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THE FEDERAL BUDGET PROCESS

Revised

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Introduction

This report outlines the legislative and administrative procedures involved in the Federal budget process. These procedures are the methods by which the magnitude and composition of Government receipts and expenditures are determined.

The primary purpose of the budget is to present the Administration's requests for new spending authority to the Congress. It also contains proposals affecting revenues of the Federal Government. In turn, the budget becomes a basis of decision-making by the Congress as it considers the new spending authority requested.

The President's budget is characterized by a heavy emphasis on the government's outgo -- appropriations, obligations incurred, and outlays. Furthermore, the administration's tax program is traditionally submitted to the Congress at a different, generally later time than the budget. Therefore, largely because of this organizational and separate time sequence, the Federal budget is principally thought of as an expenditure document.

However, although much less emphasis and attention are given to revenue and tax policy in the budget presentation and discussion, they are, in fact, a major determinant of the volume and timing of Federal Government borrowings and repayment of public debt securities. The budget summary tables show the relation between estimated receipts and outlays; requested or anticipated tax changes have been considered in arriving at these estimates.

Any budget is basically a set of plans for future action. The Federal budget documents [1/] are the most inclusive statement of the Federal Government's proposed policy and plans for the budgetary period. They serve several different purposes, some of which are: planning future outlays, reviewing previous outlays, relating estimated outlays and receipts to indicate the need for new borrowing or the possibility of debt reduction, and indicating the fiscal impact of planned government action on the economy. Actually, through the new legislation proposed and new budget authority requested, the budget is indicative of government plans beyond the specific budgetary period.

Not only is the budget a planning instrument used by Congress and Federal agencies, but it is also used for planning purposes by State and local governments, individuals, businesses and other private organizations that will be affected by Government policies and decisions. Many businesses and industries are substantially affected by changes in Government policies. [2/]

1/ Generally, there are four published budget documents submitted to the Congress each January. For fiscal year 1973 these were:

The Budget of the United States Government, 1973. 570 pages.
The Budget of the U.S. Government, 1973--Appendix. 1103 pages.
The U.S. Budget in Brief, 1973. 88 pages.
Special Analyses, Budget of the U.S. Government, 1973. 309 pages.

2/ One economist has pointed out the attachment and dependency of some industries on Government action. Based on 1958 Census of Manufacturers data, shipments to the Federal Government, as a percent of their total shipments for the following industries were: 95 percent for complete aircraft, 75 percent for aircraft propellers, 54 percent for aircraft and missile engines, 39 percent for shipbuilding and repairs, and 38 percent for scientific instruments. Weidenbaum, Murray L. Federal budgeting -- the choice of Government programs. Washington, D.C. American Enterprise Institute, 1964. p. 16.

The purposes which the budget is designed to serve are summarized as follows in the budget special analyses: 1/

> To serve the broadest national objectives, it proposes an allocation of resources between the private and public sectors, within the public sector and, through its effect on investment decisions, within the private sector;
> It is an economic document that reflects the taxing and spending policies of the Government for promoting growth of the national economy, high employment, relative price stability, and strengthening of the Nation's balance-of-payments position;
> It sets forth the President's requests to Congress for appropriation action on existing or new programs, and changes in tax legislation; and
> It is a report to the Congress and the people on how the Government has spent the funds entrusted to it in past years.

The budget document contains various types of data and various totals for receipts and outlays. Included are actual data for the last completed fiscal year, plus revised estimates for the current fiscal year, plus estimates for the forthcoming fiscal year based on current and proposed legislation.

The budget documents are compiled and presented on the unified budget concept. Prior to fiscal year 1969 the budget was formulated and presented principally on the administrative budget concept.

The administrative budget concept corresponded closely to the current Federal funds basis of the unified budget. The administrative budget recorded revenues and expenditures of Federal funds transactions only. All trust fund activities of the Federal Government were excluded from the administrative budget accounts. Administrative budget revenue came from income taxes (individuals and corporations), excise taxes not earmarked for specific accounts such as the highway trust fund, estate and gift taxes, customs duties, and miscellaneous

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1/ Special Analyses, Budget of the United States Government, fiscal year 1973, page 7.

receipts. Administrative budget expenditures were for the historical functions of government, such as national defense, commerce, labor, agriculture, welfare, education, veterans' benefits, international affairs, interest on the public debt and other general government activities. The administrative budget provided a measurement of the operations financed by the Federal Government's own funds. Also, except for the permanent Federal fund appropriations -- largely interest on public debt, the administrative budget expenditures represented those activities which the Congress generally appropriates for on an annual basis. The major criticism of the administrative budget focused on the fact that it covered only "wholly owned" Federal funds and omitted the large and rapidly growing transactions of the Federal trust funds. During the decades of the 1950's and 1960's, there was increasing criticism of the continued use of the administrative budget concept.

Early in 1967 President Johnson appointed a commission to study Federal budget concepts and presentations. This commission rendered its report and recommendations in October 1967. 1/ The President's Commission on Budget Concepts stressed that its most important recommendation was that the budget should be presented on a unified basis and thereby replace the three budget concepts employed previously (the administrative budget, the consolidated cash budget, and the national income accounts budget.) President Johnson adopted this recommendation and in January 1968 submitted the budget (fiscal year 1969) on the unified budget concept. The unified budget has been the form used in compiling and presenting all subsequent Federal budgets.

1/ Report of the President's Commission on Budget Concepts. Washington, U.S. Govt. Print. Off., October 1967, 109 pages.

The major differences in the new unified budget and the three budget concepts it was designed to replace were summarized in the following chart published in the February 1968 issue of the Survey of Current Business.

SUMMARY OF MAJOR DIFFERENCES IN BUDGET CONCEPTS

	New unified budget	National income accounts	Cash budget	Administrative budget
Coverage				
Trust funds	Included	Included	Included	Excluded
District of Columbia	Excluded	Excluded	Included	Excluded
Federal land banks, Federal home loan banks.	Excluded	Excluded	Included	Excluded
Timing				
Receipts	Accrual 1/ *	Personal taxes (payment); all other (chiefly accrual).	Cash collections	Cash collections
Expenditures	Accrual 2/ *	Purchases (delivery); interest (accrual); all other (chiefly checks issued).	Checks paid	Interest (accrual); all other (checks issued).
Treatment of Financial Transactions				
Net lending activities	Included (but shown in sep. loan account) 3/ **	Exluded	Included	Included
Participation certificates	Excluded	Excluded	Included as negative expenditures	Included as negative expenditures
Purchase of foreign currency	Included	Excluded	Included	Included

1/ Recorded on a cash collections basis in fiscal 1969 budget.
2/ Interest recorded on accrual basis in fiscal 1969 budget; all other expenditures recorded on checks issued basis.
3/ The "expenditure account" of the new unified budget excludes net lending as defined by the Budget Bureau, but includes several types of loans excluded in the national income accounts.

Source: U.S. Department of Commerce, Office of Business Economics.

* The recording of unified budget receipts and expenditures on an accrual basis has been indefinitely postponed due to accounting difficulties.

**The separation of loan data and expenditure data in the budget has been abolished.

The consolidated cash budget statement was designed to measure the flow of cash between the public and the Federal Government. It included all Federal funds and all trust funds transactions. The "cash" budget statement was referred to in official budget documents as "receipts from and payments to the public." Since it measured the flow of cash between the public and the Government, the "cash" budget indicated the deficit that would need to be financed by borrowing from the public. There were two major criticisms of the consolidated cash budget:

First, it was considered inadequate as a measure of fiscal policy because it was on a cash basis rather than an accrual basis, and thus it did not reflect the timing of the economic impact of Federal payments and receipts.

Also, it included all Federal loan transactions along with other Federal activities, although loan transactions are generally considered to differ from Federal expenditures in their economic impact.

Current budget documents provide data on the amount and breakdown of Federal receipts and outlays on three different budget concepts. These different budget forms are called: (1) the "Unified Budget," (2) the "Federal Funds Basis," and (3) the "National Income Accounts (NIA) Budget."

The National Income Accounts (NIA) Budget was specifically designed by the Department of Commerce to complement the data on private expenditures and incomes used to build up the official statistics on the gross national product (GNP) and national income, which provide the basis for much economic analysis. The NIA budget expenditures indicate the amount of current economic production of goods and services consumed by the Federal Government. The NIA budget revenues indicate the amount of income withdrawn by the Federal Government from the private sector.

The NIA budget includes expenditures and receipts of both Federal funds and trust funds. However, it differs from the unified budget in that it records the Government's fiscal transactions on an accrual rather than a cash basis and also it excludes all Federal loan transactions because they do not represent additions to income.

The Unified Budget concept combines all programs of the Federal Government and its agencies including transactions of all trust funds (e.g. social security, Federal employees retirement, unemployment, and highway) as well as the regular Federal funds which are closely associated with the earlier concept termed the administrative budget. The unified budget concept of combining trust funds and Federal funds applies to both revenue and expenditures. The unified budget concept combines expenditures and net loans under the term outlays.

