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CBO

REPORT

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

September 2008

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The Congress of the United States ■ Congressional Budget Office

Note

Numbers in the tables may not sum to totals because of rounding.

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 prepared 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 section 202(e) of the Congressional Budget Act of 1974, which requires 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 2008).

Frank Russek of CBO's Macroeconomic Analysis Division and Barry Blom of CBO's Budget Analysis Division wrote the report under the supervision of Robert Dennis and Peter Fontaine. Loretta Lettner edited the report, and Maureen Costantino prepared it for publication. Lenny Skutnik printed copies of the report, Linda Schimmel handled the print distribution, and Simone Thomas prepared the electronic version for CBO's Web site (www.cbo.gov).

Peter R. Orszag
Director

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Contents

Tables

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 conceptually are quite different. The framework generally used by executive branch agencies and the Congress, and typically discussed in the press, is the one presented in the *Budget of the United States Government,* which is prepared by the Office of Management and Budget. The budget focuses on cash flows—revenues (funds generated by collecting taxes and imposing certain fees) and outlays (cash disbursed for the various federal functions). The objectives of the budget are to provide information that can assist lawmakers in their policy deliberations, facilitate the management and control of federal activities, and help the Treasury manage its cash balances and determine its borrowing needs.

The national income and product accounts (NIPAs) also record the federal government's fiscal transactions, but as an accounting device, they have different objectives. Produced by the Bureau of Economic Analysis (BEA), an agency within the Department of Commerce, the NIPAs are intended to provide a comprehensive measure of activity in the U.S. economy—specifically, current production (the process by which goods and services are provided for consumption) and the income generated by that production.[1] A well-known measure of production in the NIPAs is gross domestic product (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 federal budget, the two accounting systems treat some government transactions very differently.

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

The budget of the federal government is best understood as an information and management tool. It focuses primarily on cash flows, recording the inflow of revenues and the outflow of spending over a given period. The period of foremost interest in the budget is the federal fiscal year, which runs from October 1 through September 30. A few exceptions to the general rule of recording transactions on a cash basis exist, 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

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 Department of Commerce, Bureau of Economic Analysis, "NIPA Translation of the Fiscal Year 2009 Federal Budget," *Survey of Current Business* (March 2008); and *Budget of the United States Government, Fiscal Year 2009: Analytical Perspectives.*

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 they bring together relevant information from all four sectors.

3. More formally, BEA regards the federal government and 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.

loans), tracking cash flows gives a misleading view of current costs; therefore, under what is termed credit reform, the budget records the estimated subsidy costs at the time the loans are made.

The federal sector of the NIPAs reflects none of the planning and management goals that underlie the budget. Instead, it illustrates how the federal government fits into a general economic framework, detailing current production and income over specific periods, the major sources of that production, and recipients of income resulting from output. The time increments considered in the NIPAs are primarily calendar years and calendar quarters, although approximate totals for fiscal years can be derived from the quarterly estimates. (The tables in this Web document show fiscal year numbers.)

From the perspective of the NIPAs, the federal government is both a producer and a consumer. Its workforce uses purchased goods and services and government-owned capital (buildings, equipment, and software) to produce services for the public at large; because those services are consumed by the public, that consumption, by convention, is regarded as a federal expenditure in the NIPAs. 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 consistently.

The federal sector of the NIPAs tracks how much the government spends on the consumption of goods and services, and it records the transfer of resources that occurs through taxation, payments to the beneficiaries of federal programs, and federal interest payments. The federal sector's contribution to GDP is presented elsewhere in the NIPAs (Table 1.1.5 in the accounts).

Differences in Recording Major Transactions

The conceptual differences that distinguish the NIPAs from the federal budget lead to accounting differences as well. In attempting to properly incorporate federal transactions into the framework used to determine GDP, the NIPAs reflect judgments about how to best treat transactions such as government investment, the sale and purchase of existing assets, federal credit, and federal activities that resemble those of businesses, as well as transactions involving U.S. territories. In some cases, the appropriate treatment may be to move a transaction from the federal sector to another section of 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 flow.[4]

The Measurement of National Saving

Several conventions used in the NIPAs are intended to show the federal government's contribution to national saving—specifically, net federal government saving (current receipts minus current expenditures). Two major departures from the federal budget are the treatment of spending for federal investment (for things such as ships, computers, and office buildings) and the treatment of spending for federal employees' retirement programs. As a result, the concept of net federal saving in the NIPAs is akin to, but not the same as, the federal budget surplus.

