



The Treatment of Federal Receipts and Expenditures in the National Income and Product Accounts

September 2005

Notes

Numbers in the text and tables of this report may not add up to totals because of rounding.

Unless otherwise specified, all years referred to are federal fiscal years.



Preface

This report describes how the treatment of federal receipts and expenditures in the national income and product accounts differs from the recording of federal revenues and outlays in the federal budget, as reported by the Office of Management and Budget. It is one of a series of reports that the Congressional Budget Office (CBO) issues each year to fulfill the requirement of section 202(e) of the Congressional Budget Act of 1974 for CBO to submit to the Committees on the Budget periodic reports about fiscal policy and to provide baseline projections of the federal budget. Most recently, in response to that requirement, CBO issued *The Budget and Economic Outlook: An Update* (August 2005).

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A handwritten signature in cursive script that reads "Douglas Holtz-Eakin".

Douglas Holtz-Eakin
Director

September 2005

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The Treatment of Federal Receipts and Expenditures in the National Income and Product Accounts

The fiscal transactions of the federal government are recorded in two major sets of accounts that are conceptually quite different. The presentation generally used by executive branch agencies and the Congress and typically discussed in the press (and the one followed in this report) is the *Budget of the United States Government*, as reported by the Office of Management and Budget. The budget focuses on cash flows—revenues and outlays, or the collection of taxes and fees and the disbursement of cash for the various federal functions. The objectives of the budget are: to provide information that can assist lawmakers in their policy deliberations; to facilitate the management and control of federal activities; and to help the Department of the Treasury manage its cash balances and determine its borrowing needs.

The national income and product accounts (NIPAs) also record the federal government's transactions, but with different objectives. The NIPAs, which are produced by the Bureau of Economic Analysis (BEA), an agency within the Department of Commerce, are intended to provide a comprehensive measure of current production and related income generated by the U.S. economy.¹ A well-known measure of current production in the NIPAs is gross domestic product, or GDP. The accounts, which are used extensively in macroeconomic analysis, divide the economy into four major sectors—business, government, household, and the rest of the world (the foreign

sector), each with its own set of accounts.² The federal sector, which is the focus of this report, is one component of the government sector (the state and local sector is the other component).³ Because the aims of the NIPAs differ from those of the budget, the two accounting systems treat some government transactions very differently. On average, the differences cause receipts and expenditures in the NIPAs, as projected by the Congressional Budget Office (CBO), to exceed the corresponding budget totals by roughly 3 percent for the 2006-2015 period.

The numbers in this report that derive from the national income and product accounts reflect BEA's most recent revisions to data in the federal sector. Those historical revisions, which are usually made in July of each year for the most recent three-year period, were not available when CBO updated its baseline economic projections through 2015.⁴ Consequently, CBO's NIPA estimates through 2015 for federal receipts and expenditures do not take into account how BEA's revisions would have altered CBO's underlying baseline economic projections. CBO's preliminary assessment, however, indicates that the revised data would have had little impact on the major aspects of those baseline projections.

1. The discussion of the national income and product accounts in this report generally refers to Table 3.2 in the accounts, "Federal Government Current Receipts and Expenditures," which most closely resembles the presentation in the budget. For other discussions of the NIPAs, see Bureau of Economic Analysis, "Federal Budget Estimates for Fiscal Year 2006," *Survey of Current Business* (March 2005); and Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2006: Analytical Perspectives* (February 2005).

2. Some accounts in the NIPAs, such as the domestic capital account (which shows saving and investment), focus on components of gross domestic product or income rather than on a specific sector and bring together relevant information from all four sectors.

3. More formally, BEA regards the federal government and the state and local governments as subsectors. The treatment of state and local governments' transactions in the NIPAs closely resembles that of the federal government's transactions.

4. See Congressional Budget Office, *The Budget and Economic Outlook: An Update* (August 2005).

Conceptual Differences Between the NIPAs' Federal Sector and the Federal Budget

The budget of the federal government is best understood as an information and management tool. It focuses primarily on cash flows, recording for each fiscal period the inflow of revenues and the outflow of spending. The period of foremost interest in the budget is the federal fiscal year, which runs from October 1 through September 30. There are a few exceptions to the general rule of recording transactions on a cash basis, but they are designed to improve the usefulness of the budget as a decisionmaking tool. For example, when the federal government makes direct loans or provides loan guarantees (as with student loans), tracking cash flows would give a misleading view of costs; under what is termed credit reform, the budget records federal administrative expenses and the estimated subsidy costs at the time the loans are made.