Federal fund receipts are those which the government administers as owner; they are related to the historical sources of revenue such as individual and corporation income taxes, estate and gift taxes, customs duties and those excise taxes not earmarked for a specific function or program such as the excise taxes on alcohol and tobacco products.

Federal fund outlays (expenditures and net loans combined) are those primarily associated with what might be termed historical functions of government--national defense, international affairs, service of the public debt, and general government activities relating to legislation, justice, general administration, commerce, transportation, agriculture, labor, education, welfare, health, postal service etc.

The annual level of trust fund transactions, both receipts and outlays, has increased at a very rapid rate in the post World War II period. Annual trust fund payments or outlays have increased from $6.8 billion for fiscal year 1954 to $67.0 billion for fiscal year 1972. Thus, over this eighteen-year span (fiscal years 1954-1972) trust fund outlays have increased almost 10 fold, whereas Federal fund outlays have increased by approximately 2-3/4 times.

Trust fund receipts are paid into accounts established for specific purposes and programs. Trust fund payments are made from these specific accounts. Trust fund receipts are administered by the government in a trustee or fiduciary capacity. The major Federal trust funds are the old-age and survivors insurance, disability insurance, health insurance, unemployment, railroad employees retirement, Federal employees retirement, veterans life insurance, and the highway trust fund.

Trust funds are accounting for an increasing portion of the total budget both as receipts and as outlays. Furthermore, the trust funds for most years have significant surpluses; these surplus trust fund receipts are invested in U.S. Government securities. At the end of fiscal year 1972 $111.5 billion of Federal securities were held by U.S. Government Accounts. The majority of these Federal securities were held by the following major trust funds: Federal Old-Age and Survivors Insurance Trust Fund ($33.2 billion), Civil Service Retirement and Disability Fund ($27.7 billion), Unemployment Trust Fund ($9.8 billion), Federal Disability Insurance Trust Fund ($7.0 billion), National Service Life Insurance Fund ($6.5 billion), and Railroad Retirement Accounts ($4.6 billion).

Table 1 presents a comparison of budget data on the unified budget concept, the Federal funds basis, and the national income accounts (NIA) budget on an annual basis for fiscal years 1954 to 1972. Receipts and expenditures are less and usually the deficits are larger for the Federal funds basis of the budget than the other budget forms, primarily because the trust funds are excluded. In recent years the trust funds have had significant surpluses ranging from approximately

$5 to $10 billion annually. The cumulative deficit on the Federal funds basis for the period, amounts to $167.5 billion compared to $118.7 billion on the unified budget basis. This difference results primarily from the trust funds surpluses included in the unified budget data. It may be noted that the cumulative deficit ($67.1 billion) on the NIA budget is substantially less than for the other budget forms. The smaller NIA deficit primarily is the result of two factors. First, all loan transactions are excluded from the NIA data thus reducing the expenditure levels. Second, the receipts on the NIA budget basis are greater than for the other budget forms because NIA budget data are on an accrual basis. During a period of economic expansion budget receipts on an accrual basis will be greater than on an actual collection basis because the receipts are more closely related to the level of economic activity.

Table 1

COMPARISON OF BUDGET DATA ON THE UNIFIED BUDGET CONCEPT, FEDERAL FUNDS BASIS AND NATIONAL INCOME ACCOUNTS BASIS, FISCAL YEARS 1954-1972
(in billions of dollars)

Fiscal Year	Unified Budget Concept: Receipts	Outlays	Surplus or Deficit (-)	Federal Funds Basis: Receipts	Outlays	Surplus or Deficit (-)	National Income Accounts (NIA) Receipts	Expenditures 1/	Surplus or Deficit (-)
1954	69.7	70.9	- 1.2	62.8	65.9	- 3.1	65.8	74.2	- 8.5
1955	65.5	68.5	- 3.0	58.1	62.3	- 4.2	67.2	67.3	- .1
1956	74.5	70.5	4.1	65.4	63.8	1.6	75.8	69.8	6.0
1957	80.0	76.7	3.2	68.8	67.1	1.6	80.7	76.0	4.7
1958	79.6	82.6	- 2.9	66.6	69.7	- 3.2	77.9	83.1	- 5.1
1959	79.2	92.1	-12.9	65.8	77.1	-11.2	85.4	90.9	- 5.5
1960	92.5	92.2	.3	75.7	74.9	.8	94.8	91.3	3.5
1961	94.4	97.8	- 3.4	75.2	79.3	- 4.2	95.3	98.0	- 2.7
1962	99.7	106.8	- 7.1	79.7	86.6	- 6.9	104.2	106.4	- 2.1
1963	106.6	111.3	- 4.8	83.5	90.1	- 6.6	110.2	111.4	- 1.2
1964	112.7	118.6	- 5.9	87.2	95.8	- 8.6	115.5	116.9	- 1.4
1965	116.8	118.4	- 1.6	90.9	94.8	- 3.9	120.5	118.5	2.0
1966	130.9	134.7	- 3.8	101.4	106.5	- 5.1	132.8	131.9	.9
1967	149.6	158.3	- 8.7	111.8	126.8	-14.9	147.2	154.5	- 7.3
1968	153.7	178.8	-25.2	114.7	143.1	-28.4	160.6	172.5	-11.9
1969	187.8	184.6	3.2	143.2	148.8	- 5.5	190.4	185.7	4.7
1970	193.7	196.6	- 2.8	143.2	156.3	-13.1	195.0	196.3	- 1.3
1971	188.4	211.4	-23.0	133.8	163.7	-29.9	193.0	212.8	-19.7
1972	208.6	231.9	-23.2	148.8	178.0	-29.1	211.0 2/	231.1 2/	-22.1 2/
Total	2,292.9	2,402.7	-118.7	1,839.1	1,950.6	-167.5	2,323.3	2,390.6	-67.1

1/ The national income accounts budget excludes all loan transaction thus the term expenditure is used instead of outlays (expenditures and net loans).

2/ Preliminary; based on seasonally adjusted quarterly data, except for contributions, which have been adjusted for change in the tax law.

Sources: U.S. Office of Management and Budget
U.S. Department of Commerce

The Full Employment Budget is not a budget in the general sense of recording government receipts and outlays, rather it is a concept developed to analyze and measure the impact of the Federal budget on the economy. In discussion of the Federal budgets for fiscal years 1972 and 1973 there has been an increasing emphasis placed on the full employment budget concept. The full employment budget surplus or deficit is determined by comparing adjusted budget outlays not with actual revenues but with the revenues that would be generated if the economy were operating at full employment.

The analysis under a full employment budget concept essentially determines the way Federal receipts and outlays would change as the economy moves toward a "full employment" level. It starts with a level of projected outlays. The projected budget outlays are adjusted to reflect the assumed reductions resulting from lower spending levels for unemployment insurance and public welfare due to the increased level of economic activity. Then, the amount of receipts is calculated at the tax rates planned for the year on a basis of what would be produced if the economy were operating at a "full employment" level; generally, "full employment" level is taken to mean an unemployment rate of 4 percent of the civilian labor force.

These calculations can be made by determining what the gross national product would have to be to produce "full employment." Next, the level of receipts such a gross national product would produce are calculated. Then, these receipts are matched against the adjusted outlays to determine what the budget surplus or deficit would be if the economy were operating at "full employment."

Constitutional Basis for the Federal Budget Process

The Constitution places the responsibility of providing revenues and controlling expenditures on the Congress. The Constitution provides that:

> The Congress shall have Power to lay and collect Taxes, Duties, Imposts, and Excises, to pay the Debts and provide for the common Defense and general Welfare of the United States; ...
>
> To borrow Money on the credit of the United States; ...
>
> To raise and support Armies, but no Appropriation of Money to that Use shall be for a longer Term than two Years; ... 1/
>
> ....
> No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of Receipts and Expenditures of all public Money shall be published from time to time.... 2/

Thus, the basic responsibility for providing revenues and controlling outlays -- the budgetary process -- rests on the Congress.

Evolution of the Federal Budget

The budgetary system in the United States has evolved through many stages to its present state.

In the Treasury Act of 1789 Congress assigned to the Secretary of the Treasury the responsibility for compiling and reporting "estimates of the public revenue and expenditures," but no authority was granted either to review expenditure estimates or to oversee the use of appropriations.

Subsequently, in the next decades, the Congress enacted many laws in an effort to regulate purchasing, contracting, payment of salaries, transportation, and even to limit the rate at which appropriations could be expended. All of these measures proved ineffective.

1/ Constitution of the United States of America, Article 1, Section 8.

2/ Constitution of the United States of America, Article 1, Section 9.

In 1820, Congress passed a law requiring the Secretaries of the Navy and War to submit, annually, on February 1 a statement of their financial needs and the unexpended balances of previous appropriations. In time, such statements, plus additional data, were required from other agencies of the Federal Government.

Under this program, which had grown piecemeal and unplanned, there was no office responsible for formulating a budgetary program for the entire Government. Estimates submitted to Congress were purely the requests of the administrative departments concerned, and there was no coordination or consideration of the relative merit of these requests or of their justification in view of the Government's available resources.