Federal Investment. In the federal budget, outlays for investment are treated like other cash outlays; thus, to determine the size of the federal deficit or surplus, they are subtracted from budget revenues. By contrast, in the NIPAs, federal investment is not counted as a current expenditure (and therefore does not affect net federal government saving) because new purchases of federal capital (investments) do not measure the current capital inputs used to produce government services.[5] 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. Table 1, which provides a crosswalk between CBO's most recent

4. The resulting differences between the numbers reported 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 effect on the federal deficit or surplus because they affect revenues and outlays equally.

5. Federal investment, along with private investment spending, is shown in the NIPAs in the domestic capital account, which displays saving and investment (Table 5.1 in the accounts; see also Table 3.9.5, which shows both federal investment and consumption).

baseline budget projections and the NIPAs, shows that difference in coverage in the row labeled "Treatment of Investment and Depreciation."[6]

Federal Retirement. Transactions involving federal employees' retirement programs are also handled differently in the budget and in the NIPAs. In the budget, federal employees' contributions to their retirement accounts are recorded as revenues; 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 simply represent transfers of funds between two government accounts.[7] Benefit payments to federal 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 related to federal retirement plans as part of the household sector.[8] The receipts from federal employers' retirement contributions (and the interest earned by retirement accounts) are considered part of workers' personal income and thus are not recorded as federal transactions (receipts or negative expenditures). Employees' contributions are not recorded as income in either the federal or the household sector but are considered transfers within the household 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 accounts are counted as federal expenditures (as part of employees' compensation), as is the interest paid to federal retirement accounts.[9] The different treatment of retirement contributions by federal employees is shown in the top section of Table 1 under the column heading "Receipts"; the different treatment of federal employers' contributions, interest earnings, and benefit payments is shown below that, under "Expenditures."

Capital Transfers and Exchanges of Existing Assets

Transactions that involve existing assets do not affect the way current production and income are measured in the NIPAs. Therefore, the NIPAs do not count capital transfers or asset exchanges as part of current 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) and investment grants to state and local governments (for air transportation, highways, transit, and water treatment plants).[10] Exchanges of existing assets include federal transactions for deposit insurance and the sale and purchase of government assets (including assets that are not "produced," such as land and licenses to use the radio spectrum). Those differences between the NIPAs' federal sector and

6. 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 methodology used 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 2009 and the accounts, as published in the *Survey of Current Business* (March 2008).

7. In the budget, contributions by an agency to its employees' retirement accounts are considered outlays for that agency and offsetting receipts (negative outlays) elsewhere within the budget. Thus, those intragovernmental transfers result in no net outlays or receipts for the total budget. That treatment is the same as the treatment of the federal government's contributions for Social Security and Medicare for its employees.

8. Transactions of the National Railroad Retirement Investment Trust are part of the federal sector in the NIPAs. In addition, Social Security contributions and benefit payments for private and government employees alike are recorded in the federal sector as receipts and expenditures rather than moved to the household sector.

9. However, in the future, BEA may consider recording the annual lump-sum payments to amortize the unfunded liabilities of the military and civilian service retirement funds as a capital transfer rather than as employees' compensation. That treatment would reflect the view that such payments are not related to current production; see "Frequently Asked Questions," Answer ID 480, at www.bea.gov.

10. Another type of capital transfer that BEA does not include in the NIPAs is an annual lump-sum payment from the Treasury to the Department of Defense Medicare-Eligible Retiree Health Care Fund—a trust fund that in October 2002 began to pay for benefits received by retired members of the armed forces who are eligible for Medicare and by their dependents. Those payments to the trust fund are for accrued but unfunded liabilities for benefits attributable to work performed before 2003; BEA excludes those payments from federal expenditures because they are not related to current production. Those annual payments are made by the Treasury and recorded as outlays. However, the Treasury also records offsetting receipts (negative outlays) elsewhere within the budget. Because those annual payments have no net effect on federal spending either in the NIPAs or in the budget, there is no corresponding reconciliation item in Table 1.

Table 1.

