they would have been unwise, but at least we would have taken them on the basis of information with regard to other spending programs and with regard to taxes.

Mr. CAPRON. Let me make clear that this was purely a personal speculation on my part when I suggested that there might have been national security reasons which led the administration to delay in publicly revealing the defense buildup. I was speaking hypothetically, and suggesting there might on some occasion between informing the Congress and public and national security.

Chairman PROXMIRE. We were told again and again the number of people that were sent overseas, and they would tell us almost monthly how many were being brought into the Armed Forces, how many people were actually in Vietnam. There was no mystery about it. And, of course, this has been reported so conspicuously and widely, and with the kind of enemy we are opposing they are not in a position to match forces against ours.

At any rate, on quarterly reports, I would agree in many cases they would not change, but in some cases they would. And it is just so logical that in April you have a better view of what kind of expenditures you are going to have, especially when you have a war going on, than you do in January. In July you have an even better view. And, after all, Congress is in session throughout the year. If we are going to follow policies based on information, I would think that those reports would be most helpful to us.

And, incidentally, as I understand it, the Commission did not—one of the complaints I had was that they did not ask for quarterly reports. They said "more frequent." But partly, I suppose, because Mr. Schultze and possibly because Mr. Fowler were on the Commission they did not, they were not specific. I wish they had been.

Now, let me get into——

Mr. CAPRON. May I just add one thing?

Chairman PROXMIRE. Yes; yes, indeed.

Mr. CAPRON. I think that where specifically identifiable and significant changes are made as a result of administrative decisions, that timely information of this sort should be available to the Congress, unless, as I say, there is in some instance some overriding national security reason to the contrary. And I certainly agree that where an action is taken of a very specific sort, that this should be made available to the Congress. I agree with you to that extent.

I do have some reservations about the real value to the Congress of revising the quarterly economic forecast and making it public because so often these are very uncertain adjustments.

Chairman PROXMIRE. Well, you know, the National Bureau of Economic Research, as I understand it, made a study of the accuracy of economic forecasting, and one of their conclusions, the most impressive conclusion to me was that income forecasting is good in the short range. It is good for a 6-month period, or it has been on the basis of the studies they made. And it was an objective study. It was not an attempt to prove anything. But the forecasting for more than 1 year was poor.

This is another reason why it would seem to me that updating their forecasts constantly would be helpful and would give us a better basis for determining policy. If we are operating on a forecast that is 18 months projected and never corrected during the period, we are much more likely to operate on mistaken assumptions.

So that I should think updating it would be helpful, even though I understand fully that the Congress has to take a longer range look, and so forth, than the administration.

Mr. Stein?

Mr. STEIN. I think the point of my discussion with Mr. Rumsfeld was a little different, and maybe I did not understand him. But I was discussing with him the value of forecasts of quarterly behavior and not the value of frequent revisions of forecasts of annual behavior. I think you should have had in early 1966 a revised estimate of fiscal 1967. But I do not think it was important for you to have an estimate of the first quarter of 1966, second quarter of 1966, third quarter of 1966. I do not think you could make decisions about those things. But you should have known as early as possible that fiscal 1967 was going to be a lot bigger than had earlier been suggested.

Chairman PROXMIRE. Senator Percy?

Senator PERCY. I would just like to say as a matter of record that I am going to be working side by side with the chairman in this attempt to see that we regularize the budget reporting. If we can have the Congress supporting SEC in a requirement that every single public corporation publish every single quarter its sales and its earnings figures as a matter of law now, certainly the public interest would be well served by a similar disclosure to the voters or the citizens or the stockholders of this country. Certain better estimates of revenue are available. And the ludicrous situation that we faced in this country last year where most of us with a small pencil were figuring out monthly how far off that budget was going to be while the Congress sat down here appropriating funds and spending money just as if there had been no change from the official budget estimates that were put in, I think, is very misleading to the Congress and the country. I hope we will get on a regular quarterly basis so there is an absolute requirement that the Budget Bureau come in and report to the Congress and the country every quarter.

Mr. CAPRON. Senator, may I just again for the record note that reports comparable to the SEC requirements placed on private corporations are already available in the daily Treasury statement and the other periodic statements of the Treasury recording past actions. We are talking here about forecasts, and they are different. We do not require corporations to report their expectations quarterly, or even annually.

Senator PERCY. Let me put it this way. I do not know a good board of directors in this country that would not be considered negligent in its responsibilities and duties if it did not require the management of that company to not just report quarterly but monthly, in monthly statements. Even if the board does not meet, such reports can be mailed so that the board can see whether or not in that 30-day period there is a material change in the affairs of the corporation. Therefore, if the Congress can then be considered in a counterpart position of a board of directors, I think it is only logical that we require reporting to us on this interim forecast basis whether in executive session or otherwise.

I think the chairman is a thousand percent right in pressing and pursuing this particular point, and I think it would be in the interest of the Budget Bureau to have such a requirement.

Mr. CAPRON. Well, the chairman has already accomplished a very useful development, it seems to me, in asking for more information, timely information, particularly on defense spending.

Chairman PROXMIRE. The defense indicators are very helpful to us.

Mr. CAPRON. Yes.

Chairman PROXMIRE. They started coming on a monthly basis in July. This is the kind of thing that can be most helpful, but at the same time regular overall quarterly reports, it seems to me, would not constitute a burden on the administration. If there is any national security involved, we would respect that immediately. But even with a national security situation, there are committees of Congress which are cleared for secret matters. The Armed Services Committee and the Atomic Energy Committee, which do a superb job of maintaining secrecy, can be consulted and, of course, leaders of Congress can be told. But in 1966 none of us, nobody, Senator Russell, Senator Stennis, none of them had any idea of what the administration's estimates were on Vietnam until after we had gone home. It was in November of 1966 that we were finally told.

Senator PERCY. I am very happy to yield the balance of my 10 minutes for that eloquent statement on your part.

Chairman PROXMIRE. I am sorry.

Senator PERCY. I would like to ask, coming back to the Commission's report, the Commission recommended that a private——

Chairman PROXMIRE. I yield that time back.

Senator PERCY. I appreciate such generosity on your part. The Commission did suggest that a private research organization be engaged to make these 5-year forecasts.

Would it be as valuable, and what are the pros and cons of having a private organization do that, as against having the discipline again of the Budget Bureau, who ultimately has to assume the responsibility and who could say, "Oh, well, these other estimates were just by this private organization," having them engage in a 3-year or 5-year forecast so we can get a sense of vision as to where we are going and what the planning is of the administration?

Mr. CAPRON. Well, I will take one try at this.

I think we should be clear what kind of longer term, say, 5-year forecasts we are talking about. As part of the major push that is now going on within the executive branch to implement the so-called programing-planning-budgeting system, there will in the next few years be available in all program areas 5-year forecasts of the expected program development in each of these areas, including financial expenditure data and the like. These will be revised annually so that they will always be 5 years ahead.

I think it is a very hard question which the Commission explicitly recognizes—and I believe that Mr. Kennedy discussed this briefly when he was here the other day—as to whether or not those forecasts in any official kind of form can realistically be transmitted to the Congress because of the very real problem that this presents to a President. Even though you write all over these forecasts that except for the next year they do not represent a Presidential decision or recommendation to the Congress, that they are just the best guess as of the time of preparation, I think that in many program areas these will be taken as commitments, as political commitments to follow through. This will make it very difficult—particularly in some areas where important private interests have a stake in the outcome—for the President to "back away" from a forecast for, say, 2 years in the future if he has put his imprimatur on it, no matter what qualifications he enters with it.

It seems to me that there is the possibility of kind of a compromise here, and I would suggest that Secretary McNamara has perhaps found one viable compromise.

It is my understanding that each year when he meets with the Armed Services Committees he does brief them on the 5-year program force structure planning and discusses this in considerable detail. It is quite different when a secretary or agency head does this than when the President does it. And I think maybe in particular program areas Congress can recieve and should receive the best estimates of the particular agency or department involved as to what these decisions they are recommending now imply or what is going to be required to support that program 2, 3, 4 years in the future.

With regard to the suggestion that a private organization undertake this task, I think in selected areas there are private organizations that have a good deal of program competence and that they might usefully do studies which would be of relevance to congressional decisions. But I think I share with you some skepticism that any private organization can be a substitute for the executive branch itself.

These studies will be interesting and relevant perhaps to particular decisions, but I do not think they are going to give you this kind of big picture you are talking about.

Now, certain organizations—and I call attention particularly to the National Planning Association—have from time to time made serious longer-term projections of Federal expenditures in various program areas. I think these have been useful to the Congress and to the public. But they are not the same thing as something that comes out regularly.

Senator PERCY. If the Commission's recommendations are to be implemented, I would hope that they would be implemented through the Bureau of the Budget. If the Bureau of the Budget wishes to encourage this private outside organization, it would take responsibility for the direction as to what kind of a forecast they want, what part of it they would adjust themselves and take some overall responsibility for it.

Mr. Stein, one last question.

In the Commission's recommended budget financial plan there is a section on means of financing. They discuss the reporting that should be made on new borrowings, but they do not include a requirement that there be a section on the Treasury financing that would have to be done during the fiscal year.

Do you feel that special attention should be given to that? It seems such a tremendous problem and such an important factor right now in the money market in this next 12 months that it would warrant just as much attention in the refinancing programs as raising new funds.

Mr. STEIN. Well, of course, certain things, certain aspects of the refinancing problem for the year ahead are always visible. You know what securities will mature during the year and will have to be refinanced. I think that it would be very difficult and probably unwise for the Treasury to try to set down at the beginning of the year what the forms of its new financing will be during that year. That is the kind of information which is always held secret until 3 o'clock on the afternoon before the issue is offered. To reveal a plan for the year ahead would inhibit the Treasury in an area where they ought to have considerable flexibility.

Basically I think information on the magnitude of the refinancing program that lies ahead for the year in terms of the maturities that are coming up, although that is information which I think can be obtained from the Treasury bulletin, might very well be placed in the budget document.