In 1909, Congress passed the Sundry Civil Appropriation Act, which made the President responsible for recommending to it the means by which the annual expenditure estimates might be brought within the amount of estimated revenues. Later that year, President Taft conferred at length with his Cabinet officers on the amounts of their respective requests for the year 1910.

On June 25, 1910, Congress authorized President Taft to appoint a commission which was later to become known as "the President's Commission on Economy and Efficiency." This turned out to be a milestone in the development of the present budget system. On February 26, 1913, President Taft, in order to demonstrate its usefulness, submitted to the Congress a budget prepared with the aid of his Commission on Economy and Efficiency. However, even though this budget reform idea gained a number of supporters, no action was taken until after the end of World War I.

In 1919, Congress passed a budget and accounting bill which provided for a budget system. President Wilson vetoed this bill; he favored the budget system, but he objected on Constitutional grounds to a feature which denied the President the authority to remove the Comptroller General from office. However, virtually the same bill was passed by the next Congress and approved by President Harding on June 10, 1921.

President Harding submitted to the Congress the first presidential budget, containing estimates of both revenues and expenditures, in December 1921. The Budget and Accounting Act of 1921 created the Bureau of the Budget and placed it under the direct supervision of the President, even though it remained physically in the Treasury Department. The Budget Bureau was charged with the responsibility for preventing new activities which would result in useless duplication of work and for the general promotion of economy and efficiency in administration.

In 1939, Congress passed the Reorganization Act of 1939 which established the Executive Office of the President and transferred the Budget Bureau to this Office. Even though the Budget Bureau no longer had any direct connection with the Treasury Department, the Secretary of the Treasury continued and still continues to be in charge of the preparation of the Government's revenue estimates. This is logical inasmuch as the tax collecting services of the Treasury Department are the principal sources of information on revenue estimates.

After World War II, the Hoover Commission recommended further budgetary reforms. The Commission's 1949 report gave strong impetus for the budgetary provisions contained in the National Security Act Amendment of 1949 and for the Budget and Accounting Procedures Act of 1950. The Commission also recommended a revised budget based upon functions, activities, and projects, which it termed a "Performance Budget." The intent of performance budgeting is to make the budget more understandable in terms of policy objectives as related not only to major programs but also to sub-programs. Also, in its 1955 report to the Congress, the Second Hoover Commission recommended a performance (or program) budget, stating that "the performance budget should permit the committees of the Congress to give consideration to both relative size of programs and the question of economy and efficiency."

Although the performance budget recommended by the Hoover Commission was not adopted as such, since 1950 many of the ideas and details of information recommended have evolved as a part of the present budget. This has resulted in a more detailed breakdown of budgetary data, by programs and functions, than was provided previously.

The Bureau of the Budget became the Office of Management and Budget on July 1, 1970, pursuant to Reorganization Plan No. 2 of 1970 and Executive Order 11541, July 1, 1970.

Within a few decades, there has been a dramatic increase in Federal expenditures and in Federal receipts as well. Prior to fiscal year 1917, there was only one year in which the Federal Government spent more than $1 billion and that was at the height of Civil War spending -- fiscal year 1865. During the 1920's Federal expenditures ran about $3 billion annually; then they increased to 6-8 billion dollars annually during the 1930's; for fiscal year 1945, the peak year of World War II spending, they surpassed $98 billion. Based on the new unified budget concept, outlays in the late 1950's ranged from about 80-90 billion dollars annually; and now, they have progressed to the $250 billion level.

The budget embodies decisions of vast impact and importance. Some major budgetary questions today are: How much must we spend as a nation to maintain our national security? How much of these national defense expenditures should we spend on missiles, nuclear weapons, conventional weapons, etc.? How much should we spend on flood control, hydroelectric dams, etc.? Further, which parts of the country should have priority on these public works projects? How much money should we spend on space research, environmental problems, agricultural and natural resources, commerce and transportation, health, welfare, education and other social programs plus many other worthy objectives? Should some of the proposed expenditures be reduced or eliminated; if so, which ones and by how much? These are only a few of the many questions that must be considered in the preparation and authorization of the spending side of the budget.

On the other side of the budget process, revenue policies, there are equally demanding questions to be considered. Understandably, the basic question is: How shall Federal Government spending be financed? However, there are many secondary questions entailed in this total question, for example: Should taxes be high enough to finance all expenditures or should part of the expenditures be financed through borrowing? Should taxes be high enough to provide a suplus of revenues and these be applied to retire some of the national debt? In the event it is decided to change the tax structure, which taxes do you alter: the personal income tax, the corporate income tax, the excise tax, or others?

All of these questions on both the revenue and outlays side of the budget must be considered in light of what effects they will have on general economic conditions. One eminent authority in 1955 summed it up this way:

> The budget is now so large that mismanagement can start an inflation or a depression or can impede the process of economic growth. 1/

Since 1955 budget outlays in relation to the gross national product (GNP) have increased. For fiscal year 1955 budget outlays amounted to 18.1 percent of GNP; for fiscal year 1972 they amounted to 21.3 percent.

1/ Smithies, Arthur. The budgetary process in the United States. New York, McGraw-Hill, 1955. p. 4.

The largest single portion of budget revenue comes from individual income taxes -- \$45.99 of each \$100 for fiscal year 1970, \$40.79 of each \$100 for fiscal year 1971, and \$40.86 of each \$100 for fiscal year 1972. Table 2 presents a breakdown by amounts in millions of dollars and as a percent of the total for the sources of unified budget funds for fiscal years 1970-1972.

A functional breakdown of the outlay side of the budget shows that national defense uses the largest portion of funds -- \$40.84 of each \$100 of total outlays for fiscal year 1970, \$36.73 of each \$100 for fiscal year 1971, and \$33.78 of each \$100 for fiscal year 1972. Table 3, presents a breakdown by amounts in millions of dollars and as a percent of total budget funds used for various functions for fiscal years 1970-1972.

Table 2

SOURCES OF UNIFIED BUDGET FUNDS, FISCAL YEARS 1970-1972

(amounts are expressed in millions of dollars)

Sources of Budget Funds:	1970 Amount	1970 Percent	1971 Amount	1971 Percent	1972 Amount	1972 Percent
Federal funds:						
Individual income taxes	90,412	45.99%	86,230	40.79%	94,737	40.86%
Corporation income taxes	32,829	16.70	26,785	12.67	32,166	13.87
Federal funds excise taxes	10,352	5.27	10,510	4.97	9,506	4.10
Estate and gift taxes	3,644	1.85	3,735	1.77	5,436	2.34
Customs duties	2,430	1.24	2,591	1.23	3,287	1.42
Miscellaneous receipts 1/	3,424	1.74	3,858	1.82	3,633	1.57
Trust Funds:						
Old-age and survivors insurance	29,396	14.95	31,354	14.83	35,132	15.15
Disability insurance	4,063	2.07	4,490	2.12	4,775	2.06
Hospital insurance	4,755	2.42	4,874	2.31	5,205	2.24
Supplemental medical insurance	936	0.48	1,253	0.59	1,340	0.58
Railroad retirement	919	0.47	980	0.46	1,008	0.43
Unemployment insurance	3,464	1.76	3,674	1.74	4,357	1.88
Employees and other retirement contributions	1,764	0.89	1,953	0.93	2,097	0.91
Excise taxes:						
Highway trust fund	5,354	2.72	5,542	2.62	5,322	2.30
Airport and airways trust fund	--	--	563	0.27	649	0.28
Deficit (borrowed funds):	2,845	1.45	23,033	10.89	23,227	10.02
Total	196,588	100%	211,425	100%	231,876	100%

1/ Miscellaneous receipts are derived primarily from deposits of earnings from the Federal Reserve System, these were (in millions of dollars) 1970 - 3,266; 1971 - 3,533; and 1972 - 3,252. Also there are included in the miscellaneous receipts a very small amount of trust funds, these were (in millions of dollars) 1970 - 17; 1971 - 20; and 1972 - 21.

Source: Budgets of the U.S. Government, fiscal years 1972 and 1973 and Final Statement of Receipts and Outlays of the U.S. Government for fiscal year 1972.

Table 3

USES OF UNIFIED BUDGET FUNDS, FISCAL YEARS 1970-1972

(amounts are stated in millions of dollars)

	1970		1971		1972	
	Amount	Percent of Total Outlays	Amount	Percent of Total Outlays	Amount	Percent of Total Outlays
Budget Functions:						
National defense	80,295	40.84%	77,662	36.73%	78,338	33.78%
International affairs and finance	3,570	1.82	2,884	1.36	3,789	1.63
Space research and technology	3,749	1.91	3,381	1.60	3,422	1.48
Agriculture and rural development	6,201	3.15	5,312	2.51	7,061	3.05
Natural resources and environment	2,568	1.31	2,713	1.28	3,759	1.62
Commerce and transportation	9,310	4.74	11,283	5.34	11,194	4.83
Education and manpower	7,289	3.71	8,650	4.09	10,197	4.40
Health	12,907	6.57	14,464	6.84	16,981	7.32
Income security	43,790	22.28	55,704	26.35	64,558	27.84
Veterans benefits and services	8,677	4.41	9,787	4.63	10,747	4.63
Interest	18,312	9.31	19,604	9.27	20,582	8.88
General government	3,336	1.70	3,971	1.88	4,890	2.11
Less undistributed inter-governmental transactions	-6,380	-3.24	-7,376	-3.49	-7,877	-3.39
Total	196,588	100%	211,425	100%	231,876	100%

Source: Budget of the U.S. Government, fiscal year 1973, and Final Statement of Receipts and Outlays of the U.S. Government for fiscal year 1972.

