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Volume Author/Editor: Morris A. Copeland

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Chapter Author: Morris A. Copeland

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EVEN BEFORE World War II fiscal policy had come to be a major factor in the business situation; during the war fiscal operations exerted a dominant influence. In the years ahead this influence, though much less than at the wartime peak, will be materially greater than it was in the 'thirties.

Yet there is today no official financial statement designed to summarize the activities of the various federal agencies in such a way that their impact on business conditions can readily be traced. This constitutes a serious gap in our economic information. The financial statement here proposed is designed to fill this gap.

1 The Statement

To reveal the major aspects of fiscal policy that affect the business situation a federal financial statement should have the following characteristics:

1) It should cover the activities of government public service enterprises, credit agencies, and insurance funds as well as general governmental functions.

2) It should reveal transactions with the public, i.e., with all private enterprises, with families and single individuals, with foreigners, and with state and local governments. Transactions between one federal governmental agency and another should be excluded (these can be shown on subsidiary statements in any detail that may seem desirable).

3) Transactions in government debt and transactions in government credit (loans, security holdings, etc.) should be distinguished from other transactions. These other transactions with the public—nondebt and noncredit transactions—are here called 'general transactions' or 'general receipts' and 'general expenditures'.

4) Figures for general transactions should be on a gross basis, i.e., gross general receipts and gross general expenditures in connection with any activity should be shown separately rather than only a net receipt or a net expenditure figure.

5) The detailed headings under which general receipts and general expenditures are reported should be such as to make it easy to relate the several sub-categories to various current series reflecting general business activity.

In these five respects a statement should differ from the basic official statement published on the 15th of each month if it is to bring out the aspects of fiscal policy most pertinent in analyzing business conditions. But to serve this purpose there is one respect in which it should resemble the official statement — it should not be on an accrual basis. A strict cash basis such as is used in the official statement serves the needs of the business analyst better than

an accrual basis; for it avoids the danger of combining under one heading out-of-pocket expenses and expense accruals. But for the business analyst a modified cash basis that shows purchases when they are made instead of when they are paid for—what may be called a cash-and-book-credit basis—is even better. If a federal financial statement is to provide the kind of information needed in interpreting the impact of fiscal policy on business conditions it should be on a cash-and-book-credit basis.¹

In recent years the official financial reports of the federal government have been improved substantially. In addition, various steps have been taken toward providing information of the type called for by the first five criteria just enumerated. Many of these improvements, however, have been supplements to the basic financial statement as it appears in the *Daily Statement of the Treasury* for the 15th of each month, i.e., they are in the nature of memorandum items and have not yet been drawn together into an over-all statement.

Several summary totals are still lacking. No complete official totals of general receipts and general expenditures as defined above have been published. Nor is it possible to find in one place a complete total of cash-on-hand-and-in-banks for the federal government or a complete total of loans and securities in government portfolios.

However, approximate figures for a federal financial statement designed to reveal the impact of fiscal policy on business conditions can be put together from existing information. Annual figures have been compiled for the calendar years 1936 through 1942 (Table 1). This statement presents general receipts and expenditures under headings that facilitate comparisons with current series reflecting business activity. It further shows the opening and closing balances of total cash, total credit extended to the public, and total debt in the hands of the public; and it includes a reconciliation between general receipts and expenditures and the changes in the balances of cash, credit, and debt during the year. Since the figures are estimates, the reconciliation (Part Three) is imperfect; the discrepancy (line u) in 1941 is about \$500 million; in other years, less.

Table 1 differs markedly in detail from the basic official financial statement. It differs also in that in its coverage of federal funds, with a few exceptions to be noted shortly (funds that are really parts of the banking system or of local government), it is comprehensive.²

¹ Obligations incurred is a fourth possible basis, but it is probably not an advisable alternative at present; see last paragraph of Section 4 below.

² In government accounting parlance 'fund' is used very much as 'subsidiary corporation' is used in business.

But the broad plan of this new form of statement is essentially similar to that of the familiar one:³ the cash balance (line d) is equal to the balance in the General Fund plus the bank deposits of federal government corporations and credit agencies. This cash balance is increased by general receipts (line M). Thus general receipts constitute the total sources of funds before borrowing and before the liquidation of cash and credit holdings. The cash balance (line d) is drawn down by general expenditures, i.e., by total uses of funds before debt retirement and new indirect investments (line c); it is replenished by increases in government debt (line l) and excessive balances may be applied to debt retirement.

The general plan of Table 1 differs from that of the basic official financial statement, however, in that the various forms of government credit—loans and other receivables and securities owned—are shown (lines f through i); expansion of government credit draws down the cash balance, contraction builds it up. Part Two thus gives some balance sheet information, but only such as is needed in connection with business conditions analysis. Accrued liability items due to the public, such as insurance policy reserves, are omitted. So are tangible assets; expenditures for acquisition of buildings, equipment, etc. during the year are included in lines Q and S of Part One.

