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would advocate developing a single global index of the net federal contribution to community expenditure, an index so adjusted and weighted that it will measure correctly the direction and intensity of the one grand fiscal impulse they conceive as embracing all the constituent impulses imparted by fiscal operations that affect business conditions. Such a view, assuming as it does that, so far as the impact on business conditions is concerned, the whole significance of the various constituent impulses can be measured on a single scale, is one-dimensional. It may well be that much of the time a major part of the significance of these fiscal impulses can be summarized in this simple way. But it seems wise to take account of the possibility that important relations between fiscal operations and business conditions may be overlooked if we confine ourselves to a one-dimensional view.

For this reason, the federal financial statement here proposed does not provide a global index. Rather it attempts to provide something more flexible, a summary analysis of fiscal operations. This analysis can be used in connection with a one-dimensional interpretation. But it can be used also by those who consider it advisable to trace separately the impacts of fiscal operations on each of the various other sectors of our economy.

Thus the information from Table 1 provides a basis for tracing many detailed relations it has not seemed feasible to illustrate more fully here. Federal payrolls can be related to other payroll data; the federal demand for construction work to data on private contract construction; unemployment compensation, relief work payrolls, and public assistance to the volume of unemployment; farm benefits to agricultural income; federal procurement to consumer expenditures and other private demand for goods and services; federal credit to credit data from the balance sheets of banks and other private financial enterprises.

### *3 Relation to Official Reports*

The advantages of the Table 1 form of statement will be clearer if we contrast it to that presented on the 15th of each month in the *Daily Statement of the Treasury*. This basic statement gives detail for five main items pertaining to the General Fund:

a) total 'general and special accounts' receipts into the General Fund (with subcategories by types of receipt);
b) total 'general and special accounts' expenditures from the General Fund chargeable against various appropriations (with subcategories by agency and appropriation item);
c) miscellaneous transactions in the accounts of the General Fund

with other federal funds, i.e., transactions in 'trust and checking accounts' (with subcategories chiefly by agency);

d) gross debt of the General Fund, i.e., 'direct debt' (with subcategories by type of debt and with a statement of transactions in the direct debt);

e) the balance in the General Fund (with details of assets and liabilities).

Changes in the net debt, (d) minus (e), are fully accounted for by (a), (b), and (c).

A balancing statement, it is basically a report on the operations and condition of the General Fund of the Treasury. Prior to World War I nearly all federal fiscal operations were operations of the General Fund. During the war several other important funds developed, and during the depression of the 'thirties the number of large funds in[illegible] Some of these other funds are trust

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in the *Daily Statement of the Treasury* (Table 101, line R) were in 1936 about $140 million more than interest payments to the public as estimated in Table 1; the two were about equal in 1942.

What is true of interest payments is, in varying degrees, true also of other items. For example, there is a material difference between Table 1 and the basic official statement in the debt totals shown. The basic statement reports the gross direct debt. Essentially this represents obligations of the General Fund, both those to the public and those to other federal funds. At the end of 1942 these totaled $108 billion. Table 1 reports direct *and agency* obligations held by the public ($103 billion at the end of 1942).

The figures in the items under Part Two of Table 1 are consolidated totals for various federal funds, including insurance funds and credit agencies as well as the General Fund. Net funds obtained through financing (line q) consequently reflect net funds obtained from the public. This item also reflects the excess of general expenditures over general receipts, but it differs materially from official budget deficit computations. As conceived during the period under review, the official budget deficit was the excess of general and special accounts (non-debt-retirement) expenditures over receipts. In recent years the deficit has been computed by adding to this excess the net expenditures reported under (non-debt) transactions in the checking accounts government corporations and other agencies maintain with the Treasury. From 1937 to 1941 net funds obtained from the public (Table 2, line B, which repeats line q from Table 1) were materially less than the official budget deficit either as currently conceived (line A) or as reckoned at the time (line C).