Major Steps in the Federal Budget Process

The formulation, authorization, execution, and reporting of financial data on the Federal budget for any fiscal year covers a period of about thirty months. There can be budgetary actions in process affecting three different fiscal years at one time. For example, in early spring of 1972 departments and agencies of the Federal Government were planning or formulating initial stages of the budget for fiscal year 1974; the Congress was considering supplemental requests for fiscal year 1972 plus revenue, authorization, and appropriation requests for fiscal year 1973; while the Executive Branch of the Federal Government was executing or carrying out legislative authorizations already enacted for fiscal year 1972. Chart 1 shows the major steps and general time intervals involved in the budget process for one fiscal year.

Formulation of the Federal Budget

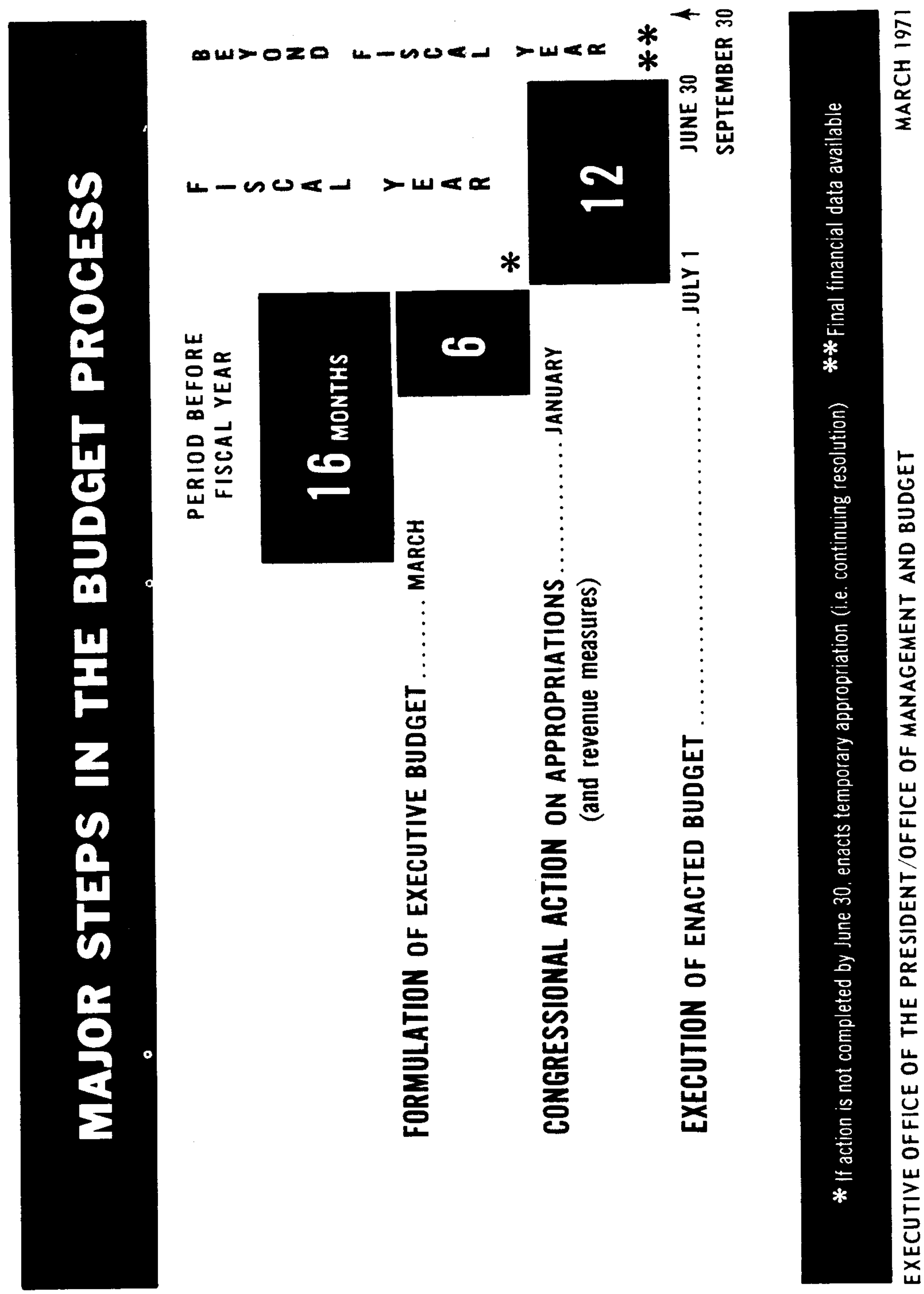
Each January the President transmits to the Congress his recommended budget for the forthcoming fiscal year. In recent years this document has consisted of about 500 pages and is accompanied by an appendix of nearly 1,100 pages and a special analyses budget document of over 300 pages. It contains much detailed information and represents the President's judgment as to the Government programs required to meet the nation's needs during the next fiscal year.

At the time the budget is presented to Congress, it encompasses the culmination of about 10 months of consultations, planning, and administrative actions. For example, the preparation of the budget for fiscal year 1974 began in March 1972 -- 16 months before the fiscal year begins. The budget will be presented to Congress in January 1973 -- more than five months before the fiscal year begins. And by the time the fiscal year ends -- June 30, 1974 -- more than two years will have elapsed since the beginning of this budget cycle.

During the 10 months of preparing and formulating the budget in the Executive Branch, there is a constant exchange of information between the President, his staff, and the executive departments and administrative agencies. Fiscal policies, proposed requests and programs, and evaluations of domestic and international issues are constantly examined and re-examined during this period. This process of examining and re-examining goes on until December when the final questions are resolved on the proposed programs and specific dollar amounts to be requested are determined.

Chart 2 portrays the general development of the budget in the Executive Branch.

Chart I


MAJOR STEPS IN THE BUDGET PROCESS
PERIOD BEFORE FISCAL YEAR
FISCAL YEAR
BEYOND FISCAL YEAR
FORMULATION OF EXECUTIVE BUDGET .... MARCH
16 MONTHS
CONGRESSIONAL ACTION ON APPROPRIATIONS .... JANUARY
(and revenue measures)
6
*
EXECUTION OF ENACTED BUDGET .... JULY 1
12
JUNE 30
**
SEPTEMBER 30
* If action is not completed by June 30, enacts temporary appropriation (i.e. continuing resolution)
** Final financial data available
EXECUTIVE OFFICE OF THE PRESIDENT/OFFICE OF MANAGEMENT AND BUDGET
MARCH 1971

FORMULATION OF EXECUTIVE BUDGET

APPROXIMATE TIMING

APPROXIMATE TIMING	AGENCY	OFFICE OF MANAGEMENT AND BUDGET	THE PRESIDENT
BUDGET POLICY DEVELOPMENT			
MARCH (or earlier in some agencies)		Develops* economic assumptions. Obtains forecasts of international situations. Prepares* fiscal projections	
APRIL MAY	Reviews current operations, program objectives, issues, and future plans in relation to upcoming annual budget. Submits projections of requirements that reflect current operations and future plans; program memoranda and related special analytic studies which identify major issues, alternatives for resolving issues, and comparisons of costs and effectiveness.	Issues instructions and policy guidance on material to be developed for Spring planning review.	Discusses budgetary outlook and policies with the Director of the Office of Management and Budget, and with the Cabinet as appropriate.
MAY		Discusses program developments and management issues, and resulting budgetary effects, with agency heads. Compiles total outlay estimates for comparison with revenue estimates. Develops recommendations for President on fiscal policy*, program issues, and budget levels.	
JUNE	Issues internal instructions on preparation of annual budget estimates.	Issues technical instructions for preparation of annual budget estimates.	Discusses with the Director of the Office of Management and Budget and others as necessary, general budget policy, major program issues, budgetary ceilings, and projections. Establishes general guidelines and agency budgetary ceilings for annual budget.
COMPILATION AND SUBMISSION OF AGENCY ESTIMATES		Conveys President's decisions to agency heads on Government-wide policies and assumptions and the application of policies and budgetary ceilings to individual agencies.	
JULY– SEPTEMBER 30	Allocates budgetary ceiling to programs. Develops and compiles detailed estimates.	Advises and assists agencies on form, language, and structure of appropriations, and on preparation of budget submissions.	
OFFICE OF MANAGEMENT AND BUDGET REVIEW AND PRESIDENTIAL DECISION			
SEPTEMBER OCTOBER NOVEMBER	Submits formal estimates for annual budget including projections of requirements for future years, and completed program memoranda and special analytic studies.	Analyzes budget submissions. Holds hearings with agency representatives on program, budget, and management issues in preparation for Director's review. Reexamines* economic assumptions and fiscal policies. Discusses program developments with agencies. In light of outlook and policy discussion with President, prepares budget recommendations for the President.	
DECEMBER JANUARY	Revises estimates to conform to President's decisions.	Notifies agency heads of President's allowance.	Reviews budgetary situation and decides on budget allowances for each agency.
		Again reviews* economic outlook and fiscal policy for discussion with President of tax and economic policies. Drafts President's budget message; prepares budget with summary tables and appendix, special analyses, and budget-in-brief; arranges printing of budget documents.	Revises and approves budget message. Transmits recommended budget to Congress.