Differences Between the Federal Budget and the National Income and Product Accounts as Reflected in CBO's Baseline Projections

(Billions of dollars, by fiscal year)

	Actual 2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
						Receipts						
Revenues (Budget)[a]	2,568	2,548	2,720	2,881	3,178	3,451	3,619	3,770	3,958	4,145	4,341	4,546
Differences												
Coverage												
Contributions for government employees' retirement	-4	-4	-4	-4	-4	-4	-3	-3	-3	-3	-3	-3
Estate and gift taxes	-26	-29	-27	-21	-20	-54	-62	-69	-75	-81	-87	-94
Geographic adjustments	-5	-5	-5	-5	-6	-6	-6	-6	-7	-7	-7	-7
Universal Service Fund receipts	-8	-8	-9	-9	-9	-9	-9	-10	-10	-10	-10	-10
Subtotal, coverage	-43	-46	-45	-40	-39	-73	-81	-88	-94	-101	-108	-115
Netting												
Medicare premiums	50	54	60	60	62	65	70	75	80	85	91	98
Deposit insurance premiums	*	1	4	4	5	5	3	*	*	*	*	*
Government contributions for OASDI and HI for employees	16	17	18	19	20	21	22	23	24	26	27	28
Income receipts on assets	21	23	27	29	30	30	33	33	33	33	32	34
Surpluses of government enterprises	-3	-2	-8	-7	-6	-2	-6	-6	-7	-7	-8	-9
Other	31	33	35	36	36	37	38	38	39	40	41	37
Subtotal, netting	116	126	136	141	146	156	160	162	169	176	182	188
Timing shift of corporate estimated tax payments	3	0	0	8	3	-17	-4	10	0	0	0	0
Other adjustments[b]	-21	-3	9	-3	-4	-1	-2	2	2	3	2	2
Total Differences	**55**	**77**	**100**	**105**	**107**	**65**	**73**	**87**	**76**	**79**	**77**	**76**
Receipts in the NIPAs	2,624	2,625	2,820	2,987	3,284	3,516	3,692	3,857	4,034	4,223	4,417	4,622
						Expenditures						
Outlays (Budget)[a]	2,729	2,955	3,158	3,312	3,502	3,577	3,766	3,939	4,120	4,352	4,514	4,680
Differences												
Coverage												
Treatment of investment and depreciation	-19	-22	-24	-26	-28	-29	-29	-29	-30	-30	-31	-32
Contributions for government employees' retirement	35	58	50	53	56	59	63	67	72	77	82	88
Capital transfers	-50	-52	-54	-57	-59	-60	-62	-63	-64	-65	-66	-66
Lending and financial adjustments	29	33	-11	6	11	10	9	9	10	10	11	11
Geographic adjustments	-15	-16	-17	-18	-19	-19	-21	-22	-23	-24	-25	-26
Universal Service Fund payments	-7	-8	-8	-9	-9	-9	-9	-9	-9	-10	-10	-10
Subtotal, coverage	-27	-7	-65	-50	-48	-48	-48	-46	-44	-42	-39	-36

Continued

Table 1. **Continued**

Differences Between the Federal Budget and the National Income and Product Accounts as Reflected in CBO's Baseline Projections

(Billions of dollars, by fiscal year)