TABLE 2

Net Federal Funds Obtained through Financing
(millions of dollars)

| | | *1936* | *1937* | *1938* | *1939* | *1940* | *1941* | *1942* |
|---|---|---|---|---|---|---|---|---|
| A | Budget Deficit as Currently Conceived[1] | | | 2,500 | 4,500 | 4,000 | 11,700 | 41,400 |
| B | Net Funds Obtained from the Public through Financing[2] | 5,050 | 300 | 1,350 | 2,200 | 2,400 | 10,050 | 41,150 |
| C | Budget Deficit as Formerly Conceived[3] | 4,900 | 2,000 | 2,400 | 4,000 | 3,800 | 10,200 | 39,600 |
| D | Increase in Social Insurance Funds[4] | 168 | 1,262 | 955 | 1,132 | 1,139 | 1,703 | 2,388 |
| E | Net Funds Obtained through Financing—Gen. & Spec. Accts. & Misc. Federal Funds[5] | 5,200 | 1,600 | 2,200 | 3,400 | 3,500 | 11,800 | 43,500 |

[1] Based on *Daily Treasury Statement.* Firm figures for 1936 and 1937 are not available but line A was apparently below line C in these two years.

[2] Table 1, line q, also line E minus line D. (Because of rounding, line B may not precisely equal line E minus line D.)

[3] Table 101-s. This is the excess of general and special accounts (non-debt-retirement) expenditures over receipts.

[4] Table (102-S) + (103-Q) + (104-T).

[5] Table 101-s minus Table 105-p.

Line B of Table 2 (or line q of Table 1) equals line E, the net borrowing of general and special accounts and miscellaneous federal funds (including the increase in accounts payable), minus line D, the increase in social insurance funds. Most of the social insurance funds are invested in federal obligations, but their entire contribution to the capital markets must be offset against the net borrowing of other federal funds to determine the net financial effect of federal fiscal operations on the rest of the economy. In 1936, since social insurance funds were small, lines B and C (and presumably line A) do not differ greatly. Line B is lower than A or C during 1937-40, chiefly because in line B the increase in social insurance funds is deducted. In 1941-42 the net borrowing of miscellaneous federal funds, not taken into consideration in line C, became substantial. Line B rises $1.5 billion above line C in 1942. Lines A and E refer to approximately the same group of federal funds. But line A does not correctly reflect their net borrowing, because it takes no account of the loans and securities they own and incomplete account of their indebtedness. Thus the net borrowing of these funds (line E) was a billion less in 1939 than that indicated by the current official deficit formula, and in 1942 two billion more.

A second major defect in official financial statements for our present purpose is the scheme of item classification. The detail is anything but well adapted to tracing relations between fiscal operations and business conditions. There is urgent need for information suitable for this purpose, and we shall presently consider how items should be classified if they are to supply such information. For the moment it may suffice to illustrate the difficulties the business conditions analyst encounters in using the basic financial statement. For example, he needs to know the government's demand for commodities, utility services, etc., i.e., to know the volume of federal procurement. Federal procurement is not separately disclosed in the basic financial statement, and when we try to break it out of the various expenditure categories shown we encounter serious difficulties. In general we can be confident that the procurement expenditures of the Army and Navy are included in War and Navy Department expenditures and that most (but not all) relief work project procurement is included in WPA expenditures, although the dollar amounts of these purchases are not separately identifiable in the Treasury expenditure figures. The same applies to many smaller categories of government procurement.

Although the basic official statement does not disclose the amounts of these types of procurement, it can be used in conjunction with other information in estimating them. But when we come to the procurement of the Post Office Department and of government corporations the difficulty of extracting procurement information from basic financial statement expenditure data is somewhat greater.

This added difficulty illustrates a third major defect in existing financial statements for interpreting relations between fiscal operations and business conditions—the practice of netting. In the case of the Post Office the basic financial statement reports merely the postal deficit, not total postal expenditures. When one is attempting to estimate federal procurement and various other expenditure items it would be advantageous if one could find at least an expenditure total known to include these items and known not to have important credit item deductions. For the Post Office, good departmental reports are available. But for several other areas of federal expenditure, because of the practice of netting and the inadequacies of agency reports, it is difficult to get a firm expenditure total. The Maritime Commission is an instance. In the basic financial statement its operations are reported net, i.e., expenditures are reported after deducting receipts (from the public and to some extent from other federal agencies) from gross expenditures, and only a net expenditure is shown.[6] For several of these general and special accounts it is difficult to obtain a firm total expenditure figure. Furthermore, the activities of an important group of federal agencies are reflected in the basic financial statement principally through the net transactions in their checking accounts with the Treasury, e.g., the Commodity Credit Corporation and the Reconstruction Finance Corporation. In both instances, despite supplementary information, it is extremely difficult to obtain firm expenditure totals. We shall return to the subject of netting presently (see Table 3).