* In cooperation with the Treasury Department and Council of Economic Advisers

TRANSMISSION OF BUDGET TO CONGRESS
MID-JANUARY

Authorization of the Federal Budget

Since enactment of the Budget and Accounting Act of 1921, the President has had the responsibility for determining the spending requests of executive departments and agencies. These spending requests are combined in the President's budget along with estimates of expected revenues based on the latest forecast of economic conditions, the provisions of existing laws, and proposed changes, if any, in these revenue measures. Thus, the budget is received in Congress each January as a combined package of estimated revenues and spending proposals.

After the budget is received in Congress, its parts are assigned to various committees and subcommittees. The Constitution specifically provides that all revenue raising measures must originate in the House of Representatives. Therefore, any proposals pertaining to revenues or the taxing process contained in the budget or transmitted later are referred to the Ways and Means Committee of the House. Also, these measures are customarily sent at the same time to the Finance Committee of the Senate for study, hearings, report and recommendations.

All proposals pertaining to appropriations, the spending process, are referred to the Appropriations Committees of the House and Senate for action. In reference to appropriations, there is no such constitutional stipulation on origination of bills as in the case of revenue raising measures. However, it is a firmly established custom that all appropriation measures are initially acted on by the House. The Appropriations Committees of the House and Senate are

divided into 13 subcommittees. 1/

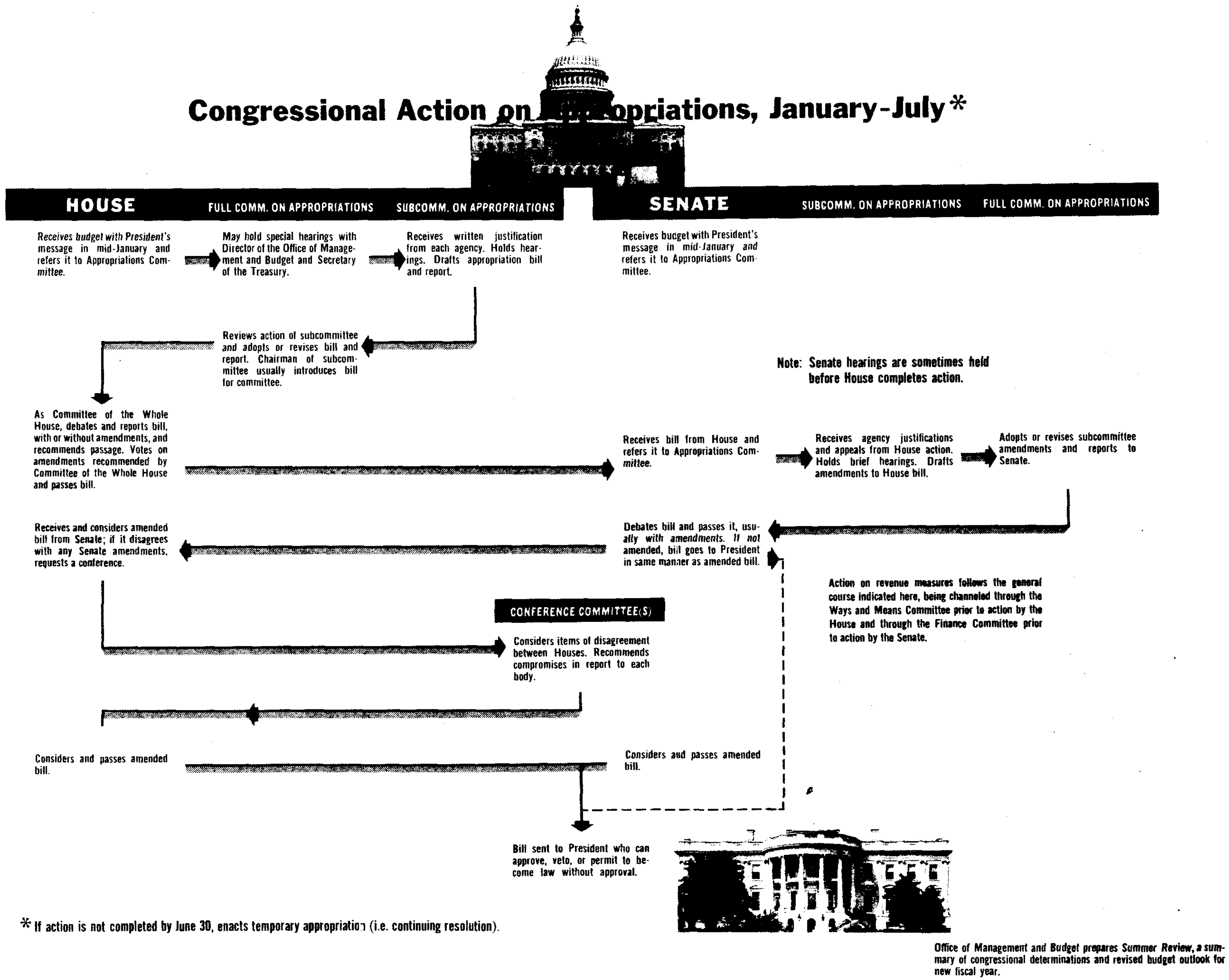
Budget authority requests are divided into groups and referred to the proper subcommittee for review, hearings and reporting back to the full committee. The individual subcommittees usually work for several weeks, especially in the House, on their parts of the budget authority requests before making their report to the full committee which, in turn, reports the approved bills for floor action. Individual appropriation bills approved by the House are referred to the Senate which, in turn, refers them to the proper appropriation subcommittee. The Senate appropriation subcommittees report their appropriations bills to the full committee and thence to the floor of the Senate for a vote. If the Senate makes no change in the House approved bill, then it is sent on to the President for signature. If the Senate amends the House bill, then it goes to a conference committee composed of both Senate and House Members where the differences in the bills are worked out and then the conference report goes to the House and Senate for approval. When the conference report is approved by both Houses the bill is sent to the President for signature. 2/

1/ The appropriations subcommittees are: (1) Agriculture-Environmental and Consumer Protection, (2) Defense, (3) District of Columbia, (4) Foreign Operations, (5) HUD-Space-Science-Veterans, (6) Interior, (7) Labor-Health, Education, and Welfare, (8) Legislative, (9) Military Construction, (10) Public Works - Atomic Energy Commission, (11) State, Justice, Commerce, and Judiciary, (12) Transportation, and (13) Treasury - Postal Service - General Government.

2/ There was one attempt by the Congress to consolidate all appropriations in one bill. On July 2, 1949, the Senate adopted a resolution (S. Con. Res. 18) requiring the combination of the traditionally separate appropriation measures in a one-package or omnibus appropriation bill (S. Rept. 616, 81st Cong.), but the House of Representatives declined to report an omnibus bill because of the insistence of its Appropriations Committee that existing powers were adequate without statutory change. After a voluntary experiment on such a basis for the single fiscal year 1951, the House Appropriations Committee voted to return to the old procedure of reporting separate appropriation bills. New resolutions designed to restore the omnibus appropriation bill were introduced in subsequent Congresses, but failed of final passage.

Chart III

Congressional Action on Appropriations, January-July*



* If action is not completed by June 30, enacts temporary appropriation (i.e. continuing resolution).

Budgetary Terms

The actual procedural pattern and methods by which Congress authorizes spending are complicated. The Congress normally does not vote on outlays directly, but provides for authority to incur obligations which will become outlays when the procured goods and services are delivered and payment made.

Here are brief explanations of several of the frequently used and often misunderstood budgetary terms.

Authorization - This is the first and probably the most important Congressional action in determining the level of Federal spending. It is the initial step in the spending process.[1/] "Authorization bills" establish which Federal Government functions shall be performed, for example, what shall be the basic policies pertaining to transportation programs, health programs, farm programs, national defense, space, and others. These decisions are generally made through enactment of legislation which need not include limits on the amount of financial authority to be granted the agencies charged with these functions. This basic legislation authorizes a government agency to perform the approved function; the necessary funds are usually provided through a separate appropriation bill. This authorization legislation is an indication of Congressional intent, and thus it has economic significance even before any funds are appropriated.