The federal sector of the NIPAs possesses none of the planning and management goals of the budget. Instead, it focuses on displaying how the federal government fits into a general economic framework that describes current production and income within specific periods and what happens to that production and income. The main periods of interest for the NIPAs are calendar years and calendar quarters, although approximate totals for fiscal years can be derived from the quarterly estimates.

From the perspective of the NIPAs, the federal government is both a producer and a consumer: its workforce produces government services, and its purchases consume some of the nation's production. In addition, through its taxes and transfers, the federal government affects the resources available to the private sector. The purpose of the NIPAs is to record all of those activities in a consistent manner.

The federal sector of the NIPAs tracks how much the government spends on consumption purchases, and it records the transfer of resources that occurs through taxes, payments to beneficiaries of federal programs, and federal interest payments. The federal sector's contribution to GDP is presented elsewhere in the NIPAs.⁵

Differences in Accounting for Major Transactions

The accounting differences between the NIPAs and the federal budget stem from the conceptual differences discussed above. In attempting to properly incorporate federal transactions into the framework used to determine GDP, the NIPAs reflect judgments about the best treatment of such transactions as government investment, sales and purchases of existing assets, federal credit, and federal activities that resemble those of businesses, along with transactions involving U.S. territories. In some cases, the appropriate treatment may be to move a transaction from the federal sector to another place in the NIPAs or to exclude the transaction from the NIPAs entirely. In other cases, the appropriate treatment may involve recording as a receipt in the NIPAs an item that the federal budget reports as an offsetting (negative) budget outlay, or adjusting the timing of a federal transaction to better match the timing of related production or income flows.⁶

The Measurement of National Saving

Several conventions in the NIPAs are intended to show the federal government's contribution to the NIPA measure of national saving. Two major departures from the budget are the treatment of federal investment spending (for such things as ships, computers, and office buildings)

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5. As part of its comprehensive revisions to the national income and product accounts officially implemented in December 2003, the Bureau of Economic Analysis explicitly recognizes the services produced by the government as part of gross domestic product and treats the government's purchases of goods and services (which are part of the business sector's contribution to GDP) as intermediate inputs to the production of government services. (Thus, the NIPAs now handle transactions in the government sector similarly to those in the business sector.) The changes shift the composition of GDP away from goods and toward services, because the government's purchases of goods are now classified as inputs to a new component of GDP—government services. Although that revised treatment changes the relative importance of different components of GDP as reported in Table 1.1.5 in the accounts ("Gross Domestic Product and Income"), it does not change the level of GDP or the transactions reported in the NIPAs' federal sector (Table 3.2 in the accounts).
 6. The resulting differences between the numbers in the NIPAs and the budget are sometimes divided into three groups: coverage, timing, and netting. Although all three types of differences can affect total revenues or outlays, netting differences have no impact on the federal deficit or surplus because they affect revenues and outlays equally.

and the treatment of federal employees' retirement programs.

In the federal budget, outlays for investment purchases are treated like other cash outlays and thus are subtracted from budget revenues to determine the size of the federal deficit or surplus. By contrast, in the NIPAs, federal investment is not counted as federal spending for the purpose of measuring net federal government saving (current receipts minus current expenditures).⁷ That is because new purchases of federal capital (investments) do not measure the current inputs from the existing stock of capital used to provide government services. To approximate the cost of those capital inputs, the NIPAs include in current federal expenditures an estimate of the depreciation (consumption of fixed capital) of the stock of federal capital. The treatment is conceptually similar to that applied to the corporate business sector, which uses depreciation rather than investment purchases to compute net corporate saving (retained earnings). In the federal budget, depreciation is not tracked. In Table 1, which provides a crosswalk between the budget and the NIPAs, that difference in coverage is shown under "Treatment of investment and depreciation."⁸

The transactions of federal employees' retirement programs are also handled very differently in the budget and the NIPAs. In the budget, federal employees' contributions for their retirement are recorded as revenues, whereas agencies' contributions on behalf of their employees (as well as interest payments from the Treasury to trust funds) have no overall budgetary effect because they are simply transfers of funds between two government accounts.⁹ Benefit payments to retirees are recorded as outlays in the budget. By contrast, in the NIPAs, the aim is to make the measurement of saving by the federal government consistent with that of the private sector. Therefore,

the NIPAs treat some of the transactions of federal retirement plans, except for the Railroad Retirement Fund, as part of the household sector.¹⁰ The receipts from federal employers' and employees' retirement contributions (and the interest earned by retirement accounts) are considered part of the personal income of workers and thus are not recorded as federal transactions (receipts or negative expenditures). That arrangement parallels the treatment for the private sector.