There is need for a summary consolidated statement—and a statement that avoids the netting of operating receipts against expenditures—not only to meet the needs of the business conditions analyst but also for a variety of other purposes. Table 1 should be of considerable use for these other purposes. But because of the scheme of account classification that underlies it, it is specially adapted to interpreting the relations between fiscal operations and business conditions.

This scheme of account classification differs from that underlying the basic official statement in various respects. The two most important have to do with the treatment of government credit and the basis on which expenditures are classified.

[6] Occasionally the practice of netting leads to the inclusion of one or more negative expenditure items in total federal expenditures from general and special accounts.

First let us note the differences in the treatment of credit. In the basic official statement general and special account expenditures include various extensions of credit from the General Fund (to other agencies and to the public); to some extent such extensions are not identifiable because they are combined with administrative outlays. Again, some receipts into the General Fund represent repayments of previously advanced credit. Further, other credit operations, some of them on a net basis, are combined with general expenditures under the heading 'Transactions in the checking accounts of government agencies'. Even if data on the volume of credit operations were separately disclosed in full, they would be difficult to interpret for two reasons. Renewals often cannot be sharply distinguished from other credit extensions. In data on volume of operations replacements are almost impossible to distinguish from genuinely new credit. If credit is to be intelligibly reported, it is essential to present it, in the first instance at least, on a balance sheet basis.

In Table 1 credit extensions and contractions have been excluded from general expenditures and general receipts, and credit outstanding as of the end of the year appears in Part Two. This balance sheet presentation provides a clear picture of government credit. Further, the exclusion of credit from Part One makes the information on receipts and expenditures much more meaningful.

The second outstanding difference in method of item classification between the basic official financial statement and Table 1 concerns expenditures. In the former expenditures are classified in general by agency and appropriation item. When expenditures are so classified, year-to-year comparisons are awkward because of changes in government organization. Even when back figures have been reclassified to provide year-to-year comparability, a good deal of detailed knowledge of governmental organization shifts may be required in interpreting them. Furthermore, when expenditures are detailed by appropriation items, they are extremely difficult to relate to current series on industrial production, private payrolls, etc. Of many detailed expenditure items on the basic financial report, it may be said that each includes in unknown proportions payroll, procurement, and contract construction expenditures, and perhaps other objects such as grants-in-aid.

Two chief alternative types of expenditure classification have received attention in recent years—on a functional and on an object basis. The functional basis is precisely what the term suggests, a classification by governmental function; the main categories are broad programs—national defense, agricultural aid, public works, etc. The object basis of classification analyzes government expenditure by object of expenditure; the main categories are payrolls, public assistance, rents, procurement, etc.

For purposes of administrative management a functional classification of expenditures, i.e., by programs, has great advantages. In recent years the *Annual Report of the Secretary of the Treasury* has carried an informational table analyzing general and special accounts expenditures into broad functional categories. The 1948 Budget is presented on the basis of a detailed functional classification recently adopted by the Bureau of the Budget. Broadly viewed, this represents a significant step forward.

However, for the business conditions analyst this type of detail is not much better than detail by agency and appropriation item. Thus the Treasury information table is designed to tell what total, including administrative costs, credit extension, subsidies, etc., has been paid out of general and special accounts for agricultural aid, rather than what aids the government as a whole has given agriculture. Again, a functional classification may charge road construction against the public works program one year and against war expenditures the next. Many expenditure items serve more than one public program. A functional classification might offer a strong temptation to vary the allocation of these items from year to year in accordance with the varying popularity of the several programs. Standard specifications such as those recently adopted by the Bureau of the Budget, if ad hoc amendments are firmly resisted, will avoid much of this temptation. But it will still be difficult to be sure of year-to-year comparability. Nor is it any more satisfactory to compare functional expenditure categories (e.g., military defense, public housing programs, promotion of aviation)[7] than agency-and-appropriation item categories with indexes of business conditions.