If I may have 1 minute, I would like to comment on an aspect of this subject that is in the Commission report, the proposal that there should be a statement appended showing what proportion of the increase or decrease in the Federal debt in the preceding year was absorbed by the Federal Reserve, what proportion by the commercial banking system, and what proportion outside the banking system.

I think that is a red herring. I think that too much attention has been paid in the past to how much of the debt is sold to the commercial banks and not sold to the commercial banks, as if that was an indication of whether the method of financing was inflationary or not inflationary. And the Secretaries of Treasury have argued on the basis of this, and I think it is of zero value and only diverts attention from more important matters. It is a very small thing, but I think it is a mistake.

Chairman PROXMIRE. I would like to ask you, Mr. Capron, you said something about early adoption of the basic format.

Now, again, I think it would be very helpful if you could give us a date. Are you talking about the President's presentation of the 1969 budget which he will make in January of next year? You said that the whole thing could be done in two stages—you can anticipate 2 or 3 years before you can put the whole thing into effect. You did not want it broken down too much. Can we get, in your view as an expert having served in the Bureau of the Budget, could we get that, do you think, by January, the basic format?

Mr. CAPRON. The adoption of the format with the understanding that some of the concepts, and particularly the accrual accounting concept, could not be built in by January. Nor would it be possible to break out the subsidy element in Federal lending which the Commission, I think, correctly recommends be capitalized and included as an expenditure item. These two steps particularly—and there may be some others—will take considerable time and effort. But as far as the basic structure of the table—the main table as recommended by the Commission—from my own knowledge, I cannot see why that could not be done in January.

Now, there may be some technical problems here of which in my particular role at the Bureau I never got close to.

Chairman PROXMIRE. Would it take any change in the law by the Congress except this change in the debt definition, perhaps?

Mr. CAPRON. The debt definition certainly does require a change by law.

Chairman PROXMIRE. But that would not prevent the President from going ahead on his own with the basic format.

Mr. CAPRON. Yes. My understanding is that as far as the budget format the President has wide discretion in the budget as he submits it. Therefore I would assume that it does not require any legislative action at all to adopt the general format.

Particular definitions that have a standing in law, such as the public debt definition, clearly do require congressional action. But as far as the basic table and the way it is structured goes with the appropriations and then the two budgets—the expenditure budget and the expenditure budget with lending included, and then the financing—it seems to me that this is something that could be done quite readily.

Chairman PROXMIRE. Of course, it would take an act of Congress, you see, to redefine the debt, and that would be necessary in order to redefine, in effect, the interest payment which would have a significant effect on expenditures and on deficit, and so forth.

Mr. CAPRON. That is right.

Chairman PROXMIRE. Mr. Stein, could I ask you to clarify a little bit in my own mind why the shortrun economic effect is not best reflected by the expenditure account? I understood you to say in your view it was not necessarily best reflected.

Mr. STEIN. Yes. Well, we know, or we believe or think that these loan transactions have a certain effect on the national economy. If the Federal Government is making loans, presumably it enters the business of making loans because it believes that the loans it would make would not have been made otherwise. So that there is kind of a stimulus to activity which results from the Federal Government's engaging in this lending activity.

It is probably true, or at least we think, that per dollar this lending activity does not have as much effect as expenditures and receipts, although there is great variation in the economic effects among expenditures and among kinds of receipts.

Chairman PROXMIRE. One thing, a lot of the—some of the loans probably would not have been made. Some of them would have been made. Some of them were made because it is desirable to make them at a lower rate of interest; for example, college housing. How that would—whether or not you would have roughly the same amount of college housing borrowing without the 3-percent subsidy, we do not know. But anyway, the Congress and the President thinks this is a good public policy to provide that kind of a subsidy.

Mr. STEIN. Yes. I am not answering about the policy, but what the economic effect is. But this is also true about some expenditures. There is some housing that is constructed publicly and appears clearly as an expenditure and might have been constructed privately if it had not been built publicly. But as long as you cannot think that the lending has zero effect, then which of these two budgets gives you a better measure of the economic impact depends on the relative sizes of the effects. Even if we agree that the expenditure effect is bigger than the lending effect, the budget excluding the lending effect will not give you a better measure of the total impact unless the expenditure effect is much bigger than the lending effect. And even then the answer will depend on the relative sizes of these two quantities.

Suppose the expenditure budget as defined by this Commission were always in balance so the deficit was always zero and you had net lending running between minus 10 and plus 10, and so on, billion dollars per year. Then the whole variability of the effect of Federal finance would appear in these loan transactions, and you would certainly have lost something if you left them out.

Ideally, I think we would like to assign weights to these various components of Federal finance and say that an expenditure counts 1.5 times as much as a net loan, but we do not have any idea what these weights are, I think.

Chairman PROXMIRE. So there is no really satisfactory way to solve this problem. But you think that the expenditure account is probably not as good an account as——

Mr. STEIN. No; I would not say that. But I would say that being uncertain about what is the correct answer from that standpoint, I look for some other standpoint for choosing a budget concept, and I say to myself, well, if we put the loan transaction outside the budget so that attention focuses on this particular budget which excludes them, you create an invitation for Congress to finance programs through loans, to convert what might otherwise be expenditure programs into loan programs. Well, I do not think that is a good idea.

Chairman PROXMIRE. As a understand it, though, the Commission was careful to say, to indicate in their judgment the economic effect is better reflected by the expenditure account, but this would not be the figure that they would want to have the Congress rely on as the deficit or surplus.

Mr. STEIN. I do not know whether they can ride both of these horses at once. That is how we get into this problem, by trying to ride too many horses. And I think if they insist on saying, well, it is really this expenditure account that is important in terms of economic impact, and if you think: Do we have to balance the budget as an expenditure account; do we have to raise taxes because of something that is going on in the expenditures account, this other total is going to disappear. Nobody will pay any attention to it. Why should Congress pay attention to it if they are told that no matter what you do on the total it is the expenditure accounts that matter.

Chairman PROXMIRE. You have a lot more faith in the rationality of man than I have. Why should people pay attention to the administrative deficit and surplus? They do because the President decides he wants to use it.

Mr. STEIN. Well, sure.

Chairman PROXMIRE. The same thing will be true here.

Mr. STEIN. The budget will be, in the end, whatever the President says it is and uses consistently as the budget. What I think is that this formulation is set up in a way which invites the President to focus his attention on the expenditure accounts because that is what they will tell him he should make his fiscal decisions on and that that will become the budget.

Mr. CAPRON. Could I enter a note here?

Chairman PROXMIRE. Yes.

Mr. CAPRON. In my own statement to the committee I said that I, as an economist, concerning fiscal policy impact would probably pay primary attention to the expenditure account, but let me be clear what that means and does not mean.

Suppose we take your example of a college housing program. And suppose a part of the President's program recommended a large expansion of this program.

I would certainly want to reflect this recommendation in my analysis, but I would pick it up on the basis of my estimate as to when college housing was actually going to be constructed. Because it is the construction outlays by the universities and colleges that count—and this is another way of making the point that Mr. Stein was making; namely, that the timing impact of most expenditure programs and lending programs is somewhat different.

Obviously the economic impact of the lending program has to be built into your analysis if you are to have a forecast that makes any sense. So I would pick this up in the construction account of the national accounts.

If I thought there was going to be a very rapid expansion in construction as a result of the college housing program, I would certainly want to reflect that.

Chairman PROXMIRE. College housing is a dramatic example of this point.

Mr. CAPRON. Yes, sir.

Chairman PROXMIRE. And I think we can show it by the two options we have before the Housing Subcommittee of the Banking and Currency Committee this year.

Option 1 was to provide for $300 million in loans. Option 2 was, instead, to expend less than $10 million in interest subsidy to pay the difference between the borrowing cost in the private market and the 3 percent subsidized rate.

Now, you get the same amount of construction with either one. The expenditure would only be $10 million in one case and the loan account $300 million, in the other. You get the same amount of construction. So that unless you go beyond to pierce of the veil, as they say, go beyond the rough expenditure figure, you do not have any notion what effect this is going to have on the economy——

Mr. CAPRON. Yes, sir.

Chairman PROXMIRE (continuing). How it would compare with the loan.

Mr. CAPRON. You have made my point better than I did. Thank you. That is exactly what I was trying to point out; that it is the effect on construction activity that we are interested in, regardless of the device that is used by the Congress. They have a choice, and you had a specific one, as you indicated, this year. Depending on which option was used it would have shown up very differently in the budget, but the economic impact would have been no different at all.

Chairman PROXMIRE. Now, let me ask, Mr. Stein, I was somewhat concerned about your statement on—I think it was a very, very interesting observation. Apparently you have done more analysis than others have done——

Mr. STEIN. Oh, I don't think so.

Chairman PROXMIRE (continuing). Than the Commission has done. For example, in going over a previous 12-year period, say, it consistently showed a deficit, the proposed budget did, smaller than any of the three concepts we have had before.

Now, it is my understanding—and the staff is going to work on this and see if we can get the Commission staff to help us with it—it is my understanding that it would show a dramatically and spectacularly smaller deficit this coming year based on all the things that have happened; in other words, much smaller than the $29 to $30 billion deficit that the President proposes—this is likely to be either an inhibition or an attraction to the President next January. At any rate, it is a factor that would suggest to me that over the years if you could take enough years there is no reason why this should—that I can see, no basic reason, no conceptual reason why this should show either a larger deficit or a smaller deficit. You even it out over the whole period. I mean, we are not leaving out anything, are we?

Mr. STEIN. I think you are right about that with respect to most of these accounts, and I did not do any analysis except to add up numbers that are on page 92 of the Commission's report to find out what the cumulative deficits were in these various accounts. And certainly many of the divergencies are peculiar to this particular period.

I think there will be a systematic difference between the expenditure account and the total because as long as net lending is positive the deficit on the total budget will be larger than the deficit on the expenditure account. And I think we have every reason to expect that net lending will be positive. But with respect to the difference between the total and these other accounts, I think this will vary and there is probably, as you say, no conceptual reason why the other deposits should be larger.