1/ In general, authorization legislation is enacted before funds are granted and the financial aspects of a government activity are considered separately by the Congress. However, some basic authorizing statutes do simultaneously grant Federal agencies financial authority of various types. For example, the Federal-Aid Highway Act authorizes the program of aid to the States and allows the Bureau of Public Roads to commit the Federal Government to make specific grants for highway construction.

Budget Authority (BA) - This is usually the largest aggregate figure found in the budget and the trend is for this figure to increase annually. For fiscal year 1971 Federal outlays were $15 billion more than they were in fiscal year 1970; however, the BA requested for fiscal year 1971 was $23 billion more than fiscal year 1970. What does this signify? Simply stated, this means that future outlays are likely to be greater than present outlays.

The government generally obligates itself to make payments before they occur just as do individuals and business organizations. Obligations requiring current or future payment may be incurred only when the Congress has provided such authority. As already noted, the Constitution of the United States specifies that "No money shall be drawn from the Treasury but in consequence of appropriations made by law: ...."; therefore, legislation must be enacted before any Federal agency may commit the Government to future expenditure of funds.

The President's annual budget contains estimates of revenues and outlays for the forthcoming fiscal year and in addition it sets forth the budget authority (BA) requested by each Federal agency and department as approved by the President and his advisers. This is the spending authority requested to perform the functions already authorized plus any requests for expanded functions that may be included in the budget. Thus the requests for budget authority represent a crucial factor in the Federal spending process. These requests for BA are significant as they show the dollar amounts that the administration considers necessary to carry out the programs it proposes and for which it requests authority to incur obligations resulting in future Federal outlays.

After the Congress receives the President's budget, Congressional review of the proposals begins. The Congress can alter or eliminate programs or add programs not requested by the President. The Congress can change the amounts recommended by the President, either increasing or decreasing them.

Types of Budget Authority - There are three basic kinds of budget authority which allow Federal agencies to incur obligations requiring the eventual payment of money. These are appropriations, contract authority, and authority to spend debt receipts. In addition, there are reappropriations of previously granted authority.

Appropriations - These provide authority to incur obligations and payment of these obligations from the general fund of the Treasury or from the various special funds. It is the most common type of budget authority provided by the Congress. In some cases the authority to incur obligations has previously been granted in the form of contract authority; in such cases, the appropriation to permit the payment of these incurred obligations is said to be to "liquidate contract authority" and it is not a part of budget authority provided for that year. In all other cases, appropriations allow Government agencies to commit the Government by orders, contracts, etc., for specific types and amounts of future outlays and to pay these commitments as they are fulfilled. There are several forms of appropriations.

The most common appropriation form is the group referred to as "one-year appropriations" which allow an agency to incur obligations within only one fiscal year, the grant expiring at the end of that year. However, if the obligations are incurred in the specified fiscal year, then the obligated balances of these "one-year appropriations" remain available indefinitely for the making of expenditures in payment of these obligations. "One-year appropriations" are commonly used for salaries and other current day-to-day agency spending.

"Multiple-year appropriations" are another form and are available for the incurring of obligations for a specified period of time in excess of one year. With these appropriations, obligated balances remain available indefinitely for payment of incurred obligations. Appropriations for the Sugar Act program of the Agricultural Stabilization and Conservation Service are generally approved on a two-year basis. Some of the appropriations for special study commissions and research projects of the Public Health Service on cancer, heart disease, and others are approved on a multiple-year basis. The multiple-year appropriation type represents a very small portion of total appropriations.

"No-year appropriations" represent a third form of appropriations. They remain available for both obligations and expenditures until the purpose for which they are granted is accomplished. This type of appropriation is used where a time limit would not add measurably to the system of spending controls. Primarily, this type of appropriation is authorized for construction contracts, such as those performed by the U.S. Corps of Engineers.

"Current indefinite appropriations" are a type of appropriation in which both the obligations and subsequent outlays are indefinite in amount. These appropriations may be available on a one-year, multiple-year, or no-year basis. The amounts involved are determined in various ways. In some cases, the amounts may be tied to particular percentages of particular receipts, and are frequently set in the enabling authorizations.

Another form of appropriations is the category called "permanent appropriations." Under this type of appropriation additional amounts become available from year to year under existing law without any new action by the Congress. Some permanent appropriations involve definite amounts for obligations and expenditures. An example of this definite amount form is the basic annual endowment of $50,000 to each State, Puerto Rico, the Virgin Islands, and Guam, for agricultural and mechanical arts instruction in colleges. There are permanent indefinite appropriations in which the amount becoming available for obligations and expenditures is not specified in the authorization, but is determined by other factors. As an example of this type, Congress, in 1935, granted a permanent authorization which is also a permanent appropriation to allocate 30 percent of all custom receipts to the Department of Agriculture for the purpose of expanding domestic and foreign market outlets for farm commodities. There is also the indefinite permanent appropriation type where the amount is determined on the basis of particular requirements. An example of this type is the annual interest expenditures on the national debt. This is the largest permanent appropriation as this annual expense now exceeds $23 billion.

"Supplemental appropriations" are the result of additional requests presented to Congress while it is in session. They are utilized to fund programs created by legislation that had not been enacted at the time the original budget was submitted. The dollar amounts for programs proposed by the administration are included in total budget outlays and budget authority under the heading "proposed for later transmittal." Also, supplemental appropriations are used to provide funds for shortages that may have developed in budget authority granted through original appropriation acts and for changes in departmental and agency programs which could not have been foreseen at the time the budget was prepared and submitted. For example, the occurrence of droughts, floods, earthquakes, international crises, and other such developments lead to supplemental appropriations. In his budget submitted in January 1972, President Nixon asked for supplemental budget authority in the amount of $10.5 billion for the 1972 fiscal year. These budget authority requests were in addition to the $159 billion of budget authority enacted in the 1st session of the 92d Congress for fiscal year 1972.

Contract Authority - A second type of budget authority is known as contract authority. This authority permits an agency to incur specific obligations, but it does not provide the authority to liquidate (or pay) these obligations. Thus, contract authority must be followed by an appropriation authorizing payment. (Generally, contract authority is used where the time lapse is more than one year between the time that the obligation is placed and the time that the payment becomes due.) This appropriation, to allow payment of obligations incurred through contract authority, is to make payment only. These appropriations for payment of obligations do not constitute additional budget authority; therefore, they are not included in budget authority totals for the year in which the appropriation is provided.

Authority to Spend Debt Receipts - This authority to incur obligations and make outlays usually is used to finance lending and other government enterprises, such as the Commodity Credit Corporation. This is a third type of budget authority. Such authority may take the following forms:

(1) Authority may be granted for the Treasury to make public debt receipts available to a given agency or enterprise, often in exchange for notes of the enterprise. This is authority to spend public debt receipts. The dollar balance in the bank accounts of the Treasury are not distinguishable by sources, whether obtained from taxes or from borrowing; therefore, this type of authority represents an appropriation to commit Government funds and to spend these funds like any other appropriation.

(2) Authority may be granted a Government-owned corporation or agency to borrow directly from the public; this is authority to spend agency debt receipts.

(3) Notes which have been issued by a Government enterprise and are held by the Treasury may be cancelled. This cancellation of notes restores the

previously used authority of the agency to borrow from the Treasury and has the effect of permitting further outlays to be made.

These actions which authorize agencies to incur obligations or to borrow against public debt receipts provided by the Treasury, or agency debt receipts, are not always brought before the appropriations committees for review, and consequently have given rise to the term, "backdoor financing."

Reappropriations and reauthorizations - These are actions to continue the availability of part or all unused balances of prior authority or appropriations which would otherwise expire. The effect of such reauthorizations is the same as if new budget authority were voted in their place. Reappropriations are a very small portion of the total budget.

Review of Budget Authority

In summary, therefore, total appropriations and other financial authorizations made available in a specific year is called "budget authority" (BA). These fiscal authorizations empower Federal agencies to obligate the government to spend in the future. Most of the budget authority granted is ordinary appropriations, but as noted above, a substantial portion of this authority, such as permanent appropriations and authority to spend debt receipts, generally is not subject to direct annual review by the Congressional Appropriations Committees.

The major control point that Congress has over Federal spending is the granting of budget authority (BA). Therefore, to the extent that BA is embodied in permanent authorizations, that amount of the budget is not subject to recurring Congressional review and control.

The following tabulation is a breakdown of budget authority, consisting of current and permanent authorizations enacted for fiscal years 1967-1971.