When expenditures are classified by object of payment the difficulties with respect to year-to-year comparability are largely avoided. Moreover, a report on expenditures by object yields a good deal of program information, e.g., payments of farm benefits, public assistance, and relief work wages. Consequently, Table 1 should be useful for various purposes. It is perhaps appropriate to note that, while private corporations for some time tended to employ a functional classification in their financial statements, there is evidence that the object type of classification is beginning to come back into favor.[8]

In addition, object-of-payment categories of expenditure are pe-

[7] These three are illustrations of main subheads in the new Budget classification; see *1948 Budget*, pp. 1353 ff.

[8] Cf. George O. May, *Financial Accounting, a Distillation of Experience* (Macmillan, 1943), p. 241.

culiarly appropriate when it is desired to relate fiscal operations to business conditions. They provide precisely the kind of detail needed for comparison with other business indicators—federal payroll data for comparison with other payroll data, etc.

So much for the basic financial statement. Several types of comprehensive financial compilation more nearly in conformity with the five requirements laid down in Section 1 have become available in recent years. Among them four may be cited:

1) Since its inception in 1939 the *Treasury Bulletin* has carried monthly series on cash income and outgo. In these figures interagency transactions and transactions in government credit are eliminated as well as those in government debt. These figures are not, however, complete totals of general receipts and general expenditures, because to some extent receipts are netted against expenditures in their computation. Nor is supporting detail given. But the series do constitute a significant step toward developing measures of 'general receipts' and 'general expenditures'.

The 1946 Budget carried a table showing fiscal year totals (actual for 1944, estimates for 1945 and 1946) very similar to the cash income and cash outgo figures. This table appears also in the 1947 and 1948 Budgets. The two totals are designated respectively 'Receipts From the Public Other than Borrowing' and 'Payments To the Public'. The latter include net loans. Expenditure detail is provided on a broad agency-and-appropriation-item basis.

The first Economic Report of the President under the provisions of the Employment Act of 1946 carries a table analyzing 'Payments (including net loans) to the Public' during the calendar year 1946 and estimated payments during the calendar year 1947. Ten object of expenditure categories are shown: the table has strong resemblances to the expenditure portion of Part One of Table 1.[9]

If we compare general expenditures in Table 1 with expenditures from general and special accounts in the basic federal financial statement and with the Treasury computation of cash outgo (Table 3),

TABLE 3

Federal Expenditures
(millions of dollars)

| | *1936* | *1937* | *1938* | *1939* | *1940* | *1941* | *1942* |
|---|---|---|---|---|---|---|---|
| A From General & Special Accounts | 9,200 | 7,800 | 8,100 | 8,900 | 9,700 | 19,100 | 56,000 |
| B General, as shown in Table 1, line c | 10,600 | 8,200 | 9,500 | 10,200 | 11,400 | 22,000 | 64,600 |
| C Cash Outgo (Treasury Series) | 8,700 | 7,400 | 8,700 | 9,500 | 10,300 | 20,800 | 58,000 |

Line A is taken from the *Daily Treasury Statement;* line C, from the *Treasury Bulletin.*

9 Items corresponding approximately to lines P, (U + V), Y, Z, and (X + b) are shown; payroll is subdivided into civilian and military payroll.

we see that the level of general expenditures (line B) is above that of both the other expenditure totals throughout. While the year-to-year variations are somewhat similar, the drop in line B from 1936 to 1937 is somewhat sharper than the drops in lines A and C. The wartime increase in line B is also sharper, largely because line B is on a contractors' billings basis while lines A and C report cash settlements. Lines B and C differ from line A in that they represent transactions with the public and exclude transactions in government credit. Line B is adjusted also to avoid the netting of accounts in the case of the Post Office and various federal government corporations; line C is not.