Chairman PROXMIRE. Well, I am relieved.

Then I just have one final question, and that is with regard to the high employment surplus concept, which, I agree, has been enormously useful and is a new concept. I assume that one reason why it has kind of disappeared in discussion and dialog in the last year or two is because we have been at a level which the administration wanted to find as high employment.

Isn't 4 percent considered a high employment level at the present time, 4.1, 3.9 percent? It has varied around 4 percent for almost a year now. So that the high employment surplus figure would be close to the actual surplus figure; would it not?

Mr. STEIN. Well, maybe I am a little more cynical. There is another problem, you see, in defining the high employment surplus, and that is what are you gcing to use for the price level. And while we have seen for some time around the 4 percent unemployment level, prices have been rising rather rapidly. And if we had defined the high employment surplus as the surplus we would get with high employment and with stable prices, or with the prices of some early period, we would probably find that the high employment surplus was smaller than the actual surplus. And that would have been embarrassing. So my interpretation is it became convenient to drop this number. It was a very helpful number as long as the high employment surplus was much bigger than the actual.

Also, there is a certain arbitrariness about defining the price level at which you are going to measure the high employment surplus where there did not seem to be much arbitrariness about defining the unemployment rate.

Chairman PROXMIRE. Of course, so much depends on what you pick as the unemployment rate, though, too. This committee unanimously decided that 3½ percent should be our short-term goal, and 3 percent our long-term goal. Four percent does seem to settle for an unfortunate amount of stagnation and very, very high unemployment for many people in our society.

I notice that Leon Keyserling, in his recent comments on the economy says that we have a $40 billion GNP gap right now, that we are functioning at far below the level we should function at. But I guess we just have to rely on whatever the administration in power decides is an unemployment rate at which you can have stable prices.

Mr. STEIN. Well, from the standpoint of the concept of the high employment surplus, it does not really matter within some considerable range what number you take, what unemployment rate, as long as you keep that constant. In other words, you could do the same thing at 3 percent if you had some reason for doing that. What we are mainly interested in, I think, is variations in the size of the surplus at some standard rate of unemployment. It is just like should we measure the boiling point of water at sea level or at 7,000 feet altitude.

Chairman PROXMIRE. Yes, but isn't the whole purpose of this so that we can get a clear notion of how much drag there is? For instance, in 1958, when we had unemployment that everybody agreed was too high, then we could determine that even though we were running a deficit in 1958, that there was fiscal drag, because if we had had reasonably good employment, running at 4 percent instead of 5½ or 6 percent unemployment, we would have had a surplus, and therefore to get to that 4 percent level you had to overcome the drag of taxes that are too high in relationship to your spending.

Now, if you design your unemployment rate at 3 percent—conceivably we might today have a balanced budget with 3 percent unemployment, at least closer to it.

Mr. STEIN. Well, the drag arises——

Chairman PROXMIRE. Therefore, you might have some drag right now.

Mr. STEIN. The drag arises from the change in the size of the surplus and not from its level. What was happening, say, in 1957 and the succeeding years was that the amount of the surplus we would have been running at some constant unemployment rate was rising very rapidly. At a 4-percent unemployment rate in 1957, the surplus might have been 3 billion, but by the time we got to 1960 it was over 10. And it was that increase which is a sign of a problem and not the absolute level. And this increase would have been shown if you had measured unemployment at 3 percent or 4 percent. As long as you had kept that unemployment rate stable that you used for measurement purposes, you would have seen an increase in the surplus position of the Government.

Chairman PROXMIRE. At any rate, there is nothing inconsistent with this concept of high employment surplus and using it as a helpful economic policy guide in the proposed budget. You simply complain about the fact that the Commission did not emphasize it, it did not require it as something that should be reported.

Mr. STEIN. That is right.

Chairman PROXMIRE. Well, thank you very, very much. This has been a most enlightening morning. We appreciate it very much.

The committee will stand in recess subject to the call of the Chair. We will have administration witnesses at a later time.

We will also include in the record the statement of Maurice Stans who was unable to be here as scheduled.

(Mr. Stans' statement in full is as follows:)

STATEMENT OF MAURICE H. STANS, FORMER DIRECTOR, BUREAU OF THE BUDGET

Mr. STANS. By way of special introduction to these remarks on the report of the President's Commission on Budget Reform, I would like to acknowledge that I have been an outspoken critic of the structure and format of the Federal budget for some time. Although my term as Director of the Budget expired early in 1961, I have continued to be a student of the annual budget. My strong views on the need for reform were expressed in an article in the Journal of Accountancy in November 1966, and in an interview published in U.S. News & World Report early in January of this year. And I would be less than fair if I did not say that some of the practices of which I have complained existed during my term as Budget Director, although they were not at that time very significant.

At its invitation, I met with the Commission in the course of its work and outlined suggestions for reform of the budget document and concepts, in all involving more than 20 specific propositions. I suggested particularly that the objectives of budget reform should be—

(1) the simplification of the budget document and figures to the maximum extent feasible;

(2) consistency in treatment of similar items;

(3) completeness; to reflect fully the Government activities and financial condition; and

(4) establishment of a statement of budget principles, standards and criteria for application to new and changing conditions.

The ultimate purpose of these objectives would be to produce a document which would not only be more understandable to the public, but which also would be more useful to the Congress.

With all that as background, I am pleased to tell this committee that, with only a few minor reservations, I endorse enthusiastically the Commission's report and its conclusions. It is an admirable answer to the need. It makes proposals that, if given effect, would clear up most of the confusion surrounding government finances. It offers general policies and guidelines that can influence for good the treatment of new budgetary developments that may arise in the future.

Specifically, I endorse these conclusions and proposals:

(1) The concept of a single unified budget in place of the three present budgets;

(2) The conclusion that sales of participating certificates are a means of financing the budget and should not be treated as a reduction of expenditures;

(3) The conclusion that seignorage on new coins does not provide income to the budget but should be treated as a means of financing;

(4) The proposal for ultimate use of the accrual principle in measuring budget expenditures;

(5) The condemnation of any type of separate capital budget;

(6) The suggestion that subsidies in loan programs be separately identified;

(7) The proposal that the means of financing a budget deficit be indicated in the budget summary, and that it be accompanied by an inclusive statement of government and agency debt;

(8) The proposal that receipts of government business-type enterprises and government loan programs be netted against the expenditures to which they relate; and

(9) The various proposals (ch. 8) for improvement in public information about the budget, especially the disclosure of long-range budget projections.

These fundamental improvements, and others outlined in the report, are logical and sound, and are consistent with accounting and budgeting practices of American business.

Having thus expressed wholehearted approval of the report and its recommendations, I feel nevertheless that I should also state a few concerns about the results which would derive from their adoption. In no sense are these questions a subtraction from the highly commendable forward-looking character of the report.

(*a*) Somewhat more emphasis ought to be given to special disclosure of nonrecurring or abnormal items in the budget, and to the effects of changes in timing of transactions or changes in accounting procedure that affect comparisons. The Commission acknowledges that the budget "should continue to call attention" to such items, but I believe they should also be summarized and tallied so that the total abnormalities in any one budget are clearly evident.

(*b*) For more public knowledge of Government contingencies, it would be desirable if the budget document contained two additional tables: (1) a summary disclosure of all contingent liabilities of the Government on guarantees and insurance (the Commission deals only with those guarantees and insurance applicable to loans) and (2) a summary disclosure of the enacted future commitments of the Government to be met in succeeding years (veterans pensions and compensation, social security benefits, retirement benefits and similar obligations for past services, on an actuarial basis) and other contractual commitments (ship subsidies, housing subsidies, "soil bank" contracts, unfunded costs of completing public works, unobligated and obligated balances of previous appropriations, and so on). All these items constitute built-in factors for future budgets and knowledge of their size and impact from time to time, and of their growth, is important to evaluation of budgetary trends.

(*c*) I doubt that the results secured by recording tax revenues on the accrual basis will justify the effort involved in getting the figures or that accrual revenues will provide any better reading of budgetary significance than the actual cash receipts.

(*d*) The separation of loan account disbursements and repayments has one potential danger. I foresee the probability that advocates of greater Government spending will contend that the real Government deficit is the one before net lending expenditures are deducted rather than after, since the loans will eventually be repaid. This would be a fallacious conclusion, since the current net outlay for loans must be financed by the Government, but it will nevertheless have appeal to some. At the least, the Commission's conclusion that "whenever the term 'surplus or deficit' is used, it refers to the total budget" needs heavy emphasis. I would prefer not to see the loan transactions segregated in this manner in the budget summary.

(*e*) Most troublesome to me of all items in the report is the complete submersion of the trust fund accounts. The increases or decreases in trust reserves or liabilities will be included in the single figure of budget surplus or deficit. Two examples will explain this concern. First, whenever old age insurance taxes are raised there may be a period in which receipts substantially exceed outgo; such excess would reduce the budget deficit for that period. Alternatively, there may be a while when outgo from the old age insurance funds exceeds receipts, and in such case the excess would increase the budget deficit. This practice, I believe, destroys the last vestige of the early concept of this as an insurance program, backed by an accumulated fund, and accepts old age benefits as a current tax-and-pay operation. This conclusion is accentuated by the related proposal to eliminate from Government debt figures the amounts held by the trust funds. Second, it treats as normal Government revenues some types of trust fund receipts that are clearly additions to reserve liabilities. I refer to amounts received from banks and savings and loan institutions for deposit insurance, and amounts collected from Government employees or railroad employees for retirement benefits. I doubt that it is right to include such receipts as Government revenues and their annual net fund increases as reductions of the budget deficit.