	Actual 2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
					Expenditures (Continued)							
Differences (Continued)												
Netting												
Medicare premiums	50	54	60	60	62	65	70	75	80	85	91	98
Deposit insurance premiums	*	1	4	4	5	5	3	*	*	*	*	*
Government contributions for OASDI and HI for employees	16	17	18	19	20	21	22	23	24	26	27	28
Income receipts on assets	21	23	27	29	30	30	33	33	33	33	32	34
Surpluses of government enterprises	-3	-2	-8	-7	-6	-2	-6	-6	-7	-7	-8	-9
Other	31	33	35	36	36	37	38	38	39	40	41	37
Subtotal, netting	116	126	136	141	146	156	160	162	169	176	182	188
Timing adjustments	8	-2	0	0	-31	30	1	0	0	-43	-4	47
Other Adjustments[c]	6	-28	-22	-16	-17	-15	-14	-9	-7	-5	-12	-12
Total Differences	**103**	**89**	**49**	**74**	**51**	**123**	**99**	**108**	**119**	**87**	**128**	**187**
Expenditures in the NIPAs	2,832	3,045	3,207	3,386	3,553	3,700	3,865	4,047	4,238	4,439	4,643	4,867
					Net Federal Government Saving							
Budget Deficit[a]	-161	-407	-438	-431	-325	-126	-147	-170	-162	-207	-174	-135
Differences												
Coverage												
Treatment of investment and depreciation	19	22	24	26	28	29	29	29	30	30	31	32
Contributions for government employees' retirement	-39	-62	-54	-57	-60	-63	-67	-71	-75	-80	-85	-91
Estate and gift taxes	-26	-29	-27	-21	-20	-54	-62	-69	-75	-81	-87	-94
Capital transfers	50	52	54	57	59	60	62	63	64	65	66	66
Lending and financial adjustments	-29	-33	11	-6	-11	-10	-9	-9	-10	-10	-11	-11
Geographic adjustments	10	11	12	13	13	14	14	15	16	17	18	19
Universal Service Fund	*	*	*	*	*	*	*	*	*	*	*	*
Subtotal, coverage	-16	-39	20	11	9	-25	-33	-42	-50	-59	-69	-79
Timing adjustments	-6	2	0	8	34	-48	-4	10	0	43	4	-47
Other adjustments[b]	-27	25	31	13	13	14	12	11	8	8	14	15
Total Differences	**-48**	**-12**	**51**	**31**	**56**	**-58**	**-26**	**-21**	**-42**	**-9**	**-52**	**-111**
Net Federal Government Saving[d]	-208	-420	-387	-400	-269	-184	-172	-190	-204	-216	-225	-245

Source: Congressional Budget Office. For details on CBO's baseline budget projections, see *The Budget and Economic Outlook: An Update* (September 2008).

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.

b. Includes timing differences not shown elsewhere in Table 1, plus discrepencies between figures in the NIPAs and in the budget that may diminish when the Bureau of Economic Analysis makes subsequent revisions. The figure for 2007 reflects netting adjustments for hurricane relief and recovery.

c. Includes coverage differences not shown elsewhere above.

d. Net federal saving or dissaving is akin to the federal surplus or deficit in the budget. Negative numbers here indicate dissaving.

the budget accounts appear as estate and gift taxes on the revenue side of Table 1and as capital transfers and lending and financial adjustments on the outlay side.

Credit Programs

For federal credit programs (loans and loan guarantees), only the estimated credit subsidy and administrative costs are included in outlays. Cash flows from loan disbursements, repayments, and interest, by contrast, are reported in what are termed financing accounts, which have no effect on outlays.

As in the budget, the NIPAs record administrative costs and generally exclude loan disbursements and repayments and other cash flows that are considered exchanges of existing assets or financial and lending transactions that are unrelated to current production. 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 in Table 1: Under the heading "Expenditures," the figures in the row labeled "Lending and Financial Adjustments" show the differences in the way loan subsidies are handled; under "Receipts," the difference in the treatment of loan interest is captured as part of "Income Receipts on Assets."

Geographic Coverage

The NIPAs exclude all government transactions with Puerto Rico and other U.S. territories, whose current production, as defined in the NIPAs, is not part of the nation's GDP. Because federal transfers dominate those transactions, their exclusion tends to increase the NIPAs' depiction of net federal government saving by 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 the Universal Service Administrative Company, an independent nonprofit corporation regulated by the Federal Communications Commission.

Although the Universal Service Fund's revenues and outlays appear in the federal budget, they have little net effect on the deficit or surplus. In the NIPAs, the fund's receipts and payments are classified as intracorporate transfers (from one business to another within the corporate sector). 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.[11] BEA's treatment is consistent with international accounting practices, wherein interest receipts and payments are reported separately. The 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 the same amount, it has no effect on the NIPAs' measurement of net federal government saving.

Surpluses of Government Enterprises

In the NIPAs, the surpluses (or deficits) recorded by certain government enterprises, such as the Postal Service, are shown on a separate line as current receipts of the federal government. That treatment is in keeping 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 in the federal budget.