On the outlay side, pension benefit payments to retirees are not recorded as federal expenditures in the NIPAs because they are treated as transfers from pension funds within the household sector. Some transactions, however, are treated as part of federal expenditures even though the corresponding receipts are recorded in the household sector. The government's contributions to its workers' retirement are counted as federal expenditures (as part of employees' compensation), as is the interest paid to federal retirement accounts. The different treatment of retirement contributions by federal employees shows up in Table 1 under "Receipts"; the different treatment of contributions by federal employers, interest earnings, and benefit payments is shown under "Expenditures."

Capital Transfers and Exchanges of Existing Assets

The NIPAs measure current production and income rather than transactions that involve existing assets. Thus, the NIPAs do not count capital transfers or asset exchanges as part of federal receipts or expenditures, although the budget generally does include those transactions. The NIPAs define as capital transfers—and thus exclude—estate and gift taxes (which are taxes on private capital transfers), investment subsidies to businesses, and investment grants to state and local governments (for air transportation, highways, transit, and water treatment

7. Federal investment is shown elsewhere in the NIPAs, along with private investment spending in the domestic capital account, which shows saving and investment (Table 5.1 in the accounts).

8. The estimates and the presentation of the reconciliation between the budget and the NIPAs in Table 1 are based on CBO's interpretation of the revised methodology for the accounts, as detailed in Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business* (June 2003), and in BEA's reconciliation of the Administration's budget for fiscal year 2006, published in the *Survey of Current Business* (March 2005).

9. In the budget, contributions by an agency for its employees' retirement are considered outlays for that agency and offsetting receipts (negative outlays) for the trust funds. Thus, those intragovernmental transfers result in no net outlays or receipts for the total budget. That treatment is the same for Social Security and Medicare contributions by the federal government for its employees.

10. Social Security contributions and benefit payments for both private and government employees are recorded in the federal sector as receipts and expenditures rather than moved to the household sector.

Table 1.**Relationship of the Budget to the Federal Sector of the National Income and Product Accounts**

(Billions of dollars)

	Actual											
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	Receipts											
Revenues (Budget) ^a	1,880	2,142	2,280	2,396	2,526	2,675	2,817	3,075	3,312	3,481	3,660	3,848
Differences												
Coverage												
Contributions for government												
employees' retirement	-5	-4	-4	-4	-4	-4	-3	-3	-3	-3	-2	-2
Estate and gift taxes	-25	-24	-27	-25	-27	-27	-21	-21	-43	-47	-53	-59
Geographic adjustments	-4	-4	-4	-4	-5	-5	-5	-5	-6	-6	-6	-6
Universal Service Fund receipts	-7	-7	-7	-8	-8	-8	-8	-8	-8	-8	-8	-9
Subtotal, coverage	-40	-39	-43	-41	-43	-44	-37	-37	-60	-64	-70	-76
Timing shift of corporate estimated tax payments	-1	-5	0	0	0	0	0	0	0	0	0	0
Netting												
Medicare premiums	32	38	56	63	67	71	78	85	93	102	113	125
Deposit insurance premiums	*	*	1	1	1	1	2	2	2	2	2	2
Government contributions for												
OASDI and HI for employees	14	14	15	16	17	18	19	20	21	23	24	25
Income receipts on assets	14	15	17	17	18	19	19	19	20	20	21	22
Surpluses of government enterprises	*	-1	2	1	3	3	4	4	4	4	4	4
Other	18	25	26	26	26	26	26	27	28	28	29	27
Subtotal, netting	79	91	118	124	133	139	147	157	167	179	193	205
Other adjustments	15	-5	-11	-1	0	0	-5	-1	-6	1	1	1
Total Differences	53	43	63	82	90	96	105	119	101	116	124	130
Receipts in the NIPAs	1,933	2,185	2,343	2,478	2,616	2,771	2,922	3,194	3,413	3,597	3,784	3,978
	Expenditures											
Outlays (Budget) ^a	2,292	2,473	2,595	2,721	2,860	2,997	3,134	3,293	3,390	3,561	3,726	3,905
Differences												
Coverage												
Treatment of investment and depreciation	-12	-13	-14	-16	-18	-21	-23	-26	-28	-31	-34	-37
Contributions for government												
employees' retirement	32	38	38	37	38	39	40	41	43	44	46	47
Capital transfers	-45	-47	-50	-53	-55	-55	-56	-57	-58	-59	-59	-61
Lending and financial adjustments	17	13	11	21	22	12	13	13	14	14	14	15
Geographic adjustments	-13	-13	-14	-14	-15	-16	-16	-17	-18	-19	-20	-21
Universal Service Fund payments	-3	-6	-7	-7	-7	-7	-7	-7	-7	-8	-8	-8
Other	-3	-17	-12	-8	-12	-12	-10	-8	-8	-5	-1	-1
Subtotal, coverage	-26	-44	-48	-40	-47	-60	-60	-53	-63	-63	-62	-65
Timing adjustments	2	-14	6	10	0	0	0	-16	16	0	0	0