2) The Treasury Department has established a periodic report covering the ownership of the public debt. Currently it gives at monthly intervals a comprehensive picture of the amounts of both interest-bearing direct debt and guaranteed agency debt in the hands of various public and private holders.

3) Beginning June 30, 1935 the Treasury has compiled a balance sheet for government corporations and credit agencies. Since June 30, 1945, this compilation has been published quarterly; during the preceding seven years it had been published monthly. While the balance sheet is on a partly consolidated basis, a substantially complete consolidation can be derived from it to provide a statement of federal credit extended to the public by the corporations and agencies it covers. However, its coverage is not quite complete. It omits some credit extended to the public by the United States Government Life Insurance Fund and also the government's investment in the Exchange Stabilization Fund. To complete the picture of federal credit extended to the public, these items must be added to the credit extended by federal corporations and credit agencies.

4) For several years the Treasury had been compiling monthly statements of sources and uses of funds for certain government corporations and agencies. Beginning with the fiscal year 1945, this compilation has substantially improved. Operating statements and statements of sources and uses of funds covering nearly all government corporations and credit agencies have been made available quarterly. The tie-in between this information and balance sheet data for these agencies has been greatly strengthened.

The Government Corporation Control Act of 1945 brought something like a hundred federal government corporations under the jurisdiction of the Treasury and the General Accounting Office, and all except mixed-ownership corporations under the jurisdiction of the Budget Bureau. As a result, the 1947 Budget included a Supplement which presents a consolidated financial statement (actual for

1945, estimates for 1946 and 1947) for wholly owned federal corporations. This compilation was included in the main Budget document for 1948. It constitutes a valuable addition to our information concerning the corporations covered. The Treasury statements for government corporations and credit agencies, however, cover a somewhat larger area, including mixed ownership corporations and in addition various other agencies whose activities are imperfectly reflected in 'general and special accounts' expenditures.

But all this states only the brighter side of the picture. Prior to the fiscal year 1945 there was a large sector of the federal government—mainly corporations and credit agencies—for which each agency released such operating information as it saw fit, and this information was nowhere combined and summarized into a regular periodic financial report of federal activities as a whole. The Treasury sources and uses statement covered only a part of this sector and was technically not very satisfactory. While beginning with that year most of the agencies whose activities are not adequately revealed by the basic federal financial statement discussed above are included in the revised quarterly corporation and agency reports compiled by the Treasury, it is not easy to combine all the information now available on general transactions with the public in such a way as to avoid double counting, netting, and omissions.

These brief comments imply points of contrast between Table 1 and established federal financial reports. Table 1 has a number of distinctive characteristics that make it especially useful in interpreting the impact of fiscal policy on business conditions. We may summarize these characteristics as follows:

a) General receipts and expenditures. (In this part of Table 1 receipts and expenditures are classified into broad object-of-payment categories. All general receipts and expenditures arising out of transactions with the public are covered. All transactions in federal government debt held by the public and all transactions in federal government credit extended to the public are excluded. So are interagency transactions. As far as the data permit, Table 1 avoids the netting of receipts against expenditures.)
b) Cash, credit, and debt. (This part of Table 1 gives total cash on hand, the amounts of the various types of credit extended to the public and the debt held by the public.)
c) Part Three is a reconciliation of general receipts and expenditures during any accounting period with the opening and closing balances of total cash, credit extended to the public, and debt held by the public.

Table 1 differs radically from the basic official statement. However, a statement along the lines of Table 1 does not call for major changes in accounting practice or appropriation procedure such as a capital budget or accrual accounting would. It is unnecessary here to consider the pros and cons and problems of such major changes; Table 1 stays largely within the existing framework of accounts. However, it is necessary, within that framework, to get a perspective on the myriad of detail with respect to federal funds other than the General Fund so that we can visualize the forest of federal finance in relation to surrounding territory without having our vision obstructed by the trees that make up that forest.