Military Sales and Assistance In-Kind

Because the NIPAs try to identify contributions to GDP by sector, they do not classify as part of federal consumption purchases by the military 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 14.1 in the accounts). In the case of gifts, the

11. About half of the NIPAs' interest receipts, derived mainly from penalties on late tax payments, are recorded as revenues in the federal budget.

transactions also are 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 in the federal budget, where they are categorized as outlays. By contrast, even though the cost of acquiring military equipment that is then sold to foreign governments is recorded in the federal budget as outlays, the proceeds from those sales are recorded as offsetting receipts.

Timing Differences

As much as is 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).[12] 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. That approach makes sense in an integrated system of accounts that tracks both production and income because on an accrual basis—measurement problems aside—the value of what is produced in a given period should match the total income generated. 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. Because the budget is recorded mostly on a cash basis and the NIPAs' federal sector is recorded largely on an accrual basis, the timing of recorded transactions differs in several areas.

Corporate Taxes. Legislation sometimes temporarily shifts the timing of corporate tax payments (usually from the end of one fiscal year to the beginning of the next, or vice versa). The NIPAs exclude such timing shifts, which are not consistent with accrual accounting. Timing adjustments for the net effects of enacted legislation are shown in Table 1 under the heading "Receipts" in the row labeled "Timing Shift of Corporate Estimated Tax Payments."

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. Whereas the federal budget records those final payments on a cash basis, the NIPAs shift them back to the year in which the corporate profits that gave rise to the tax liabilities were actually generated. The results of that difference are difficult to identify for recent history and thus appear under the heading "Receipts" in Table 1 in the "Other Adjustments" category.[13]

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 each year in April, 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 accounting, however, it does not move payments back to the year in which the liabilities were incurred.) Such "smoothing" can alter the relationship of the NIPAs and the budget accounts for various fiscal years because it shifts some receipts into the last quarter of the calendar year and thus into the following fiscal year.[14]

Again, those adjustments are difficult to identify for recent history and thus are not shown separately in Table 1. They appear instead under "Receipts" in the row labeled "Other Adjustments."

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 accelerations in the timing of payments that result from quirks in the calendar (holidays and weekends

12. 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 NIPAs have been based on guidelines from 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.

13. 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.

14. A change in the relationship between receipts in the budget and in the NIPAs is projected to occur after certain changes in tax laws, such as the changes scheduled to take effect in 2011. CBO's baseline for revenues incorporates the assumption that those changes do, indeed, occur.

or leap years) or because of legislation designed to delay payments.

SSI payments and veterans' benefits are usually disbursed on the first day of each month, but if the first of the month falls on a weekend or holiday, payments are made a day or more in advance. If that occurs for the October benefits, payments are 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 may be 11 in some years and 13 in others.

For military compensation, which is normally paid at the beginning and middle of each month but may sometimes, like SSI, be paid early to avoid weekends, the adjustment in the NIPAs always ensures 24 payments in a year. In the budget, by contrast, there may be 23 payments in some years and 25 in others. Under the heading "Expenditures" in Table 1, the row labeled "Timing Adjustments" reflects 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.[15] 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 NIPA measure of net federal government saving.

Business Activities

Both the federal budget and the NIPAs treat certain revenues as offsetting receipts 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—such as fines and fees, and taxes on production and imports). Those differences are recorded within the category "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.

15. Beginning with its July 2008 annual revisions, BEA has changed the way it reports Medicare prescription drug benefits. Previously, because of data limitations, BEA reported those federal expenditures on a cash basis. Now, newly available data on "incurred benefits" from the Centers for Medicare and Medicaid Services enable BEA to show federal expenditures for Medicare prescription drug benefits on an accrual basis. That treatment is now consistent with that of other Medicare benefits in the federal sector of the NIPAs.

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 determine measures such as disposable income and corporate profits after taxes. There are five major categories of current receipts. The largest category, current tax receipts, includes taxes on personal income, corporate income, and production and imports (excise taxes and customs duties), as well as taxes from the rest of the world. The next-largest category—contributions for government social insurance—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).

In the NIPAs, the government's expenditures are classified according to purpose. The major groups, which are fewer than in the federal budget, are consumption expenditures, or spending on goods and services, including the costs of capital depreciation (with separate estimates for defense and nondefense spending); transfer payments (to individuals, state and local governments, and the rest of the world); interest payments; and subsidies to businesses and government enterprises.