TYPES OF BUDGET AUTHORITY (BA) FISCAL YEARS 1967 - 1971

(in millions of dollars)

	1967 Actual	1968 Actual	1969 Actual	1970 Actual	1971 Actual
Current Authorizations: 1/					
Appropriations 2/	122,542	126,694	129,697	134,377	143,767
Authority to spend debt receipts	7,742	7,400	725	5,751	14,852
Contract authority	5,110	320	3,088	1,461	10,199
Reappropriations and reauthorizations	38	30	6	4	627
Rescission of prior year budget authority	------	------	-302	------	------
Total, Current Authorizations	135,432	134,444	133,213	141,592	169,444
Permanent Authorizations: 3/					
Appropriations	54,451	57,154	66,685	77,086	83,492
Author. to spend debt receipts	1,264	2,399	1,211	501	133
Contract authority	2,952	8,206	7,964	7,787	1,630
Deductions for Offsetting Receipts					
Interfund and intragovernmental transactions	-6,589	-6,881	-8,714	-10,178	-13,420
Proprietary receipts from the public	-4,948	-4,674	-4,192	-3,814	-4,874
Total, Budget Authority	182,562	190,649	196,167	212,973	236,406

1/ These authorizations require action by the Congress for each specific fiscal year.

2/ Excludes appropriations to liquidate contract authorizations of (in millions): 1967, $7,302; 1968, N.A.; 1969, $7,241; 1970, $7,962; 1971, $8,576.

3/ These authorizations do not require any action by the Congress for the specific year.

N.A. - not available.

Source: Budgets of the United States Government for fiscal years 1969-1973.

Relationship Between Budget Authority and Outlays

Only a portion of the budget authority enacted for a fiscal year is spent during that year. Appropriations to pay salaries, rent, purchase current supplies, etc., are usually spent almost entirely in the year for which they were enacted. However, the major portion of appropriations to build ships, construct missile sites, erect public works, develop weapons systems, etc. is likely to to be spent two, three or more years after being approved. This substantial "lead-time" is required to prepare designs, arrange contracts, complete construction or production, and finally to pay the bills. Therefore, when Congress increases or decreases the level of budget authority for a particular fiscal year it does not necessarily mean that outlays will follow the same pattern. It is possible that when Congress votes an increase in budget authority for a fiscal year, the outlays in that same year will decrease, or vice versa.

The amount of budget authority granted may have only a limited effect on the current year's outlays, but it will have a definite effect on future outlays. It is Congressional approval for the Federal Government to obligate itself for the authorized amounts and eventually to make payment when the bills become due at which time this budget authority is recorded as an outlay.

Unexpended balances are the result of both "obligated" and "unobligated" authority. They represent the amount of budget authority granted that has not been spent, and which still is available for conversion into outlays in the future. These balances represent authority for Government agencies to enter into contracts or to make payments for contracts already let. Funds may have been "obligated" though not spent, or they may be "unobligated," which means that they have not been committed. At the end of any fiscal year a large part of the unexpended balances are unobligated; these amounts are available for future obligations in accordance with the stipulations and provisions of the legislation granting the budget authority.

In some cases, authority which is not obligated by the end of the year is no longer available, and thus the authority to obligate expires. However, in most cases, especially for such programs as construction of public works, naval vessels, space research and other long-term developments, the unobligated portion of the unexpended balances continues available from year to year, because the original authorization by Congress generally stipulates "until expended." In a few cases, such as the authorization for the Federal Deposit Insurance Corporation (FDIC) to borrow from the Treasury, the balances carried forward represent standby authority for possible emergency. In the case of the FDIC, this authority has never been used and it is not anticipated that it will have to be used in the foreseeable future. However, most of the unexpended balances carried over from year to year will be obligated eventually and, in turn, result in outlays.

The Office of Management and Budget apportions to the Government agencies and departments each quarter the funds appropriated to them. This prevents Government agencies from spending their appropriations too early in the year. Within the limits of funds apportioned and made available, the Federal agencies place orders, let contracts, hire personnel, purchase supplies, and take other actions which commit or "obligate" their apportioned funds. At this point in the Federal spending process these funds are still in the unexpended balances, but they have passed from the category of "unobligated" to "obligated." Thus it is at this point, that the Federal Government has incurred an obligation for which an outlay will be made in the near future or distant future depending on the item or items for which the Government has contracted.

The following table shows the budget authority granted, the outlays made, the unexpended balances carried forward at end of fiscal years and the amount of obligations incurred during the fiscal years 1967 through 1971.

Table 5

BUDGET AUTHORITY, OUTLAYS, UNEXPENDED BALANCES
AND OBLIGATIONS INCURRED, FISCAL YEARS 1967-1971 1/

(in millions of dollars)

Fiscal Year	Budget Authority (BA) Granted 2/	Outlays	Unexpended Balances at End of Fiscal Year			Net Obligations Incurred
			Total	Obligated	Unobligated	
1967	182,562	158,254	213,513 3/	79,023	134,490	168,175
1968	190,649	178,833	223,478	81,336	142,142	181,844
1969	196,167	184,548	225,572 4/	83,967 4/	141,605	185,147
1970	212,973	196,588	238,111 4/	81,662 4/	156,449	194,915
1971	236,406	211,425	260,921	86,078	174,843	215,924

1/ Outlays data shown are current revised totals which for 1967, 1968, and 1969 are different from those originally shown as actuals in budget documents. Other data are those originally shown as actuals in budget documents and are not available on a currently revised basis to take account of revisions in budget outlays. The magnitude of change in current outlays data from first actual are (in millions $): 1967, - 160; 1968, - 29; 1969, - 8.

2/ Excludes appropriations to liquidate contract authority.

3/ Total unexpended balances at end of fiscal year 1966 amounted to $190,615 million.

4/ Does not include unfunded obligated balances of (in millions $): 1969, 14; 1970, 14.

Source: Budgets of the United States Government, for fiscal years 1969-1973.

Federal spending authority can be summarized as follows:

1. Budget authority (BA) granted during the year represents the total amount of Federal spending authority approved by the Congress. Some of this BA granted will result in outlays in future years; a very small portion of the BA granted may lapse or be rescinded in future years.

2. Net obligations incurred during the year represent the total amount of eventual outlays for which the Federal Government has been committed that year. Some of these obligations will result in outlays during the current year, while others will result in outlays in future years. Therefore, when net obligations incurred exceed outlays made during the year, the Government has contracted for more spending than it has liquidated. An increasing rate of obligations can be expected to result in increased future outlays.

3. The outlays made during the year indicate the amount of budget authority used up as well as the amount of incurred obligations that have been liquidated. Thus the outlays represent only the payment of bills incurred by previous obligations during that year or in prior years.

4. Unexpended balances represent the amount of budget authority granted during the year or carried over from prior years that has not been used. The obligated portion of unexpended balances represents the amount of BA for which obligations have been incurred, but for which payments have not yet come due; whereas, the unobligated portion represents the amount of BA available for the incurring of additional obligations and eventual outlays.

5. Table 5 shows that the unexpended balances at the end of each fiscal year has continued to rise. Based on data for fiscal year 1971, unexpended balances at the end of the year totaled $261 billion. Thus the Government had that amount of spending authority available without any additional budget authority.

Annually the budget authority enacted by Congress generally exceeds outlays because many of the appropriations are for programs or projects to be developed over a number of years.

An examination of table 5 shows that for fiscal year 1971 Congress approved spending authority in the amount of $236.4 billion (BA); the Government contracted for outlays in the amount of $215.9 billion (net obligations incurred); and the Government made payments in the amount of $211.4 billion (outlays). Thus for fiscal year 1971 the Government incurred $4.5 billion more of obligations than it paid and Congress granted $20.5 billion more of budget authority than the total for obligations incurred.

In the previous year, fiscal year 1970, outlays exceeded net obligations incurred. The Congress approved spending authority in the amount of $213 billion (BA); the Government contracted for expenditures in the amount of $194.9 billion (net obligations incurred); and the Government made payments in the amount of $196.6 billion (outlays). Thus for fiscal year 1970 the Government incurred $1.7 billion less of obligations than it paid while Congress appropriated $18.1 billion more than the total for obligations incurred.

It may be noted that outlays for fiscal year 1971 were $14.8 billion more than they were for fiscal year 1970, while obligations incurred by the Government in fiscal year 1971 were $21 billion more than they were in fiscal year 1970.

Table 6 shows the relationship of budget authority (BA) and outlays for fiscal year 1971.

Table 6

UNIFIED BUDGET RELATIONSHIP OF BUDGET AUTHORITY (BA)
AND OUTLAYS, FISCAL YEAR 1971

(in millions of dollars)

Budget authority (BA) and outlays	Total	Spent in FY 1971	To be spent in later years
Unexpended balances enacted in prior years and brought forward:	$238,152		
Less: Lapsing authority and adjustments in expired accounts	-3,075		
Net unexpended balances available:	$235,077		
Used in FY 1971		$90,462	
To be used in later years			$144,615
Plus BA enacted	$236,406		
Used in FY 1971		$120,963	
To be used in later years			$115,443
Total BA available	$471,483		$260,058
BA used in FY 1971 (outlays)	211,425	211,425	--
Unexpended balances carried forward at end of FY 1971 (anticipated future outlays for which Congressional authority is granted)	$260,058		$260,058

Source: Budget of the United States Government for fiscal year 1973, pp. 497, 500.