Perhaps the only substantial question I raise with the Commission's report is on this latter point. I would have preferred a budget summary in three columns—using a concept commonly employed by many Government and nonprofit institutions—by which general fund transactions appeared in a first column, special fund transactions in a second, and the third column (being the total of the two), would conform exactly with the budget table proposed by the Commission. The major difference is that I would term the final figure in the first column (the difference between general fund receipts and expenditures) as the surplus or deficit, and the final figure in the second column (the difference between special fund receipts and expenditures) as an increase or decrease in special fund reserves.

Alternatively, and as an absolute minimum of disclosure, I believe that a footnote identified with the surplus or deficit figure in the Commission's format should state how much of that amount was the result of increases or decreases in trust fund liabilities.

With these few doubts, I repeat my endorsement of the report and commend the Commission for its speedy and effective workmanship. The recommendations in the report, when effective, will go a long way toward the goal of a logical, consistent, technically sound, and understandable budget document for the Federal Government.

SUPPLEMENT

As a supplement to this statement relating to the principles and concepts expressed in the report, I would like to add a few thoughts about implementation of the proposals.

I have not made any attempt to determine which of the recommendations, if any, require new legislation to permit them to become effective. It may be that some of them cannot be adopted without congressional authorization. It may be desirable that some or all of the new principles be enacted in an amendment to the Budget and Accounting Act of 1921. Whether or not legislation is required or desirable, it is clear that full understanding and cooperation of the Congress is imperative to allow the Bureau of the Budget and the various agencies to carry out the Commission's ideas. This is especially true in the use of accrual accounting for expenditures, in the netting of receipts and expenditures in business-type activities and loan programs, in the identification of interest subsidies, and in other elements of the budget in which either no present legislative expression exists or in which legislative provisions are inconsistent in similar situations (such as in provisions that certain receipts be treated as Government revenues while others go to revolving funds).

Furthermore, I think that some of the changes will be more difficult to implement than the Commission seems to expect. The identification and measurement of interest subsidies and provisions for loan losses, the definitions of "business-type or market-oriented" activities, and the transition to an accural basis are complex matters of considerable magnitude and a wide range of variation, and it may take more than a few years to make them effective across the entire Government, and then to adjust reported figures rectroactively for past years to make them comparable. Statistical estimates and approximations may be necessary in some cases while procedures are being refined, and hybrid figures may have to be used. Alternative techniques may have to be developed for some of the detailed specifications in the report, to accomplish the Commission's objectives. For the sake of those who have to perform these chores, I hope the Congress and the public will not expect perfection too soon.

(Whereupon, at 12:20 p.m., the subcommittee adjourned, subject to the call of the Chair.)

REPORT
of the
PRESIDENT'S
COMMISSION
on BUDGET
CONCEPTS

U.S. GOVERNMENT PRINTING OFFICE WASHINGTON : OCTOBER 1967

TABLE OF CONTENTS

NOTE: *Staff Papers and Other Materials Reviewed by the President's Commission* are published as a separate companion document to the present Report.

INDEX OF TABLES

General Notes

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

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LETTER OF TRANSMITTAL

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

MR. PRESIDENT: Your Commission on Budget Concepts presents herewith our recommendations on what we believe to be a truly modern and progressive budget presentation for the Federal Government.

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

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

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

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

The Commission owes a special debt of gratitude to the unselfish cooperation and very real contributions of individual staff members of the Bureau of the Budget, the Treasury Department, the General Accounting Office, several committees of the Congress (most particularly, the Committee on Appropriations of the House of Representatives), the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, the

International Bank for Reconstruction and Development, the International Monetary Fund, the Council of Economic Advisers, the Department of Commerce, the Agency for International Development, the General Services Administration, and the Brookings Institution. The Commission is also deeply indebted to its own small but able staff, particularly Mr. Robert P. Mayo, Staff Director, and Mr. Wilfred Lewis, Jr., Director of Research.

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

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

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

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

Respectfully,

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

OCTOBER 10, 1967.

Chapter 1

INTRODUCTION AND SUMMARY

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

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

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

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

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

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

THE CONCEPT OF THE BUDGET

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

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

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

This argument, however, runs head-on into the opposite argument—that different and competing budgets confuse public and congressional understanding and impede governmental decision-making.

Is there a way out of this dilemma? It is the Commission's belief that there is, and that a unified concept of the budget as described in this Report, and developed at length in Chapter 2, can provide an integrated and comprehensive statement of governmental accounts which will serve usefully the several different purposes required of the budget, while improving its clarity, consistency, and intelligibility.

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

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

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

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

(1) an analysis of the economic impact of the budget, i.e., excluding loans, and

(2) the aggregate figures, i.e., including net lending:

   (a) as a summary of agency and program amounts used by the Congress and the executive in deciding the appropriate allocation of resources to be used by the Government, and

   (b) to provide an accurate measurement of the scope of overall Government financial activity.

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

RECOMMENDED SUMMARY OF THE PRESIDENT'S BUDGET AND FINANCIAL PLAN

I. Budget appropriations:
  Proposed for action by the Congress
  Not requiring action by the Congress
    Total appropriations
II. Budget receipts, expenditures, and lending:
  Receipt-expenditure account:
    Receipts
    Expenditures (excluding net lending)
      Expenditure account surplus or deficit [1]
  Plus: Loan account:
    Loan disbursements
    Loan repayments
      Net lending
  Equals: Total budget:
    Receipts
    Expenditures and net lending
      Budget surplus or deficit
III. Means of financing:
  Borrowing from the public
  Reduction of cash balances, etc.
    Total budget financing
IV. Outstanding Federal securities and Federal loans, end of year:
  Federal securities:
    Gross amount outstanding
    Held by the public
  Federal credit programs:
    Direct loans outstanding
    Guaranteed and insured loans outstanding

Budget appropriations

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

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

Budget receipts, expenditures, and net lending

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

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

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

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

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

Means of financing

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

Outstanding Federal securities and loans

The fourth and final element in the Government's financial plan presents an important group of data on the *level* of Federal borrowing and lending at the end of each year. It shows anticipated outstanding levels of gross

Federal securities, Federal securities held by the public, and Federal credit programs—both direct and guaranteed.

* * *

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

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

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

THE COMMISSION'S MAJOR RECOMMENDATIONS

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

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

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

2. The budget should be thought of as part of a broad financial plan, which includes—in addition to budget appropriations, receipts, expenditures, and net lending—the means of financing the budget deficit (or use of a surplus) and information about borrowing and loan programs of the Government and its agencies.

The Commission has specific and important recommendations affecting each of these components, and all of them should be highlighted in the President's budget message.

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

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

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

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

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

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

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

5. With respect to timing, the Commission recommends that budget expenditures and receipts be reported on an accrual basis instead of the present cash basis.

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

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

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

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

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

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

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

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

[1] See Chapter 5, page 55, for a statement by Secretary Fowler and Director Schultze on this recommendation.

10. The budget summary should include a means of financing section based on the budget deficit or surplus.

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

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

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

13. The Commission strongly recommends *against* a "capital budget" which would provide separate financing of capital or investment expenditures on the one hand and current or operating expenditures on the other. Such a budget would seriously distort the budget as a decision-making tool. Nevertheless, the Commission sees considerable merit in the continued publication and improvement of useful tabulations of capital items in special analyses subordinate to the budget itself (Chapter 3).

* * *

In addition to the major recommendations listed above, the various chapters of this report also include a number of recommendations on other more specific issues.

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

Chapter 2

PURPOSES OF THE BUDGET OF THE UNITED STATES

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

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

While the public cannot be expected to become familiar with all the details and intricacies of the budget, it must be able to participate intelligently in the big decisions that come to focus there: the overall size of government; the relative emphasis on different government programs and activities intended to benefit the Nation; the efficiency and effectiveness of major government programs in the light of their intended purposes; the need for tax increases or the opportunities for tax cuts; and fiscal policies designed to promote national prosperity.

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

The Commission recommends—and this is its most significant recommendation—that a unified budget concept, such as described in this Report, with complementary rather than competing concepts, be adopted;

that this unified concept henceforth be referred to as the Budget of the United States; and that it be consistently adhered to in:

—The President's January budget;

—Publications revising the budget estimates or reporting results at year-end;

—Monthly financial reports from the Treasury on actual budget results;

—Estimates of overall budget results offered by the executive branch in congressional testimony and public statements on the need for tax or public debt legislation; and

—Reports on congressional action on the budget.

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

TWO MAJOR PURPOSES

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

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

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

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

Essentials of a good budget

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

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

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

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

Present shortcomings

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

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

At the same time, the Committees on Appropriations of the Congress, insofar as they have concerned themselves with receipt and expenditure totals at all, have tended to do so within the context of the administrative budget—a group of funds which is incomplete and inadequate as a measure of what the Government does and its economic impact.

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The Commission has devoted a great proportion of its effort to finding a budget concept that could serve the basic purposes of both resource allocation and economic stabilization. It has sought a structure for the budget which would ensure that the interdependencies between these two functions of the budget receive due attention and appreciation by the executive, the Congress, outside specialists, and the general public.

NEED FOR A UNIFIED BUDGET

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

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

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

Need for better integration of expenditure and appropriation information

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

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

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

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

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

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

*See Glossary, beginning page 95, for definitions of these and other special terms used in this Report and in the Commission staff papers and supporting materials published separately.

The Commission recommends the use of the broad concept currently referred to as "new obligational authority" by both the executive branch and the Congress. However, the Commission finds it desirable to rename this broader concept "appropriations," which is simpler to use and to understand, and is not technically inaccurate.

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

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

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

Resources allocation and the Planning-Programming-Budgeting system

As has been stated in explaining the Commission's recommendations for bringing appropriations and expenditures into closer relationship with one another in the budget presentation, one of the two major purposes of the budget is to provide the integrated framework for information and analyses from which the best possible choices can be made in allocating the public's money among competing claims. This means setting priorities and making choices among alternative government programs, both new and old, and deciding what public goals should be pursued through government programs and what should be left to private choice.

The Commission endorses the general approach which has been followed for many years in the President's budget of explaining the broad allocation of government resources in terms of a functional and subfunctional classification of budget expenditures cutting across agency lines.