Continued

Table 1.
Continued

	Actual											
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Differences (continued)												
Netting												
Medicare premiums	32	38	56	63	67	71	78	85	93	102	113	125
Deposit insurance premiums	*	*	1	1	1	1	2	2	2	2	2	2
Government contributions for												
OASDI and HI for employees	14	14	15	16	17	18	19	20	21	23	24	25
Income receipts on assets	14	15	17	17	18	19	19	19	20	20	21	22
Surpluses of government enterprises	*	-1	2	1	3	3	4	4	4	4	4	4
Other	<u>18</u>	<u>25</u>	<u>26</u>	<u>26</u>	<u>26</u>	<u>26</u>	<u>26</u>	<u>27</u>	<u>28</u>	<u>28</u>	<u>29</u>	<u>27</u>
Subtotal, netting	79	91	118	124	133	139	147	157	167	179	193	205
Total Differences	55	33	76	95	85	80	88	88	120	116	131	140
Expenditures in the NIPAs	2,348	2,506	2,671	2,815	2,945	3,076	3,221	3,373	3,510	3,677	3,856	4,045
Net Federal Government Saving												
Budget Deficit (-) ^a	-412	-331	-314	-324	-335	-321	-317	-218	-78	-80	-66	-57
Differences												
Coverage												
Treatment of investment and depreciation	12	13	14	16	18	21	23	26	28	31	34	37
Contributions for government employees' retirement	-37	-43	-42	-41	-41	-42	-43	-44	-46	-47	-48	-49
Estate and gift taxes	-25	-24	-27	-25	-27	-27	-21	-21	-43	-47	-53	-59
Capital transfers	45	47	50	53	55	55	56	57	58	59	59	61
Lending and financial adjustments	-17	-13	-11	-21	-22	-12	-13	-13	-14	-14	-14	-15
Geographic adjustments	9	9	9	10	10	11	11	12	12	13	14	14
Universal Service Fund	-3	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Other	<u>3</u>	<u>17</u>	<u>12</u>	<u>8</u>	<u>12</u>	<u>12</u>	<u>10</u>	<u>8</u>	<u>8</u>	<u>5</u>	<u>1</u>	<u>1</u>
Subtotal, coverage	-14	5	5	-1	5	16	22	24	3	-1	-8	-11
Timing adjustments	-3	9	-6	-10	0	0	0	16	-16	0	0	0
Other adjustments	15	-5	-11	-1	0	0	-5	-1	-6	1	1	1
Total Differences	-2	10	-13	-12	5	16	17	40	-19	*	-7	-10
Net Federal Government Saving	-414	-322	-327	-337	-330	-305	-299	-178	-97	-80	-73	-67

Source: Congressional Budget Office.

Note: * = between -\$500 million and \$500 million; OASDI = Old-Age, Survivors, and Disability Insurance; HI = Hospital Insurance.

a. Includes Social Security and the Postal Service.

plants).¹¹ Exchanges of existing assets include federal transactions for deposit insurance and sales and purchases of government assets (including assets that are not produced, such as land and the radio spectrum). In Table 1, those differences between the NIPAs' federal sector and the budget accounts show up on the revenue side as estate and gift taxes and on the outlay side as capital transfers and lending and financial adjustments.