As noted above, Table 1, though far more comprehensive in its viewpoint than the basic official financial statement, does not consolidate all federal funds. Certain federal funds have been regarded not as parts of the federal government but as parts of other sectors of the economy: (a) the Treasury currency circulation statement,[10] the Postal Savings fund, and the Exchange Stabilization Fund; and (b) the funds of the government of the District of Columbia and of territorial governments. There are strong economic reasons for regarding the funds under (a) as parts of the banking system and for grouping those under (b) with state and local governments. Furthermore, established usages favor such a procedure; familiar statistical compilations include postal savings with other deposits, consolidate the Treasury circulation statement with Federal Reserve Bank balance sheets, and group the finances of the District of Columbia with those of other cities. The Table 1 financial statement was developed as a member of a set of financial statements, one for each sector of the economy, the whole set being designed to reveal the flow of money payments. In this connection, the case for the treatment accorded the funds listed under (a) and (b) is especially strong. If for other purposes it should seem advisable to include these funds as part of the federal government, this could be done without much difficulty.

[10] The Treasury currency circulation statement may be thought of as a balance sheet which, when consolidated with the balance sheets for the twelve Federal Reserve Banks, yields the balance sheet that appears currently in the *Federal Reserve Bulletin* under the heading 'Member Bank Reserves, Reserve Bank Credit, and Related Items' (see, for example, *Federal Reserve Bulletin, 1946,* p. 495). Details of this statement are presented each month in the analysis of 'U. S. Money Outstanding and in Circulation' (see, for example, *ibid.,* p. 503). Balance sheet information for the Postal Savings System will be found, for example, in *Banking and Monetary Statistics,* p. 519. Strictly speaking, only the balance sheet data of these two federal funds and Postal Savings fund interest receipts and payments are treated as parts of the banking system and therefore as nongovernment funds for purposes of Table 1; administrative expenses in connection with these two funds are included with other general governmental expeditures.

While Table 1 is set up within the framework of existing accounting and appropriation procedures, it does move one step in the direction of a capital budget. It takes account not only of the balance sheet items 'cash on hand' and 'debt outstanding' but also of the balance sheet item 'credit extended'; capital expenditures for indirect investments, such as for the acquisition of loans and securities, are treated in the same way as in an ordinary business financial statement. But capital expenditures for direct investments, for example in new buildings, are grouped with expenditures for current operations under the heading 'general expenditures'. The surplus, or deficit, in 'general receipts' and 'general expenditures' may be said to be intermediate between the official budget deficit (Table 2, line A), and the deficit concept of ordinary business accounting.

Again, while most of the items in Table 1 are on a cash payment basis, one step has been taken in the direction of accrual accounting —line H represents sales, not collections on account of sales. Since other receipt items are substantially on a cash basis, collections can be calculated by subtracting from sales the increment in accounts receivable (line f). A similar comment applies to contract construction costs (line Q) and to purchases of goods and services (line S). Expenditures under these heads represent contractors' billings. They exceed payments by the amount of the increment in accounts payable (line k). Again, an appropriate allocation of accounts payable would make it possible to put lines Q and S on a settlements (cash) basis.

This modification of the conventional governmental accounting basis (to report sales and receivables rather than collections, and contractors' billings, procurement, and payables rather than settlements) is designed to facilitate comparison of Table 1 with the financial reports of business enterprises. Especially important in connection with war expenditures and public works programs, it has the effect of making a government purchase appear in the government accounts at the same time time that the sale appears in the accounts of the seller.[11]

[11] This shift from a cash to a book credit basis involves a technical point. General transactions have been defined above as all transactions with the pubic other than transactions in government credit and transactions in government debt. Purchases and sales on account are here regarded as general transactions, not as transactions in government credit and government debt, although a sale on account inceases government credit and a purchase on account increases government debt. But the settlement of an account payable is here regarded as a transaction in government debt, and the collection of an account receivable as a transaction in government credit. The logic underlying this technical line between general transactions and debt and credit transactions is clearer when one thinks of cash on hand plus accounts receivable minus accounts payable as a single (controlling) account. A sale means a debit to this account (i.e., to cash plus receivables minus payables), and a purchase means a credit to this account no matter whether the purchase or sale is on a cash or a book credit basis. Collections and settlements affect the composition of this total, but not the total itself.