Consumption of goods and services (for defense and nondefense purposes) consists of spending by the government

Table 2.

CBO's Baseline Projections of Receipts and Expenditures as Measured in the National Income and Product Accounts' Framework

(Billions of dollars)

	Actual 2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
						Receipts						
Current Tax Receipts												
Taxes on personal income	1,142	1,152	1,269	1,365	1,568	1,712	1,824	1,922	2,026	2,136	2,250	2,372
Taxes on corporate income	373	320	344	355	376	389	396	408	420	435	449	464
Taxes on production and imports	98	98	100	102	110	115	119	122	126	131	135	136
Taxes from the rest of the world	15	15	14	15	17	18	19	20	21	23	24	25
Subtotal	1,627	1,587	1,728	1,837	2,071	2,235	2,359	2,472	2,594	2,724	2,859	2,997
Contributions for Government Social Insurance[a]	934	968	1,015	1,067	1,127	1,186	1,239	1,291	1,344	1,399	1,457	1,518
Current Transfer Receipts	37	40	47	50	52	55	55	55	57	60	63	66
Income Receipts on Assets	29	32	38	40	41	42	45	45	46	47	46	49
Current Surpluses of Government Enterprises	-3	-2	-8	-7	-6	-2	-6	-6	-7	-7	-8	-9
Total Current Receipts	**2,624**	**2,625**	**2,820**	**2,987**	**3,284**	**3,516**	**3,692**	**3,857**	**4,034**	**4,223**	**4,417**	**4,622**
						Expenditures						
Consumption Expenditures (Purchases of Goods and Services)												
Defense												
Consumption	494	537	594	633	655	673	689	706	723	742	760	780
Consumption of fixed capital	75	79	81	83	85	87	90	93	95	98	100	102
Nondefense[b]												
Consumption	244	260	276	288	295	302	311	322	331	341	351	360
Consumption of fixed capital	29	30	30	31	31	31	32	32	33	33	34	34
Subtotal	842	906	982	1,035	1,065	1,093	1,121	1,153	1,182	1,214	1,245	1,276
Current Transfer Payments												
Government social benefits												
To persons	1,233	1,358	1,432	1,499	1,566	1,634	1,729	1,835	1,949	2,069	2,190	2,329
To the rest of the world	4	4	4	4	4	5	5	5	6	6	6	7
Subtotal	1,237	1,362	1,436	1,503	1,570	1,639	1,734	1,840	1,955	2,075	2,196	2,335
Other transfer payments												
Grants-in-aid to state and local governments[b]	370	387	414	432	451	472	497	524	554	586	620	657
To the rest of the world	33	37	37	39	41	42	43	43	44	45	46	47
Subtotal	403	424	451	472	492	514	540	568	598	631	666	703
Interest Payments[b]	304	305	291	330	378	402	418	437	454	470	486	501
Subsidies	45	48	47	47	48	52	51	49	49	50	50	51
Total Current Expenditures	**2,832**	**3,045**	**3,207**	**3,386**	**3,553**	**3,700**	**3,865**	**4,047**	**4,238**	**4,439**	**4,643**	**4,867**
						Net Federal Government Saving						
Net Federal Government Saving	-208	-420	-387	-400	-269	-184	-172	-190	-204	-216	-225	-245

Source: Congressional Budget Office

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

b. Includes Social Security and the Postal Service for 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 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. Social benefits make up most of the transfers to individuals. Grants-in-aid are payments 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). Current transfers to the rest of the world 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 category labeled "Net Interest." In the NIPAs, federal interest receipts are classified with other federal receipts.

The NIPAs' category "Subsidies" primarily consists of payments by the federal government to businesses, including state and local government enterprises, such as public housing authorities. Federal housing and agricultural assistance have long 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.[16] 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 from current production is not consumed in the current period. Net federal saving (or "dissaving") is akin to the federal surplus or deficit measured in the budget. However, net federal government saving is not a good indicator of federal borrowing requirements because, unlike the budget deficit or surplus, it is not a measure of cash flows.[17]

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

17. As an addendum to the NIPAs' 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 because those accounting charges are not a drain on current financial resources. In addition, it includes receipts from the sale of existing assets and capital transfer receipts (for example, estate and gift taxes) and 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 Table 3.18, which is similar to the presentation in Table 1.