Credit Programs

The budget is not affected by all of the transactions related to federal loans and loan guarantees—just by federal administrative costs and the estimated cost of subsidies. Loan disbursements, loan repayments, and interest are reported in what are termed financing accounts, which have no effect on revenues or outlays.

As with the budget, the NIPAs record administrative costs and generally exclude loan disbursements and repayments and other cash flows considered exchanges of existing assets or financial and lending transactions unrelated to current production. By contrast, however, the NIPAs do not record subsidy costs. In another departure from the budget, the NIPAs include the interest receipts from credit programs (as part of federal receipts). Those differences in the treatment of credit programs are recorded in two places: under “Expenditures” in Table 1, the lending and financial adjustments show the differences in handling the loan subsidies; and under “Receipts,” the difference in treating loan interest is captured as part of income receipts on assets.

Geographic Coverage

The NIPAs exclude all government transactions with Puerto Rico and the U.S. territories, whose current pro-

duction, according to the NIPAs' definition, is not part of U.S. GDP. Because federal transfers dominate those transactions, their exclusion tends to increase the NIPAs' depiction of net federal government saving in comparison with the budget's measure of saving—the federal deficit or surplus. That difference in coverage is shown as geographic adjustments in Table 1.

Universal Service Fund

The business activity of the Universal Service Fund, which provides resources to promote access to telecommunications, is recorded in the budget, but not in the NIPAs' federal sector. The Universal Service Fund receives federally required payments from providers of interstate and international telecommunications services and disburses those funds to local providers that serve high-cost areas, low-income households, libraries, and schools, as well as to rural health care providers. The fund is administered by an independent nonprofit corporation (the Universal Service Administrative Company), which is regulated by the Federal Communications Commission.

Although the Universal Service Fund's revenues and outlays appear in the federal budget, they have little net impact on the deficit or surplus. In the NIPAs, the fund's receipts and payments are classified as intracorporate transfers (from one business to another) and are not recorded in the federal sector of the accounts. The difference in treatment of the Universal Service Fund is so labeled in Table 1.

Interest Receipts

In the NIPAs, federal interest receipts are grouped with other types of federal receipts (in the category designated “Income receipts on assets”) rather than netted against federal interest payments, as they are in the federal budget.¹² BEA's treatment is consistent with international accounting practices, under which interest receipts and payments are reported separately. That difference in the treatment of interest receipts in the NIPAs and in the federal budget raises the NIPAs' measure of government receipts relative to federal budget revenues and increases the NIPAs' measure of federal spending relative to budget outlays. However, because the difference in treatment affects receipts and expenditures in the NIPAs by exactly

11. Another type of capital transfer recognized by the Bureau of Economic Analysis in the national income and product accounts is the annual lump-sum payment from the Treasury to the Uniformed Services Retiree Health Care Fund—a trust fund begun in 2003 to pay for benefits received by retired members of the armed forces who are Medicare-eligible and their dependents. Those payments to the trust fund are for accrued but unfunded liabilities for benefits attributable to work performed before 2003. BEA now excludes those payments from federal expenditures because they are not related to current production. Thus, those payments have no impact on net federal saving. In the budget, those annual payments are recorded as outlays by the Treasury but as offsetting receipts (negative outlays) by the trust fund. Because those annual payments have no net impact on federal spending in either the NIPAs or the budget, there is no corresponding reconciliation item in Table 1.

12. About half of NIPA interest receipts, mainly from penalties on late tax payments, are recorded as revenues in the federal budget.

the same amount, it has no impact on the NIPAs' measurement of net federal government saving.

Surpluses of Government Enterprises

In the NIPAs, the surpluses of government enterprises, such as the Postal Service, are shown on a separate line under federal government current receipts. That treatment accords with international accounting standards, which generally advocate reporting spending on a gross rather than a net basis. By contrast, surpluses of government enterprises are treated as offsetting receipts (negative outlays) in the federal budget.

Military Sales and Assistance In-Kind

The NIPAs attempt to identify contributions to GDP by sector. Therefore, they do not classify as part of federal consumption military purchases of equipment and services that are intended for sale or as gifts to foreign governments. Instead, those transactions are considered net exports in the NIPAs' foreign transactions account (Table 4.1 in the accounts). In the case of gifts, the transactions are also recorded in the federal sector of the NIPAs as a portion of transfers to the rest of the world—a classification that parallels their treatment as outlays in the federal budget. By contrast, military sales to foreign governments are recorded in the federal budget as outlays, while the proceeds from those sales are recorded as offsetting receipts (negative outlays).