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

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

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

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

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

ECONOMIC IMPACT OF THE BUDGET

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

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

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

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

Role of lending

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

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

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

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

Making the budget document a more useful fiscal policy statement

To judge the effect of proposed budget changes on the economy, it is also necessary that budget totals be consistent, from one year to the next.

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

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

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

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

The Commission believes that the *high employment surplus* is a budget concept which has served a useful role in increasing understanding of the essentials of budget policies for full employment, and it favors steps to keep the basic ideas embodied in this measure before the Congress and the public.

The Commission points out, however, that if the *high employment surplus* is to be used as a measure of budget impact in a period when demand is strong and prices rising more than normally, some allowance for the effect of rising prices on budget revenues should be made to avoid understating the stimulative impact of the budget.

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

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

SIZE OF GOVERNMENT IN THE TOTAL ECONOMY

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

OTHER PURPOSES OF BUDGET TOTALS

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

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

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

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

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

Chapter 3

COVERAGE OF THE BUDGET

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

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

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

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

The Commission's *major* recommendations with respect to coverage of the budget are:

- ***The budget should, as a general rule, be comprehensive of the full range of Federal activities. Borderline agencies and transactions should be included in the budget unless there are exceptionally persuasive reasons for exclusion. Specifically, the budget should include the transactions of the Federal trust funds which are now outside the administrative budget (although the Commission believes that the identity and integrity of trust funds should be maintained);***
- ***Most agencies and transactions now included in the consolidated cash budget should continue to be reflected in the budget. However, the Commission recommends exclusion from the budget of those Government-sponsored activities which are now completely privately owned, and local receipts and expenditures of the District of Columbia Government;***
- ***The purchase of physical assets should not be set up as a separate capital budget, but should be included in the unified budget.***

THE FEDERAL GOVERNMENT'S BOUNDARY LINES

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

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

Trust funds

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Federal Reserve System

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

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

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

For the above reasons the Commission recommends:

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

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

Government-sponsored enterprises

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

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

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

In the Commission's view, the fact of 100% private ownership argues for excluding the Federal land banks and Federal home loan banks from the budget. The transactions of these agencies are now included on a net basis, at least conceptually, in the consolidated cash budget totals. However, the

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absence of budgetary review means that only rough estimates can be entered in the budget document for forward periods, and the difference between estimated and actual results, particularly for the Federal home loan banks, has introduced significant estimating errors in budget totals due to factors largely beyond the control of the Congress or the executive branch.

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

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

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

District of Columbia Government

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

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

International Monetary Fund

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

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

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

Deposit funds

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

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

The Commission recommends that the Treasury Department and the Bureau of the Budget continue to review and analyze deposit funds, and to remove from the budget totals, those for which removal would be consistent with stating budget expenditures on an accrual basis. There are no doubt some deposit funds which should continue to be included in the

budget. For example, the receipts and expenditures of the Comptroller of the Currency could more logically be regarded as trust fund receipts and expenditures since they reflect clearly governmental functions. The Comptroller of the Currency receives assessments from national banks and uses those receipts specifically to examine and otherwise supervise the activities of those banks.

TRANSACTIONS TO BE INCLUDED IN THE BUDGET

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

Payments to international lending organizations

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

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

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

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

Nonrecurring or one-time receipts

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

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

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

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

A CAPITAL BUDGET

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

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

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

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

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

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

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

EFFECT OF THE COMMISSION'S RECOMMENDATIONS

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

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

[Fiscal years. In billions of dollars]

	1966 actual	1967 estimate	1968 estimate
RECEIPTS			
District of Columbia Government	−0.3	−0.3	−0.3
Total effect on receipts	−.3	−.3	−.3
EXPENDITURES			
Federal land banks	−.6	−.6	−.4
Federal home loan banks	−1.3	−1.0	.6
District of Columbia Government	−.3	−.3	−.4
Transactions with International Monetary Fund	−.1	......	......
Deposit funds, net (other than Comptroller of the Currency) [1]	.5	.2	.1
Total effect on expenditures [2]	−1.8	−1.7	−.1
Increase in budget surplus (+) *or deficit* (−)	+1.5	+1.4	−.2

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

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

CHAPTER 4

ACCOUNTING FOR EXPENDITURES AND RECEIPTS

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

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

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

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

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

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

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

although it recommends further study in the case of individual income and employment taxes.

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

ACCRUAL OF EXPENDITURES

A comprehensive accounting system

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

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

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

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

Disbursements (*checks issued and checks paid*) are necessary measures of Government outgo for Treasury cash management purposes and for analyzing Treasury borrowing requirements.

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

Appropriations, obligations, and costs

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

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

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

The trend toward better accounting

As indicated above, program costs are being increasingly used to measure agency performance. The accurate measurement of program costs requires an accrual accounting system, in which such items as accounts receivable, accounts payable, stocks on hand at the beginning and end of the period, and capital assets are recorded in addition to the normal appropriations, obligations, and cash disbursements. In measuring program costs, it is usually necessary to include estimates of the depreciation on plant and equipment "used" during the period. However, expenditures for the acquisition of new capital goods that are to be used in later periods are not included.

Recognition of the importance of information on program costs for the proper formulation and execution of budget programs led to the requirement—laid down in the 1956 amendments to the Budget and Accounting Procedures Act of 1950—that all agencies of the Federal Government develop and install accrual accounting systems under guidelines prescribed by the General Accounting Office. Under this legislation, there has been steady improvement in Government accounting and financial management. While practices vary somewhat from agency to agency all but a few agencies now use accrual systems. The General Accounting Office has approved a number of these systems. Others are currently before the General Accounting Office for approval, and still others are scheduled to be submitted for approval shortly.

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

The concept of accrued expenditures

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

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

Relationship to present system

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

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

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

Importance of the accrued expenditure concept

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

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

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

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

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

Feasibility and implementation

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

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

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

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

Relation to the national income accounts

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

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

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

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

ACCRUAL OF RECEIPTS

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

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

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

Corporation income taxes

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

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

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

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

Individual income taxes and other receipts

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

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

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

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

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

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

EFFECT OF THE COMMISSION'S RECOMMENDATIONS

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

In implementing the proposed changes, the Commission recommends that budget totals for years in the recent past be adjusted to be on as nearly a consistent basis as possible with the new concepts, even though precise accounting support for such adjustments is lacking. Acceptably good esti-

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

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

[Fiscal years. In billions of dollars]

	1966 actual	1967 estimate	1968 estimate
RECEIPTS			
Excess of tax accruals over cash deposits:			
Corporation income taxes	−0. 7	−3. 9	−0. 7
Other taxes	−. 2	. 1	1. 1
Total effect on receipts	−. 9	−3. 9	+. 4
EXPENDITURES			
Change in checks outstanding and accrued interest	−. 2	1. 2	. 7
Excess of accrued expenditures over checks issued:			
Defense	2. 0	−. 6	−. 1
Nondefense	1. 7	[2] 1. 1	[2] 1. 1
Total effect on expenditures	+3. 5	+1. 7	+1. 6
Increase in budget surplus (+) or deficit (−)	−4. 4	−5. 5	−1. 2

[1] Figures in this table, to a greater extent than most other figures in this Report, are derived from statistical rather than accounting estimates, even for 1966.

[2] Represents average of available data for prior years.

CHAPTER 5

FEDERAL CREDIT PROGRAMS

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

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

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

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

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

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

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

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

SEPARATE TREATMENT OF DIRECT LOANS WITHIN THE BUDGET

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

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

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

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

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[1] See page 55 for a statement by Secretary Fowler and Director Schultze on this recommendation.

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

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

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

LOAN GUARANTEES AND INSURANCE

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

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

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

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

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

APPROPRIATE DEFINITION OF LOAN ACCOUNT IN THE BUDGET

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

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

Loan subsidies

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

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

It is the Commission's recommendation that the full amount of the interest subsidy on loans compared to Treasury borrowing costs be re-

flected and specifically disclosed in the expenditure account of the budget, and furthermore, that it be measured on a capitalized basis at the time the loans are made.

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

Nor are the amounts large in relation to total loan programs as included in the loan account of the budget recommended by the Commission. For example, for the fiscal year 1966, a very rough and unofficial analysis revealed less than $½ billion in capitalized interest subsidy on new loan disbursements of close to $14 billion. The importance of spelling out the amount of loan interest subsidy is, however, not so much in revealing the dollar effect within the budget as in providing a better measuring stick to the government policymakers to help them decide on the relative merits of allocating resources among competing direct loan programs or between loans on the one hand and grants-in-aid or direct expenditures on the other.

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

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

Improvements in Government accounting for loans

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

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

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

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

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

PARTICIPATION CERTIFICATES

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

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

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

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

The participation certificate has also permitted somewhat more flexibility in Treasury financing. First, it has permitted financing outside the oftentimes stringent public debt ceiling, since until the present fiscal year all participation certificates were outside the debt ceiling. In addition, longer-term securities in the form of participation certificates could be offered at times when direct longer-term Treasury borrowing was precluded by the 4¼% interest ceiling on Treasury issues running five years (now seven) or more to maturity. Hence, charges have been made that congressional intentions were being thwarted on both the debt ceiling and the interest rate ceiling, as well as the even more basic criticism that the use of participation certificates effectively buried substantial expansion of an important form of Federal expenditures—namely Federal direct loan programs.

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

The Commission is firm in its conviction, therefore, that participation certificates, regardless of their advantages or disadvantages on other scores, represent a means of financing the budget deficit rather than an offset to expenditures in determining the amount of the deficit to be financed. Participation certificates are reflected in this manner in the figures presented in Chapter 6 and in Tables 6 and 6D in Chapter 9.[1]

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

Chapter 6

FINANCING OF BUDGET DEFICITS

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

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

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

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

The Commission recommends, in the presentation of figures on Federal borrowing, a debt concept that is consistent with the definitions of budget receipts and expenditures spelled out elsewhere in this Report. Basically, added to the present concept of public debt would be securities issued by those Federal agencies whose receipts and expenditures are part of the recommended new budget—producing a concept of "gross debt outstanding." From this total Treasury and agency securities held by those same Federal agencies and by Federal trust funds would be deducted. The new net concept may be referred to as "Federal securities held by the public," with changes referred to as "net Federal borrowing from the public." Figures on both these new concepts should appear in the budget summary.