Because Table 1 is on a cash-and-book-credit basis, Part Two includes trade receivables (line f) and trade payables (line k). As a corollary in Part One, purchase and construction expenditures (lines Q and S) represent contractors' billings, not settlements; and sales (line H) include sales on open account; i.e., line H does not reflect account collections. But all other items in Part One are on a cash basis. It is convenient to refer to a financial statement of this type as a 'statement of payments and balances'.

The fundamental features of the proposed statement are that it represents only transactions with the public, that it covers all such general transactions of all federal funds except the local government and monetary funds noted below, and that, while general transactions are on a gross basis, debt and credit transactions appear only on a net-change-in-outstandings-during-the-year basis. It is a consolidated statement covering the activities of federal utility enterprises, credit agencies, and insurance funds, as well as general governmental functions.

³ Line M of Table 1 corresponds to item (a) in the list at the beginning of Section 3; line c to items (b) plus (c); line d to item (e), and line l to item (d).

TABLE I UNITED STATES FEDERAL GOVERNMENT

Including Government Utility Enterprises,
(calendar years;

<u>Item</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>	<u>1938</u>
	PART ONE GENERAL RECEIPTS AND			
	(All Transactions with the Public except			
Receipts:				
Taxes, etc., Collected				
A Individual Income Taxes . . . . .	. . . . .	1,000	1,840	1,620
B Corporation Income & Related Taxes . . . . .	. . . . .	860	1,540	1,500
C Social Security Taxes . . . . .	. . . . .	0	660	670
D Customs & Miscellaneous Taxes, Fees & Fines . . . . .	. . . . .	2,300	2,100	2,000
E Insurance Premiums (Life Ins., Deposit Ins., etc.) . . . . .	. . . . .	140	140	140
Receipts from Sales of Goods & Services n.e.c.				
G Operating Revenues of P.O., TVA, etc. . . . .	. . . . .	740	780	780
H Other Sales of Property & Services . . . . .	. . . . .	0	120	240
I Int. & Div. Received on Farm Credit, Home Owners Loans, etc. ¹ . . . . .	. . . . .	500	430	410
J Rent (on Homes & Farms Temporarily Held, War Plants, etc.) . . . . .	. . . . .	10	30	30
K State Payments into Unemployment Compensation Fund . . . . .	. . . . .	60	560	820
L Miscellaneous Contributions . . . . .	. . . . .	10	0	0
M Total Receipts Other than from Borrowing & the Liquidation of Indirect Investments . . . . .	. . . . .	5,600	8,200	8,300
Expenditures:				
N Payroll, Regular (incl. Military Pay & Allowances) . . . . .	. . . . .	1,900	1,900	1,940
O Payroll, Relief Work . . . . .	. . . . .	2,160	1,640	2,100
P Interest Paid to Public ¹ . . . . .	. . . . .	940	1,020	1,020
Q Contract Construction Costs . . . . .	. . . . .	200	200	240
R Rent (Post Offices & Other Field Offices) . . . . .	. . . . .	20	30	30
S Purchases of Goods & Services n.e.c. . . . .	. . . . .	1,600	1,550	1,700
T Tax Refunds . . . . .	. . . . .	50	60	70
U Unemployment Compensation Benefits . . . . .	. . . . .	0	0	400
V Other Insurance Benefits . . . . .	. . . . .	90	130	210
Aids & Contributions				
X Public Assistance . . . . .	. . . . .	130	220	250
Y Veterans Bonus & Pensions . . . . .	. . . . .	2,740	440	420
Z Farm Benefits . . . . .	. . . . .	290	370	480
a Other Subsidies Paid in Cash . . . . .	. . . . .	0	10	20
b Grants-in-Aid to State & Local Governments, etc. . . . .	. . . . .	480	600	600
c Total Expenditures Other than for Debt Retirement & New Indirect Investments . . . . .	. . . . .	10,600	8,200	9,500
	PART TWO DEBT AND CREDIT POSITION			
d <u>Cash on Hand & in Banks</u>	2,240	1,980	3,020	3,160
<u>Government Credit:</u>				
f Accounts Receivable	0	20	20	20
g Farm Credit	3,700	3,720	3,700	3,840
h Home Owners Loans	3,000	2,940	2,680	2,540
i Other Loans & Securities ^{2, 3}	2,280	4,500	4,480	4,560
j Total Cash and Credit, December 31	14,250	13,150	13,900	14,050
<u>Government Debt:</u>				
k Accounts Payable	80	80	80	100
l Government Debt Issues held by the Public ²	35,500	39,400	40,500	41,900
m Total Due-to-Others, December 31	35,500	39,550	40,550	42,050
n Net Indebtedness, December 31	21,300	26,350	26,650	27,950
	PART THREE RESUME OF			
<u>Sources of Funds:</u>				
o Increment in Net Indebtedness during the Year . . . . .	. . . . .	5,050	300	1,300
p The Part of this Increment Due to Loan Write-Offs & Other Accounting Revaluations . . . . .	. . . . .	50	0	- 50
q Net Funds Obtained through Financing . . . . .	. . . . .	5,050	300	1,350
r General Receipts . . . . .	. . . . .	5,600	8,200	8,300
s Total Sources of Funds . . . . .	. . . . .	10,700	8,400	9,600
<u>Uses of Funds:</u>				
t General Expenditures . . . . .	. . . . .	10,600	8,200	9,500
u Discrepancy (Use not accounted for) . . . . .	. . . . .	100	200	100
v Total Uses of Funds . . . . .	. . . . .	10,700	8,400	9,600