Timing Differences

As much as possible, the NIPAs attempt to measure income flows when income is earned (on an accrual basis) rather than when income is received (on a cash basis).¹³ That approach makes sense in an integrated system of accounts that tracks both production and income because, on an accrual basis, the value of what is produced in a given period should—measurement problems aside—match the total income generated. For example, BEA attributes corporate tax payments to the year in which the liabilities are incurred rather than to the time when the payments are actually made. However, the

NIPAs are not entirely consistent in that respect: personal tax payments are counted as they are made and are not attributed retroactively to the year in which the liabilities were incurred. Currently, BEA is engaged in research to develop methods for preparing accrual-based estimates of personal tax payments.

Because the budget is recorded mostly on a cash basis and the NIPAs' federal sector is recorded largely on an accrual basis, differences exist in a number of areas in the timing of recorded transactions.

Corporate Taxes. Tax legislation sometimes temporarily shifts the timing of corporate tax payments (usually from the end of one fiscal year to the beginning of the next). The NIPAs exclude such timing shifts, which are not consistent with accrual accounting. The timing adjustments for the effects of the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 are shown as the timing shift of corporate estimated tax payments in Table 1.

Although corporations make estimated tax payments throughout the year, any shortfalls (or overpayments) are corrected in the form of final payments (or refunds) in subsequent years. The NIPAs shift those final payments back to the year in which the corporate profits that gave rise to the tax liabilities were actually generated, whereas the budget records them on a cash basis. The results of that difference are difficult to identify for recent history and thus appear as part of "Other adjustments" under "Receipts" in Table 1.¹⁴

Personal Taxes. Although personal taxes are not recorded on an accrual basis in the NIPAs, BEA nevertheless attempts to avoid large, distorting upward or downward spikes in personal disposable income that result from timing quirks. Such quirks occur in April of each year, for example, when most final settlements for the previous year's personal taxes are paid. In the NIPAs, therefore, those settlements are evenly spread over the four quarters of the calendar year in which they are paid. (As with accrual accounting, that treatment avoids spikes. Unlike accrual treatment, however, it does not move payments back to

13. See United Nations, *System of National Accounts* (1993), paragraph 3.19, which emphasizes reporting transactions on an accrual basis. Many of the conceptual changes to the national income and product accounts over time have been based on guidelines enumerated in that U.N. document. See also Department of Commerce, Bureau of Economic Analysis, "The NIPAs and the System of National Accounts," *Survey of Current Business* (December 2004), pp. 17-32.

14. "Other adjustments" include timing differences not shown elsewhere in Table 1, plus discrepancies between figures in the NIPAs and the budget that may diminish when BEA makes subsequent revisions.

the year in which the liabilities were incurred.) Such “smoothing” can alter the relationship of the NIPAs and the budget accounts for fiscal years because it shifts some receipts into the last quarter of the calendar year and thus into the following fiscal year.¹⁵ Those adjustments are difficult to identify for recent history and thus are not shown separately in Table 1; they appear instead in the “Other adjustments” category under “Receipts.”

Transfers and Military Compensation. Timing adjustments are needed on the spending side of the NIPAs to align military compensation and government transfer payments—for example, veterans’ benefits, Supplemental Security Income (SSI) payments, and Medicare’s payments to providers—with income that is reported on an accrual basis in the NIPAs. Misalignments can occur because of delays in payments or quirks in the calendar.

For example, although SSI payments are usually made on the first day of each month, the checks are sometimes mailed a day or more in advance. That situation typically occurs when the first day of the month falls on a weekend or holiday. If it occurs for the October payments, the payments will be pushed into the previous fiscal year in the budget. In such cases, the NIPAs introduce a timing adjustment that effectively moves the payments back to the first day of the month. Hence, the NIPAs’ adjustment always ensures that there are exactly 12 monthly SSI payments in a year, whereas in the budget, there can be 11 in some years and 13 in others.

For military compensation, which is paid at the beginning and middle of each month, the adjustment in the NIPAs always ensures 24 payments in a year. In the budget, by contrast, there can be 23 payments in some years and 25 in others. The timing adjustments for expenditures in Table 1 reflect that regularizing for transfers and for military pay.