The Commission does not wish to endorse a public debt ceiling as a means of controlling the budget. However:

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

MEANS OF FINANCING BUDGET DEFICITS

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

Borrowing and changes in cash balances

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

Seigniorage

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

Changes in accounts payable and receivable

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

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

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

In addition to its recommendation that a means of financing statement include data on net borrowing from the public, changes in cash balances, seigniorage, and changes in receivables and payables, the Commission also urges that a simple breakdown of net Federal borrowing from the public be published in the budget document for past years. The Commission recommends specifically that the means of financing statement show the year-to-year change in Federal securities held by the public as among (1) Federal Reserve banks, (2) commercial banks, and (3) nonbank investors. The economic consequences of these three types of borrowing are quite different.

Borrowing from nonbank investors is a direct diversion of private purchasing power from the public to the Treasury. On the other hand, increases in Federal securities held by the Federal Reserve banks may permit an expansion of the money supply rather than siphoning off existing money. Under certain circumstances commercial bank holdings of Government securities may also be a direct reflection of Federal Reserve control over member bank reserves.

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

DEFINITION OF FEDERAL SECURITIES

The Commission points out that a new definition of Federal securities follows naturally from its recommended calculation of the budget deficit or surplus. Compared to present concepts, the appropriate Federal securities concept would include all securities now classified in "Treasury public debt and guaranteed obligations outstanding,"[1] with two exceptions. First, the $20 million of stadium bonds issued by the District of Columbia Armory Board should be excluded. This exclusion follows logically from the Commission's recommendation that the District of Columbia be considered for budget purposes as a unit of State or local government rather than as a part of the Federal Government. Second, noninterest-bearing notes issued by the Treasury to international organizations in recognition of United States Government subscription commitments should be excluded ($3.8 billion as of June 30, 1966), by substituting a nondebt form of documenting the obligation. This is consistent with the Commission's recommendations in Chapter 3 that transactions with the International Monetary Fund not be included in budget receipts and expenditures and that subscriptions to other international organizations be included in the budget only when cash is actually paid.

On the other hand, the means of financing statement and debt outstanding should be expanded to encompass all securities issued by those Federal agencies which are reflected in the definition of budget receipts and expenditures in Chapter 3. The present concept of *public debt and obligations guaranteed*[2] *by the United States* (which already includes Federal agency

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

[2] These are *securities* issued by Government agencies and guaranteed by the Government fully as to payment of principal and interest, and are not to be confused with privately made *loans* guaranteed or insured under Government agency programs.

issues in the form of Federal Housing Administration debentures) should be expanded to include securities issued by the following Federal agencies: Tennessee Valley Authority, Commodity Credit Corporation, and Export-Import Bank, which are wholly-owned corporations or agencies; and Federal intermediate credit banks, banks for cooperatives, and Federal National Mortgage Association secondary market operations, which are mixed-ownership agencies. The Federal home loan banks and Federal land banks, which are excluded from the recommended new budget would also be excluded from the means of financing section but their security issues should be shown as memorandum items.

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

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

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

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

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

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

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

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

THE PUBLIC DEBT LIMIT

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

[1] While they do not, of course, have any objection to the Commission's suggestion that the executive branch may wish to recommend that the structure of the statutory public debt limit be re-examined in the light of the Commission's proposed new budget and debt concepts, the congressional members of the Commission would not want to be understood as now subscribing to the thought of any change in the overall debt limit in advance of careful study by the appropriate committees of the Congress.

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The Commission's recommendations revising the concept of the budget deficit and the parallel revision of debt concepts have a bearing on the structure of the debt limit. The Commission points out that a debt limit which is parallel in structure to the new concept of Federal securities held by the public will make it possible for the Secretary of the Treasury and the Budget Director to relate their Congressional debt limit testimony to the recommended concept of budget receipts, expenditures, and deficit much more understandably. The administrative budget has traditionally and necessarily dominated debt limit hearings, regardless of which budget concept the President has emphasized in January. This has been one of the more confusing aspects of budget presentation.

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

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

TABLE 3.—*Reconciliation of various major concepts of Federal borrowing*

[In billions of dollars]

	As of June 30		
	1966 actual	1967 estimate	1968 estimate
1. Present debt concepts:			
A. Public debt	319.9	326.8	334.8
Plus guaranteed obligations	.5	.5	.6
B. Federal securities (public debt and guaranteed obligations)	320.4	327.3	335.4
Less pre-1917 debt not subject to limit	.3	.2	.2
C. Debt subject to limit	320.1	327.1	335.2
2. Development of new debt concepts:			
A. Public debt (1-A above)	319.9	326.8	334.8
Less noninterest bearing notes to international organizations	3.8	3.3	3.3
Gross public debt (revised)	316.1	323.5	331.6
Less holdings by Federal agencies and trust funds	64.3	72.9	77.9
Public debt held by the public	251.7	250.6	253.6
B. Plus: Federal agency securities:			
Bonds, notes, and debentures	7.7	10.1	11.7
Participation certificates	3.5	6.5	11.1
Gross Federal agency debt	11.2	16.6	22.8
Less holdings by Federal agencies and trust funds	.2	.7	.8
Federal agency debt held by public	11.0	15.9	22.0
C. Equals: Federal securities (recommended concept):			
Gross Federal debt	327.2	340.1	354.3
Less holdings by Federal agencies and trust funds	64.5	73.6	78.7
Federal securities held by the public	262.7	266.5	275.6
Memorandum: Federal land bank and Federal home loan bank securities held by the public	10.4	11.7	11.6

Chapter 7

OFFSETTING RECEIPTS AGAINST EXPENDITURES

The consolidated cash budget expenditures estimated for fiscal year 1968 include $2½ billion of net expenditures for public enterprises, trust enterprises, and Government-sponsored enterprises—while in fact these entities had gross expenditures to the public of $35½ billion. The difference represents $33 billion of receipts from the public which are treated as negative expenditures, rather than positive receipts, in the budget totals, because the grossing and netting rules are based on fund structures. This practice, of course, does not affect the budget surplus or deficit, since overall revenues and expenditures are reduced by equal amounts. It has been frequently suggested that these receipts should be included in the budget as positive receipts rather than as negative expenditures.

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

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

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

Post Office, where the shortfall of postal receipts and the resulting call on general revenues to finance the postal deficit are of interest to the public.

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

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

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

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

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

Rules recommended by the Commission

In the Commission's view, the following categories of receipts which come to the Federal Government are basically "governmental" in character, and should continue to be treated as budget receipts:

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

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

Receipts of Government enterprises and enterprise funds;
Permits and fees;
Hunting and grazing licenses and fees;
Interest, dividends, rents, and royalties;
Sales of products;

Fees and charges for services and benefits of a voluntary character;
Sales of Government property;
Repayments of loans and advances; and
Recoveries and refunds of earlier expenditures.

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

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

REASONS FOR THE COMMISSION'S RECOMMENDATIONS

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

Role of government in the economy

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

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

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

Improvements over present treatment

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

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

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

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

For these reasons, the Commission attaches considerable importance to its recommendation that budget totals follow consistent rules based on the character of the transactions—as distinguished from the technical characteristics of the funding mechanism.

The Commission is not aware of any significant category of public enterprise receipts now netted against expenditures which should be treated gross according to its criterion. However, if closer study should reveal such circumstances, the Commission would recommend that such receipts be treated as receipts rather than negative expenditures in arriving at overall budget totals.

IMPLEMENTATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Employee retirement contributions

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

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

EFFECT OF THE COMMISSION'S RECOMMENDATIONS

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

TABLE 4.—*Effect on the budget of netting and grossing changes recommended by the Commission (compared to present consolidated cash budget)*

[Fiscal years. In billions of dollars]

	1966 actual	1967 estimate	1968 estimate
Administrative budget receipts which would be netted against expenditures:			
Sale of Government property (mostly stockpiles of strategic and critical materials)	−0.9	−0.9	−1.0
Other market-oriented receipts	−1.7	−1.9	−1.7
Trust fund receipts which would be netted against expenditures (military assistance advances)	−.7	−1.1	−1.4
Employee retirement contributions which would be added to receipts and expenditures	+1.1	+1.1	+1.1
Total effect on both receipts and expenditures	−2.2	−2.8	−3.0

CHAPTER 8

PUBLIC INFORMATION ABOUT THE BUDGET

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

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

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

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

Public understanding of the recommended budget concept

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

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

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

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

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

Keeping budget information current

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

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

- ***First, it would be highly useful if the executive branch would, in conjunction with the annual budget presentation, present estimates of aggregate budget expenditures and receipts, and surpluses or deficits, broken into quarterly or semi-annual units, to facilitate economic and financial analysis.*** As the year develops, these estimates should be revised in conjunction with the budget revisions described below. At the same time, the Congress and other users of this information should not expect unattainable precision in such estimates, since the short-run timing of many expenditure flows is most difficult to estimate. Partisan bickering over such estimates could destroy their usefulness. These changes need not involve a complete review of individual agency programs; periodic reviews should, however, be done in a way that will keep the Congress and the public informed on major changes in budget trends.
- ***Second, sometime after the initial presentation of the budget in January, while Congress is still in session, the executive branch should offer to the Congress and the public revised budget estimates.*** These need not come at a fixed date, but should come at a point where the cumulation of political and economic factors affecting the budget make it possible to give a substantially better-informed account of the status of the budget for the new fiscal year than was possible in January when the budget was first transmitted. ***In addition, still later estimates should be published after Congress has completed its work and adjourned.*** The *Midyear Review* was once a fairly well-established and widely appreciated institution. The lateness of congressional adjournment, and particularly of action on appropriation requests, has made it impractical to prepare the *Midyear Review* in most recent years. If the lateness of the congressional adjournment date makes the workload of preparing a full *Review* infeasible, the accuracy and thoroughness of the estimates could be sacrificed somewhat, or the form of release modified, in the interest of getting out at least a somewhat earlier picture than the public would otherwise have in the interim before the new budget is transmitted in January. The agreement made last spring between the Bureau of the Budget and the Joint

Economic Committee to provide revised estimates twice a year should go a substantial distance toward what is required in this area of keeping budget estimates current.