The following are not regarded as parts of the federal government for purposes of this statement: funds of the District of Columbia and of territorial governments, the Exchange Stabilization Fund, the Postal Savings fund, and the gold, silver and circulation account (balance sheet). n.e.c.; not elsewhere classified. Because of rounding, columns may not total precisely.

¹ Interest paid by one federal agency to another is excluded; see note 2.

² Since this statement does not show accrual items, liabilities to the public of an accrual nature such as insurance policy reserves are not reported. Further, since it is a consolidated statement,

CONSOLIDATED FINANCIAL STATEMENT

Credit Agencies, and Insurance Funds
 millions of dollars)

1939	1940	1941	1942	Source Reference	
EXPENDITURES DURING THE YEAR					
Transactions in Government Credit and Government Debt)					
1,240	1,420	1,960	4,560	101-C	A
1,100	1,440	2,940	7,380	101-D	B
780	880	1,040	1,320	101-E	C
2,200	2,500	3,200	3,800	101-F	D
160	180	240	760	(103-C) + (104-C) + (105-J)	E
800	840	920	1,000	(101-I) + (105-I)	G
360	320	700	2,520	(101-H) + (105-G + H)	H
410	400	410	440	(105-D) + (103-B)	I
30	30	60	110	105-E	J
840	860	1,000	1,140	102-D	K
<u>0</u>	<u>0</u>	<u>0</u>	<u>20</u>	105-K	L
8,000	8,800	12,500	23,100	A through L	M
2,080	2,480	3,820	9,220	101-P	N
1,880	1,580	1,220	580	101-Q	O
1,040	1,140	1,200	1,440	(101-R) + (105-O) minus (102-B + 103-A + 104-B + 105-C)	P
320	740	2,840	7,160	(101-T) + (105-P)	Q
30	40	40	130	101-S	R
1,750	2,300	10,050	42,750	(101-U) + (105-Q)	S
80	90	90	100	101-V	T
430	530	360	350	102-H	U
290	330	380	490	(103-G) + (104-H+I+J) + (105-R)	V
280	330	380	390	(101-X) + (105-U)	X
440	440	440	440	(101-Z) + (105-W)	Y
810	770	590	700	101-Y	z
40	130	170	190	105-V	a
<u>740</u>	<u>560</u>	<u>460</u>	<u>640⁴</u>	(101-a) + (105-T)	b
10,200	11,400	22,000	64,600	N through b	c
AT THE END OF THE YEAR					
2,580	2,020	3,660	10,680	(101-g minus k) + (102-M) + (103-J) + (104-N) + (105-Z)	d
40	400	400	1,360	105-a	f
3,620	3,700	3,680	3,420	105-d	g
2,540	2,600	2,640	2,360	105-e	h
<u>4,500</u>	<u>4,540</u>	<u>5,000</u>	<u>5,100</u>	(103-K) + (105-e)	i
13,300	13,250	15,350	22,950	d through i	j
100	- 80 ⁵	780	4,100	105-l	k
<u>44,100</u>	<u>46,400</u>	<u>57,800</u>	<u>103,400</u>	(101-l) + (105-h) minus (102-N + 103-L + 104-O + 105-b)	l
44,150	46,300	58,600	107,500	k + l	m
30,900	33,000	43,200	84,550	m minus j	n
SOURCES AND USES OF FUNDS					
2,900	2,150	10,200	41,350	Increment in n	o
700	-300	150	200	105-o	p
2,200	2,400	10,050	41,150	o minus p	q
<u>8,000</u>	<u>8,800</u>	<u>12,500</u>	<u>23,100</u>	M	r
10,100	11,200	22,500	64,300	q + r	s
10,200	11,400	22,000	64,600	c	t
<u>-100</u>	<u>-200</u>	<u>500</u>	<u>-300</u>	s minus t	u
10,100	11,200	22,500	64,300	t + u	v

special and other government debt issues held by government agencies are excluded from both line 1 and line l; however, line 1 includes \$2,000 million dollars Exchange Stabilization Fund capital, and government debt issues held by this fund and the Postal Savings fund are regarded as obligations held by the public.

³ Obligations of other nations arising out of World War I are not included.

⁴ Includes \$200 million aid to China.

⁵ Indicates that prepayments exceeded accounts payable.