In another contrast with the federal budget, the NIPAs record Medicare payments on an accrual basis rather than on a cash basis. That treatment better illustrates the link between the underlying economic activity (the medical services provided) and the associated federal transactions

(payment for those services), which can be several months apart. The timing adjustment, however, has only a small effect on the NIPAs’ measure of net federal government saving.

Business Activities

The federal budget and the NIPAs both treat certain revenues as offsetting receipts (negative outlays) when they result from voluntary transactions with the public that resemble business activities, such as proceeds from the sale of government publications. However, the NIPAs generally have a stricter view of what resembles a business transaction. In particular, Medicare premiums, deposit insurance premiums, rents, royalties, and regulatory or inspection fees are deemed equivalent to business transactions in the budget but not in the NIPAs. Consequently, those transactions (negative outlays in the budget) are treated in the NIPAs as government receipts (contributions for government social insurance and current transfers from business—fines and fees). Those differences are recorded under “Netting” in Table 1. Because they affect total current receipts and total current expenditures by exactly the same amounts, they have no effect on the NIPAs’ measure of net federal government saving.

Presentation of the Federal Government’s Receipts and Expenditures in the NIPAs

As in the budget, the federal sector of the NIPAs classifies receipts by type, but the categories differ (see Table 2). The NIPAs’ classifications help to determine measures such as disposable income and corporate profits after taxes. There are five major categories of current receipts. The largest one, current tax receipts, includes taxes on personal income, taxes on corporate income, taxes on production and imports, and taxes from the rest of the world. The next-largest category is contributions for government social insurance, which consists of Social Security taxes, Medicare taxes and premiums, and unemployment insurance taxes. The remaining categories are current transfer receipts (fines and fees), income receipts on assets (interest, rents, and royalties), and current surpluses of government enterprises (such as the Postal Service). As discussed above, those surpluses, as well as interest and some other receipts, were previously recorded on the expenditure side of the NIPAs’ federal sector as offsetting (negative) expenditures.

15. Alterations in the relationship between the budget and NIPA receipts are projected to occur, for example, following certain tax law changes, such as the increases in tax rates and other changes scheduled to take effect in 2011 and assumed in CBO’s receipts baseline.

Table 2.**Projections of Baseline Receipts and Expenditures as Measured by the National Income and Product Accounts**

(Billions of dollars)

	Actual	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Receipts													
Current Tax Receipts													
Personal current taxes	785	905	992	1,070	1,150	1,235	1,323	1,520	1,664	1,769	1,873	1,983	
Taxes on corporate income	208	275	266	267	269	285	289	299	309	321	333	346	
Taxes on production and imports	93	97	103	107	111	114	117	122	126	130	134	136	
Taxes from the rest of the world	9	10	10	11	12	13	14	16	18	19	20	21	
Subtotal	1,094	1,287	1,371	1,455	1,542	1,646	1,743	1,957	2,117	2,239	2,360	2,486	
Contributions for Government													
Social Insurance ^a	789	845	911	961	1,008	1,056	1,110	1,164	1,220	1,279	1,340	1,404	
Current Transfer Receipts	28	31	33	34	34	36	37	39	41	43	46	48	
Income Receipts on Assets	22	24	27	27	28	29	29	30	31	32	34	35	
Current Surpluses of Government													
Enterprises	*	-1	2	1	3	3	4	4	4	4	4	4	4
Current Receipts	1,933	2,185	2,343	2,478	2,616	2,771	2,922	3,194	3,413	3,597	3,784	3,978	
Expenditures													
Consumption Expenditures													
Defense													
Consumption	411	441	468	474	484	495	507	519	530	543	556	569	
Consumption of fixed capital	63	67	68	68	69	70	71	72	73	74	74	75	
Nondefense													
Consumption	213	225	234	240	246	252	258	264	270	277	284	292	
Consumption of fixed capital	24	25	25	25	26	26	27	27	27	28	28	29	
Subtotal	711	758	795	808	826	843	862	882	900	921	943	965	
Current Transfer Payments													
Government social benefits													
To persons	1,000	1,063	1,149	1,236	1,295	1,361	1,437	1,522	1,598	1,705	1,819	1,940	
To the rest of the world	3	3	3	3	3	4	4	4	4	4	5	5	
Subtotal	1,003	1,066	1,153	1,239	1,298	1,364	1,441	1,526	1,602	1,709	1,823	1,945	
Other transfer payments													
Grants-in-aid to state and local governments	347	360	371	387	406	426	450	475	502	532	564	598	
To the rest of the world	25	28	29	28	27	26	26	27	27	28	29	29	
Subtotal	372	389	401	414	433	453	476	502	530	560	592	627	
Interest Payments	219	243	272	304	342	370	396	417	432	441	452	461	
Subsidies	43	51	50	50	47	46	46	45	46	46	47	47	
Current Expenditures	2,348	2,506	2,671	2,815	2,945	3,076	3,221	3,373	3,510	3,677	3,856	4,045	
Net Federal Government Saving													
Net Federal Government Saving	-414	-322	-327	-337	-330	-305	-299	-178	-97	-80	-73	-67	