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

The need for longer-term budget projections

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

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

There is no doubt that internal long-range projections are both feasible and useful for many if not most Federal agencies. At present, Federal agencies are required to prepare and submit to the Bureau of the Budget multiyear program and financial plans as part of their regular annual budget submissions. These plans cover at least four years beyond the budget year. They can obviously be of substantial value to agency officials, both in considering their long-run objectives and in their current program management. Similarly, consideration of such plans by the President and his

Executive Office staff improves the decision-making process and should be encouraged. This is true not only for new programs under consideration, but applies as well to programs established years ago which must be regularly reevaluated in terms of current conditions and the future outlook.

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

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

- Such projections are almost sure to be inaccurate, since Federal programs and tax measures change from year to year, as part of the normal political process. Distant prospects for agency programs are inevitably highly tentative. The public might not understand or accept the high degree of variability inevitable in such long-range projections, especially if they are produced by the Government itself.
- Projections made for individual programs and agencies cannot simply be added together in arriving at meaningful totals for the Government as a whole. In fact, one of the most important goals of the budget process is trying to achieve a proper balance between the most desirable total level and the always greater sum of the separate demands for funds for specific programs.
- The President should not be made to appear to commit himself years ahead to program levels on which decisions need not, and indeed should not, be irrevocably made now. It may be politically impossible to make desirable changes later, particularly to retreat to lower program levels once a higher level has been projected. Flexibility in planning is both necessary and desirable.
- Looking far ahead might reduce the desirable emphasis on current legislative issues, and unduly shift attention to debates about more distant consequences of immediately urgent matters.
- The existing workload of the Bureau of the Budget for the annual budget presentation is already staggering, and it might not be possible, even with additional manpower resources, to compile and present in a meaningful manner a well-conceived and considered projection as part of the January budget presentation in the time available after the annual budget decisions are finally made.

On balance, however, the Commission finds the case *for* making and publishing longer-term budget projections very persuasive. First, it recognizes that estimates for some programs are already available. Current law requires that drafts of new legislative proposals of the executive branch estimated to cost more than a million dollars a year be accompanied, when submitted to Congress, by estimated appropriation, expenditure, and per-

86-800 O - 68 - 11

sonnel requirements for each of the first five years under the legislation if it were enacted. Some agencies occasionally furnish longer-run estimates of established programs also. But estimates presently available are scattered and incomplete, and outside parties, who can frequently estimate long-run revenues with tolerable accuracy, have an enormously difficult job trying to assemble a coherent forecast of expenditures for the whole Government.

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

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

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

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

- ***It would also be useful if the Bureau of the Budget should itself issue at some future date, as a staff rather than a Presidential report, a special multi-year projection using ranges based on explicit assumptions and again designed to focus attention on available options.*** Such a publication can be prepared without the time pressures attendant on preparation of the budget document, and periodic updatings should be planned for similar publication.
- ***Meantime, there should be encouragement and extension of the practice, now followed by various Federal agencies, of preparing and publishing multi-year projections of ranges of objectives and accompanying costs.*** Indeed, the preparation of such projections by agencies is an integral part of the Planning-Programming-Budgeting system. Although forward estimates may not be possible for all agencies at this time, an increase in the number for which these were available would be very helpful. Firmer Executive Office guidance should be furnished the agencies in their projection work so that their various economic assumptions will be more uniform, and the respective products more comparable. Also, future costs of new legislative proposals should be presented to the Congress in connection with hearings on such legislation as required by law.
- ***As soon as is practicable, it would be highly desirable for the President to appoint a study group or commission to examine and report on long-term trends in Federal Government programs and finances.*** Such a study should be regarded, not as an academic exercise, but as a guide to various alternatives facing the Nation—and as an aid and stimulus to wise decisions and timely actions. If this type of study in fact proves valuable to decision-makers and to the public, it should be repeated periodically—perhaps every five years.

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

Detailed information in the budget Appendix

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

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

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

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

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

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

Chapter 9

ILLUSTRATIVE TABLES AND RESULTS OF RECOMMENDATIONS

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

Table 5

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

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

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

The *Federal sector of the national income accounts,* like the consolidated cash budget, is comprehensive with respect to transactions of the trust funds. On the other hand—and this is its principal difference from the cash budget—the national income accounts (NIA) budget excludes loans and repayments of loans and other minor amounts of transactions in existing assets. The two Government-sponsored enterprises which are now completely privately owned, the Federal land banks and the Federal home loan banks, which are included in the cash budget, are excluded from the NIA budget. The timing basis for recording receipts and expenditures is another important difference between the NIA and consolidated cash budgets. The NIA budget reports taxes (except for nonwithheld individual taxes) on an accrual basis. The NIA budget reports purchases of goods and services on either a deliveries or accrual basis and includes accrued interest on savings bonds. Compared to the consolidated cash budget, the NIA budget excludes

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

[Fiscal years. In billions of dollars]

	1966 actual	1967 estimate	1968 estimate
Administrative budget:			
Receipts	104. 7	117. 0	126. 9
Expenditures	107. 0	126. 7	135. 0
Surplus (+) or deficit (−)	−2. 3	−9. 7	−8. 1
Receipts from and payments to the public (consolidated cash budget):			
Receipts	134. 5	154. 7	168. 1
Expenditures	137. 8	160. 9	172. 4
Surplus (+) or deficit (−)	−3. 3	−6. 2	−4. 3
Federal sector of national income accounts (NIA budget):			
Receipts	132. 6	149. 8	167. 1
Expenditures	132. 3	153. 6	169. 2
Surplus (+) or deficit (−)	+0. 3	−3. 8	−2. 1

the local receipts and expenditures of the District of Columbia, and treats both employer and employee contributions to retirement funds on a gross basis.

Table 6

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

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

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

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

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

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

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

TABLE 6.—*Recommended summary of the President's budget and financial plan*

[Fiscal years. In billions of dollars]

	1966 actual	1967 estimate	1968 estimate
I. Appropriations (tables 6A and 6B):			
Proposed for action by the Congress	......	14.3	133.2
Not requiring action by the Congress	161.1	173.4	59.6
Total appropriations	161.1	187.7	192.8
II. Receipts, expenditures, and lending:			
Receipt-expenditure account:			
Receipts	131.1	147.7	165.2
Expenditures (excl. net lending)	135.7	155.5	171.1
Expenditure account surplus (+) or deficit (−) [1]	−4.6	−7.8	−5.9
Plus: Loan account:			
Loan disbursements	14.6	18.3	19.0
Loan repayments	10.8	13.1	14.6
Net lending	3.8	5.2	4.4
Equals: Total budget:			
Receipts (table 6C)	131.1	147.7	165.2
Expenditures and net lending (table 6B)	139.5	160.6	175.5
Budget surplus (+) or deficit (−)	−8.4	−12.9	−10.3
III. Means of financing (table 6D):			
Borrowing from the public	3.1	3.8	9.1
Reduction of cash balances, etc	5.2	9.2	1.2
Total budget financing	8.4	12.9	10.3
IV. Outstanding Federal securities and Federal loans, end of year (table 6D):			
Federal securities:			
Gross amount outstanding	327.2	340.1	354.3
Held by the public	262.7	266.5	275.6
Federal credit programs:			
Direct loans outstanding [2]	28.8	34.1	38.5
Guaranteed and insured loans outstanding	95.7	99.0	104.1

[1] See footnote No. 1, page 4.

[2] In loan account.

TABLE 6A.—*Budget appropriations and resulting expenditures*

[Fiscal years. In billions of dollars]

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

* Less than $50 million.

[1] To cover specific requests which might be made later.

[2] Including contract authorizations which require further action before expenditures can take place.

TABLE 6B.—*Summary of budget appropriations, expenditures and net lending, by major function*

[Fiscal years. In billions of dollars]

Function	Expenditures and net lending			Appropriations recommended for 1968
	1966 actual	1967 estimate	1968 estimate	
National defense	59.7	69.6	75.3	79.6
International affairs and finance	4.7	5.6	5.7	5.8
Space research and technology	5.9	5.6	5.3	5.0
Agriculture and agricultural resources	3.5	4.1	4.5	3.6
Natural resources	3.2	3.2	3.5	3.6
Commerce and transportation	7.1	7.7	7.3	9.4
Housing and community development	2.4	3.1	2.7	4.4
Health, labor, and welfare	33.2	39.5	46.6	51.3
Education	2.8	3.9	4.5	7.0
Veterans benefits and services	6.4	7.2	7.5	7.5
Interest [1]	10.0	11.0	11.2	12.3
General government	2.4	2.7	2.7	2.6
Undistributed adjustments [2]	−2.0	−2.8	−1.4	.7
Total	139.5	160.6	175.5	192.8

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

[2] Includes administrative budget receipts becoming negative expenditures, employer contributions to retirement funds, and change in nondefense accounts payable.

TABLE 6C.—*Summary of budget receipts by major source*

[Fiscal years. In billions of dollars]

Source	1966 actual	1967 estimate	1968 estimate
Individual income taxes	55. 4	62. 2	73. 2
Corporation income taxes (*accrued*)	29. 4	30. 5	33. 2
Excise taxes	13. 1	13. 8	13. 7
Employment taxes	20. 0	26. 4	28. 4
Estate and gift taxes	3. 1	3. 1	3. 1
Customs	1. 8	2. 0	2. 1
Deposits by States, unemployment insurance	3. 1	3. 0	3. 0
Veterans' life insurance premiums	. 5	. 5	. 5
Retirement contributions of Federal employees	1. 1	1. 1	1. 1
Other receipts [1]	3. 7	5. 0	6. 9
Total receipts	131. 1	147. 7	165. 2
Amounts under proposed legislation included above:			
Individual income taxes	......	......	3. 4
Corporation income taxes	......	......	1. 3
Excise taxes	......	......	. 2
Employment taxes	......	......	. 2
Other [1]	......	......	. 2
Total	......	......	5. 3

[1] Net of intragovernmental transactions and miscellaneous receipts offset against expenditures and change in accrued taxes receivable other than corporation income taxes.