Execution of the Enacted Budget

After the Congressional review, hearings, deliberation, and authorization stage of the budget process is completed and the individual appropriation bills become law, the execution phase of the budget begins. The enactment of a budget authority by the Congress does not require the immediate establishment of a Treasury bank account to the credit of a Government agency. There are several steps between enactment of budget authority and cash outlays by the Federal Government. On approval of the individual appropriation bills, the Treasury Department draws appropriation warrants which are countersigned by the General Accounting Office and then transmitted to the affected departments and agencies.

Before the authorized appropriations can be obligated by the agencies, the Office of Management and Budget must apportion these funds. [1/] Agencies must revise their operating budgets in view of the approved appropriations and submit their requests for apportionment to the Office of Management and Budget by May 21 or within 15 days after approval of the appropriation act, whichever is later. The Office of Management and Budget must make such apportionments by June 10 or 30 days after approval of the appropriation act, whichever is later. It is a violation of the Antideficiency Act if obligations are incurred in excess of the amounts apportioned. Apportionments are generally made on a quarterly basis.

The apportionment system is intended to achieve an effective and economical use of available funds. The agencies determine in the first instance the rate at which they wish to obligate the Government to future expenditures, but the Office of Management and Budget reviews these plans before apportioning the authority

1/ The trust funds and some Government enterprises are not subject to apportionment. See Office of Management and Budget Circular No. A-34. (Instructions on Budget Execution) to ascertain that the rate is consistent with the amount of budget authority for the entire year and to reduce the necessity for supplemental or deficiency appropriations. The law permits apportionments which anticipate the need for supplemental appropriations, only where necessary to meet expenditures required by laws enacted subsequent to presentation of appropriation estimates, or to meet certain specified emergency conditions. In all cases where an apportionment is made on this basis, a report of the facts must be submitted to Congress. The Office of Management and Budget may modify apportionments requested by the agencies. Reserves may be established to provide for contingencies, or to effect savings whenever savings are made possible through changes in requirements, greater efficiency of operations, or other developments subsequent to the date on which such appropriations were made available. 1/ Amounts held in reserve may not be obligated by the agencies unless they are released by further reapportionment action.

Once the budget authority is apportioned to the agencies by the Office of Management and Budget, a second level of apportionment occurs within the agencies. Agency heads determine the rate and apportion the funds to various programs and administrative units within their agencies. In turn, the appropriated funds are obligated for goods and services.

As the goods and services for which funds have been obligated are received, vouchers and invoices are certified for payment. Based on these certified vouchers and invoices, checks are issued and the outlay recorded.

Chart number 4 shows the flow of budgetary actions in the execution of the budget.

1/ 31 U.S.C. 665, (c), (2).

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Chart IV

EXECUTION OF ENACTED BUDGET

APPROXIMATE TIMING

TREASURY-GEN. ACCOUNTING OFFICE | AGENCY | OFFICE OF MANAGEMENT AND BUDGET

On approval of appropriation bill, appropriation warrant, drawn by Treasury and countersigned by General Accounting Office, is forwarded to agency.

Revenues are assessed, collected, and deposited by the agencies concerned as prescribed by law.

FUNDS MADE AVAILABLE

MAY-JULY
(Enactment of appropriation may extend into October or later.)

Revises operating budget in view of approved appropriations and program developments.

Prepares requests for apportionment by May 21 or within 15 days after approval of appropriations.

Makes apportionment by June 10 or within 30 days after approval of appropriations. May "reserve" funds for contingencies, savings, or developments subsequent to enactment. (May reapportion at any time, on own initiative or on agency request.)

CONTROL OVER FUNDS

Continuous

Allots apportioned funds to various programs or activities.

Administrative controls restrict obligations and outlays to apportioned and allotted amounts.

Obligates money. Receives and uses goods and services. Makes monthly or quarterly reports to Office of Management and Budget on status of funds and use of resources in relation to program plans.

Reports periodically to Office of Management and Budget on mangement improvements and actions reducing manpower requirements and costs.

Examines reports on status of funds in relation to apportionments. Analyzes reports on use of resources and relationship of accomplishments and costs. Reports to the President from time to time on budget and program status, manpower, management improvements, and cost reductions.

EXPENDITURE OF FUNDS

As bills become payable

Prepares and certifies vouchers and invoices for payment.

Treasury issues checks (except for certain agencies which issue their own) and reports on financial transactions in Monthly Treasury Statement and Treasury Bulletin.

PROGRAM EVALUATION, MANAGEMENT APPRAISAL, AND INDEPENDENT AUDIT

Periodic

General Accounting Office performs independent audit of financial records, transactions, and financial management, generally. "Settles" accounts of certifying and disbursing officers. Makes reports to Congress.

Reviews compliance with established policies, procedures, and requirements. Evaluates accomplishment of program plans and effectiveness of management and operations.

Reviews agency operations and evaluates programs and performance. Conducts or guides agencies in organization and management studies. Assists President in improving management and organization of the executive branch.

Even with the budget forms now in use by the Federal Government plus the old administrative and consolidated cash budget concepts previously employed, there are some who contend there is still missing one vital element of a desirable budget -- separation of expenditures for current operations and investment. This has led to some support of a capital budget.

Capital Budget - The Federal Government does not have a capital budget; however, there are some who favor adopting such a budget. A capital budget would separate current operating expenses from expenditures of a capital or investment nature. Thus there would be two budgets -- one to cover current operations and another for capital investments.

Proponents of a capital budget argue that it is a "business-like" approach to Government and that it would aid the public in evaluating Government expenditures by differentiating between operating expenditures and investment expenditures. Opponents of a capital budget charge that it would hide the facts from the public, that it would be a means of increasing the Federal debt while supposedly balancing the budget through deferring the charges for capital outlays.

The idea of distinguishing between current and capital expenditures is not new. It predates the Budget and Accounting Act of 1921 which sets up the requirement that the President transmit to the Congress an annual budget.

As a result of the work of the President's Commission on Economy and Efficiency and to demonstrate the usefulness of a budget, President Taft submitted a document to the Congress for consideration on February 26, 1913 containing estimates for fiscal year 1914. In his message to the Congress, President Taft separated estimated capital outlays from estimated current expenses and fixed charges. He stated:

> This conclusion [that the minimum amount of revenue needed to cover current operating expenditures for fiscal year 1914 would be $881 million] is based on the assumption that all estimates for 'acquisition of property' and 'unclassified' estimates would be initially financed by the Government out of borrowing, i.e., that all these estimated expenditures are properly classified as capital outlays. 1/

During the 1930's the terms "ordinary" and "extraordinary" expenses came into use. "Ordinary" expenses were those of a current nature and "extraordinary" expenses were those which presumably rendered services or benefits to the public for a period longer than the current year.

Recommendation number 3, pertaining to budget and accounting, of the first Hoover Commission report in January 1949 states:

> We recommend that the budget estimates of all operating departments and agencies of the Government should be divided into two primary categories -- current operating expenditures and capital outlays.

Even though the Federal Government has not adopted a capital budget, the Bureau of the Budget, since 1951, has included in the annual budget a special analysis ("D"). This analysis focuses on the distinction between outlays that are of an investment or "capital" nature and outlays directed to operating, or "current," purposes. Basically, Special Analysis D treats all outlays which will produce benefits in future years as investment outlays. These outlays amount to between 25 and 30 percent of the total unified budget.

Readily it can be seen that if these outlays were capitalized and most of the cost deferred to future years current budgets with large surpluses rather than deficits would result. Here enters the primary problem in the use of a capital budget -- how to define a "capital" outlay. While it is easy to classify as capital the cost of a hydroelectric project built to render service over a

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1/ Senate Document Number 1113, 62d Congress, 3rd Session, 1913, p. 26.

period of fifty years or more and as current the cost of procuring typewriter paper or the payment of employees salaries, it is not so easy to find a formula for classifying the multitude of expenditures that fall between these two extremes.

Additionally the question arises, from a national standpoint, as to how expenditures which add to the assets of State and local governments, such as Federal aid for the construction of highways, airports, schools, etc., should be capitalized. Further, should Federal aid to privately owned projects, such as hospitals, health research facilities, merchant ships, agriculture stabilization and conservation projects, be capitalized?

As a further dimension in the problem of determining what is a capital outlay we have the problem of ascertaining how to treat research and development outlays; for example, should research and development spending on atomic energy or the space program be capitalized? Undoubtedly, past expenditures on research in these fields are very valuable assets of the country in relation to our present national security. Even so, the question remains: how do we determine in advance the expenses to capitalize and for how long a period? This is the basic question that would surround all research and development outlays.

There are some economists who approve of the general concepts of a capital budget, but oppose the Federal Government adopting one at this time. They reason that capital items probably would be restricted to physical assets -- the so-called "bricks and mortar" type of assets -- buildings, dams, etc. Only a very minor portion of the costs of such assets would be allocated to expenditures of current operating budgets; most of the costs would be deferred and charged against future budget revenues over the capitalized life of the assets. In turn, it would probably become politically expedient to favor capital investments as these outlays could be made and yet a balanced operating budget be obtained. Thus, the fear arises that funds probably would be diverted to tangible assets which in some cases, for the best interest of the country, should be expended on intangible assets such as education and health research.