Source: Congressional Budget Office.

Note: * = between zero and \$500 million.

a. Includes Social Security taxes, Medicare taxes and premiums, and unemployment insurance taxes.

In the NIPAs, the government's expenditures are classified according to their purpose. The major groups, which are much fewer than those in the federal budget, are consumption expenditures, or purchases of goods and services (broken out for defense and nondefense purchases); transfer payments (to individuals, governments, and the rest of the world); interest payments; and subsidies to businesses and to government enterprises.

Consumption of goods and services (for both defense and nondefense purposes) consists of purchases made by the government for its immediate use in production. (The largest portion of such consumption is the compensation of military and civilian federal employees.) Among the government's consumption expenditures, the consumption of fixed capital—depreciation—represents a partial measure of the services that the government receives from its stock of fixed assets, such as buildings or equipment.

Transfer payments (cash payments made directly to individuals and the rest of the world as well as grants to state and local governments or foreign nations) constitute another grouping. Most of the transfers to individuals are for social benefits.¹⁶ Grants-in-aid are payments that the federal government makes to state or local governments, which generally use them for transfers (such as benefits provided by the Medicaid program) and consumption (such as the hiring of additional police officers). Grants-in-aid to foreigners include federal purchases of military equipment for delivery to foreign governments.

The NIPAs' category for federal interest payments shows only payments and thus differs from the budget, which

contains a category labeled "net interest." In the NIPAs, federal interest receipts are classified with other federal receipts.

The NIPAs' category labeled "subsidies" primarily consists of grants paid by the federal government to businesses, including state and local government enterprises such as public housing authorities. Federal housing and agricultural assistance have dominated that category.

Net federal government saving in the NIPAs is the difference between the current receipts and the current expenditures of the federal sector.¹⁷ It is a component of net national saving (which also includes net saving by the state and local government sector, personal saving, and corporate retained earnings) and thus is a partial measure of how much of the nation's income earned from current production is not consumed in the current period. Net federal saving (or dissaving) is not a good indicator of federal borrowing requirements because, unlike the budget deficit or surplus, it is not a measure of cash flows.¹⁸

17. Gross federal saving—a component of gross national saving—equals net federal saving plus depreciation (consumption of fixed capital).

18. As an addendum in NIPA Table 3.2, BEA publishes a measure labeled "net lending or net borrowing," which is closer to a cash or financial measure in several ways. Like the budget, it includes investment purchases as expenditures because those purchases must be financed from current receipts or from federal borrowing. At the same time, it excludes consumption of fixed capital (depreciation) because those accounting charges are not a drain on current financial resources. In addition, it includes receipts from the sale of assets that are not produced, as well as capital transfer payments (for example, investment grants to state and local governments), which are not part of current receipts or expenditures in the NIPAs but do affect cash flows. Despite those adjustments, net federal lending or borrowing in the NIPAs differs from the budget deficit or surplus because of all of the other differences in timing and coverage that distinguish the NIPAs from the budget. BEA presents those differences in NIPA Table 3.18, which is similar to Table 1 presented here.

16. In its July 2005 data revisions, the Bureau of Economic Analysis published a revised estimate of government social benefits to individuals for 2004 that was significantly above its previously reported estimate, mainly reflecting an upward revision to its estimate of Medicare benefits. See Department of Commerce, Bureau of Economic Analysis, "Annual Revision of the National Income and Product Accounts: Annual Estimates, 2002-2004, and Quarterly Estimates, 2001:1-2005:2," *Survey of Current Business* (August 2005).