TABLE 6D.—*Means of financing, outstanding Federal securities and loans*

[Fiscal years. In billions of dollars]

	1966 actual	1967 estimate	1968 estimate
MEANS OF FINANCING			
Borrowing from the public:			
Nonbank investors	2.6	....	....
Commercial banks	−2.6	....	....
Federal Reserve banks	3.1	....	....
Total borrowing from the public	3.1	3.8	9.1
Seigniorage	.6	1.1	.5
Decrease in cash balances and monetary assets	.5	3.4	....
Increase in expenditures accrued but not yet paid[1]	3.1	.8	1.1
Decrease or increase (−) in taxes and other receipts accrued but not yet collected	.9	3.9	−.4
Total budget financing	8.4	12.9	10.3
OUTSTANDING FEDERAL SECURITIES AND LOANS			
(As of the end of the year)			
Gross Federal debt	327.2	340.1	354.3
Less holdings by Federal agencies and trust funds	64.5	73.6	78.7
Federal securities held by the public[2]	262.7	266.5	275.6
Federal credit programs:			
Direct loans outstanding:			
Loan account	28.8	34.1	38.5
Expenditure account	13.2	13.9	14.7
Total	42.1	47.9	53.2
Guaranteed and insured loans outstanding	95.7	99.0	104.1
Memorandum: Federal home loan banks and Federal land banks:			
Direct loans outstanding	11.5	12.9	13.0
Securities held by the public	10.4	11.7	11.6

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

[2] Including Federal Reserve banks.

Table 7

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

Table 8

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

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

[Fiscal years. In billions of dollars]

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

[1] Amounts are approximate only: Actual exclusions will be determined as a result of study by the Treasury and the Bureau of the Budget.

[2] Average of available data for prior years.

[3] Including net lending. Also includes difference between net expenditures in the cash and annexed budgets for the banks for cooperatives, Federal intermediate credit banks, and Federal Deposit Insurance Corporation.

TABLE 8.—*Historical comparison of four concepts of budget totals, 1957–1968* [Fiscal years. In billions of dollars]

	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968
Administrative budget:												
Receipts	70.6	68.6	67.9	77.8	77.7	81.4	86.4	89.5	93.1	104.7	117.0	126.9
Expenditures	69.0	71.4	80.3	76.5	81.5	87.8	92.6	97.7	96.5	107.0	126.7	135.0
Surplus (+) or deficit (−)	+1.6	−2.8	−12.4	+1.2	−3.9	−6.4	−6.3	−8.2	−3.4	−2.3	−9.7	−8.1
Receipts from and payments to the public (consolidated cash budget):												
Receipts	82.1	81.9	81.7	95.1	97.2	101.9	109.7	115.5	119.7	134.5	154.7	168.1
Payments	80.0	83.5	94.8	94.3	99.5	107.7	113.8	120.3	122.4	137.8	160.9	172.4
Surplus (+) or deficit (−)	+2.1	−1.6	−13.1	+0.8	−2.3	−5.8	−4.0	−4.8	−2.7	−3.3	−6.2	−4.3
Federal sector of national income accounts (NIA budget):												
Receipts	80.7	77.9	85.4	94.8	95.3	104.2	110.2	115.5	120.6	132.6	149.8	167.1
Expenditures	76.0	83.1	90.9	91.3	98.0	106.4	111.4	116.9	118.3	132.3	153.6	169.2
Surplus (+) or deficit (−)	+4.7	−5.1	−5.5	+3.5	−2.7	−2.1	−1.2	−1.4	+2.3	+0.3	−3.8	−2.1
Commission's recommended budget:												
Receipt-expenditure account:												
Receipts	80.1	77.5	84.6	94.0	94.3	103.2	109.1	114.5	118.9	131.1	147.7	165.2
Expenditures	77.4	82.8	91.6	91.0	98.3	107.9	113.6	118.4	119.0	135.7	155.5	171.1
Expenditure account surplus (+) or deficit (−)[1]	+2.7	−5.3	−7.0	+3.0	−4.0	−4.7	−4.5	−4.0	−.1	−4.6	−7.8	−5.9
Net lending	1.3	1.5	2.8	1.9	1.2	2.1	−0.2	0.2	1.8	3.8	5.2	4.4
Total budget:												
Receipts	80.1	77.5	84.6	94.0	94.3	103.2	109.1	114.5	118.9	131.1	147.7	165.2
Expenditures	78.7	84.3	94.3	92.9	99.5	110.1	113.4	118.7	120.8	139.5	160.6	175.5
Surplus (+) or deficit (−)	+1.4	−6.8	−9.7	+1.1	−5.2	−6.9	−4.2	−4.2	−1.9	−8.4	−12.9	−10.3

[1] See footnote No. 1, page 4.

GLOSSARY

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

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

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

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

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

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

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

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

ADVANCES—See Prepayments.

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

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

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

AUTHORIZATIONS TO SPEND DEBT RECEIPTS—A form of spending authorization enacted by the Congress permitting an agency or department to borrow money from the public or from the Treasury and spend the proceeds of such borrowings.

BACKDOOR FINANCING—Obligational authority granted by the Congress other than in appropriation acts, usually in the form of contract authorizations or authorizations to spend debt receipts.

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

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

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

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

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

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

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

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

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

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

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

CHECKS OUTSTANDING—Checks issued but not yet paid.

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

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

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

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

CONTINGENT LIABILITY—A conditional commitment which may become an actual liability in consequence of a future event beyond the control of the Government. This includes such items as insured and guaranteed loans and bank deposit insurance.

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

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

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

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

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

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

DEBT LIMIT—See "Public Debt Ceiling."

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

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

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

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

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

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

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

DISCOUNTED PRESENT VALUE—The price that a buyer would be willing to pay for a future benefit or a series of future benefits. The determination of that price involves specifying some rate of interest (rate of discount) to compensate for the fact that the benefits will not be received until some time in the future.

ECONOMIC STABILIZATION POLICIES—Central goverment monetary and fiscal policies designed to bring about high employment, stable growth, and price stability in the national economy, and equilibrium in the international balance of payments. See also "Monetary Policy" and "Fiscal Policy."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

GROSS NATIONAL PRODUCT—Total market value of all final goods and services that the Nation produces in a single year.

GUARANTEED LOANS—Private loans made with an arrangement for the Government to cover part or all of any defaults.

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

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

INSURED LOANS—See "guaranteed loans."

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

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

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

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

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

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

MONETARY ACTIVITIES—See "Monetary Policy."

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

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

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

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

NET—The value of a sum or a transaction after reduction of the total value by related applicable offsets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PUBLIC ENTERPRISES—Business-type activities of the Government which generate receipts to cover, or partially cover, their expenses. Major examples are the Post Office, the Tennessee Valley Authority, and the Commodity Credit Corporation.

REAPPROPRIATIONS—Spending authorizations, made by the Congress, which continue the availability of unused balances which would otherwise expire.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TIMING ADJUSTMENTS—Reconciliations needed to change budget receipt or expenditure totals based on one stage in transactions to totals which reflect a different stage.

TRANSFER PAYMENTS—In national income accounting, payments for which no currently produced goods or services are received in exchange. Major examples are social security benefits and grants to State and local governments.

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

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

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

TREASURY GENERAL FUND—See "General Fund."

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

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

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

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

APPENDIX

Exhibit A

[White House Press Release from the Office of the White House Press Secretary, San Antonio, Texas, March 3, 1967]

Statement by the President

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

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

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

> For many years—under many Administrations—particular aspects of the overall Budget presentation, or the treatment of individual accounts, have been questioned on one ground or another.
>
> In the light of these facts, I believe a thorough and objective review of budgetary concepts is warranted. I therefore intend to seek advice on this subject from a bipartisan group of informed individuals with a background in budgetary matters.

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

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

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

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

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

Exhibit B

Letter of Appointment to Commission Members

The White House,
Washington, March 17, 1967.

Mr. David M. Kennedy,
Chairman of the Board, Continental Illinois National Bank and Trust Company, 231 South La Salle Street, Chicago, Illinois

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

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

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

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

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

A budget is not only a statistical record, but also a planning base and means for exercising control, by the Congress and the Executive Branch.

I hope that the Commission will keep this aspect in mind as well as the other important purposes served by budget information.

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

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

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

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

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

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

Sincerely,

Enclosure

[Similar letters were sent to each Commission member.]

Exhibit C

Commission Membership and Staff

Mr. David M. Kennedy, Chairman of the Board, Continental Illinois National Bank and Trust Company of Chicago.
The Honorable Robert B. Anderson, New York City (Secretary of the Treasury, 1957–60).
The Honorable Frank T. Bow, Ranking Minority Member, Committee on Appropriations, U.S. House of Representatives.
The Honorable Henry H. Fowler, Secretary of the Treasury.
The Honorable Carl Hayden, Chairman, Committee on Appropriations, U.S. Senate.
Mr. Winthrop C. Lenz, Executive Vice President, Merrill, Lynch, Pierce, Fenner & Smith, New York City.
The Honorable George H. Mahon, Chairman, Committee on Appropriations, U.S. House of Representatives.
Professor Paul W. McCracken, The University of Michigan.
The Honorable Charles L. Schultze, Director, Bureau of the Budget.
Professor Carl S. Shoup, Columbia University.
Mr. Leonard S. Silk, Editorial Page Editor and Chairman of the Editorial Board, Business Week.
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